Corporate Governance and Intellectual Capital: some conceptualisations

James Keenan* and Maria Aggestam

One of the persistent problems facing corporate governance is the increasing shift toward knowledge-intensive organisations. This article focuses on the fiduciary responsibility of corporate governance for creating, developing, and leveraging the intellectual capital existing and embedded in the people, structures, and processes of the firm. Research and practice, traditionally concerned with governance responsibility for financial and physical capitals, has not much focused on the relations between governance and intellectual capital. Here, the authors’ intellectual capital paradigm is overlayered on a recent taxonomy of systems and features of corporate governance. The result is an explication of the role and characteristics of corporate governance in relation to the intellectual capital of the firm.

Keywords: Corporate governance, intellectual capital

Introduction

This paper examines two topics that have been receiving increased, but separate, interest by both researchers and practitioners: corporate governance and intellectual capital. Interest in corporate governance has been heightened by the “proliferation of companies, the complexity of corporate groups, and problems of ensuring adequate accountability and corporate responsibility in an increasingly global business world” (Tricker, 2000:2). Attention to corporate governance has grown with the increasing incorporation of different systems of corporate governance into a globalising economy (Weimer and Pape, 1999). Indeed, as Tricker, (2000:5–6) concluded: “Just as the nineteenth century had seen the era of the entrepreneur and the twentieth century the era of management, in the twenty-first century the focus has swung to the governance of companies and the way power is exercised over what have now become the most significant organisations in the world.” Concern about the intellectual capital of enterprises has been increased by the growing understanding that the creation and leveraging of corporate value and wealth is dependent not only on the leveraging of tangible, liquidation assets such as financial and physical-plant capitals but on organisational capitals that include human and other relatively hidden assets (e.g., Bartlett and Ghoshal, 1995). Intellectual Capital includes intellectual assets that can be converted into revenues (Sullivan, 1998). Intellectual capital is critical to the success and competitive advantage of the organisation (e.g., Conner, 1991). The success of twenty-first century business entities (the globals, the alliances, and the closely-held companies in the parlance of governance studies) is increasingly a function of leveraging the intellectual capitals in the entities.

That the constructs of corporate governance and intellectual capital are connected becomes apparent. Corporate governance is a framework of legal, institutional, and cultural factors shaping the patterns of influence that stakeholders exert on managerial decision-making (Weimer and Pape, 1999:152–166). Managerial decision-making is focused on creating value for the stakeholders through adroit uses of capital. Intellectual capital is the “knowledge and knowing capability of a social collectivity, such as an organisation,
intellectual community, or professional practice” (Nahapiet and Ghoshal, 1998:245). Corporate governance uses financial, physical-plant, and intellectual capital to create and leverage value.

The purpose of this paper is to develop an initial conceptual framework that marries paradigms concerning corporate governance and intellectual capital. The paper will illustrate connections and provide a view of the potential synergies between corporate governance and intellectual capital. Doing so, we believe, will contribute to understandings and paradigm-building by researchers and practitioners seeking practicable insights into the management of geographically and culturally diverse enterprises. Finally, the paper will propose a number of related issues and questions that can inform future research and practice in corporate governance.

Conceptual frameworks

The starting points in this paper are constructs concerning corporate governance and intellectual capital. We use the recent work by Weimer and Pape (1999) as a point of departure for summarising the research and discussing corporate governance. As the point of departure for constructs concerning intellectual capital we use recent works by various proponents (e.g., Saint-Onge, 1996; Sveiby, 1997; Edvinsson, 1997; Bontis, 1994, 1999; Petrash, 1996; Stewart, 1997; Sullivan, 1998; Brooking, 1996; Klein, 1998). In particular, we use a paradigm concerning managing intellectual capital in organisations which is a composite of constructs representing our own research.

Corporate governance

Weimer and Pape (1999), in summarising research on corporate governance (e.g., by Turnbull, 1997), focus on country-level systems of corporate governance and list eight characteristics that describe the salient features of different corporate governance systems. They include the following: the prevailing concept of the firm; the board system; the salient stakeholders able to exert influence on managerial decision-making; the importance of stock markets in the national economy; the presence or absence of an external market for corporate control; the ownership structure; the extent to which executive compensation is dependent on corporate performance; and the time horizon of economic relationships (Ibid: 153). Corporate governance at the firm-level is related to these characteristics. Weimer and Pape also point to work by Scott (1985), delLong (1989), Moerland (1995) and Weimer (1995) as indicating four groupings or styles of corporate governance systems among relatively-rich, industrialised countries: Anglo-Saxon; Germanic; Latin; and Japan. The four different systems in the Weimer-Pape taxonomy include but differently emphasise the eight characteristics which the authors feel are more or less descriptive of all corporate governance structures and processes. According to the authors, the Anglo-Saxon style describes corporate governance in the United States, United Kingdom, Canada and Australia. The Germanic style describes governance structures and processes in Germany, the Netherlands, Switzerland, Sweden, Austria, Denmark, Norway and Finland. The Latin system of corporate governance includes France, Italy, Spain and Belgium. The Japan system includes only corporate governance in Japan. As with other taxonomies attempting to describe differences among national characteristics, structures or practices (e.g., Hofstede, 1985), the factors and the classifications in the Weimer-Pape scheme are illustrative and heuristic rather than definitive. Both the factors along which corporate governance processes can be compared and the tentative groupings or systems of governance in the Weimer-Pape taxonomy are of interest to our conceptualisations here. The Weimer-Pape taxonomy (op cit. 1999:154) is summarised in Table 1. In the taxonomy, the eight descriptors of corporate governance are related to the four systems of corporate governance.

Intellectual capital

The ability of organisations to cope, survive, grow, and otherwise attain and maintain business successes is related to their abilities to use various “capitals” in order to create and leverage value, and to accomplish their missions, visions and especially financial goals. The most popular types of enterprise capitals are financial capital and physical capital. Financial capital includes the moneyed resources of the investors and the accumulated financial reserves of the enterprise, including the liquidation value of the enterprise. Physical resources include the plant, equipment, and tools, and other physical assets. Both financial and physical capitals are generally regarded as relatively visible and/or tangible.

Recently in the work of various proponents (e.g., Saint-Onge, 1996; Sveiby, 1997; Edvinsson, 1997, Bontis, 1994, 1999; Petrash, 1996; Stewart, 1997; Sullivan, 1998; Brooking, 1996;
Table 1: Taxonomy of systems of corporate governance

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Anglo-Saxon System</th>
<th>Germanic System</th>
<th>Latin System</th>
<th>Japan System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orientation</td>
<td>Market-oriented</td>
<td>Market-oriented</td>
<td>Network-oriented</td>
<td>Network-oriented</td>
</tr>
<tr>
<td>Country(ies)</td>
<td>USA, UK, Canada, Australia</td>
<td>Germany, Netherlands, Switzerland, Sweden, Austria, Denmark, Norway, Finland</td>
<td>France, Italy, Spain, Belgium</td>
<td>Japan</td>
</tr>
<tr>
<td>Concept of firm</td>
<td>Instrumental, shareholder-owned</td>
<td>Institutional</td>
<td>Institutional</td>
<td>Institutional</td>
</tr>
<tr>
<td>Board system</td>
<td>One-tier (executive and non-executive board)</td>
<td>Two-tier (executive and supervisory board)</td>
<td>Optional (France), in general, one-tier</td>
<td>Board of Directors, offices of representative directors, of auditors, de facto one-tier</td>
</tr>
<tr>
<td>Salient stakeholders</td>
<td>Shareholders</td>
<td>Industrial banks (Germany), employees, in general oligarchic group</td>
<td>Financial holdings, the government, families, in general oligarchic group</td>
<td>City banks, other financial institutions, employees, in general oligarchic group</td>
</tr>
<tr>
<td>Importance of stock market in the national economy</td>
<td>High</td>
<td>Moderate/high</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Active external market for corporate control</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Ownership concentration</td>
<td>Low</td>
<td>Moderate/high</td>
<td>High</td>
<td>Low/moderate</td>
</tr>
<tr>
<td>Performance-dependent executive compensation</td>
<td>High</td>
<td>Low</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td>Time horizon of economic relationships</td>
<td>Short-term</td>
<td>Long-term</td>
<td>Long-term</td>
<td>Long-term</td>
</tr>
</tbody>
</table>

Source: Weimer & Pape, 1999
Klein, 1998), the term “intellectual capital” has been added to the financial and physical capitals of enterprises. Intellectual capital refers to and includes relatively intangible and/or hidden assets of enterprises that are or can be leveraged to create value for the stakeholders of the organisations. Intellectual capital includes intellectual assets that can be converted into revenues (Sullivan, 1998) and ways to achieve the goals of the enterprise. These assets are invisible and interwoven throughout the complex structures of enterprises. They constitute a fundamental basis for competitive advantage and success in the marketplace (e.g., Rumelt, 1987; Conner, 1991; Penrose, 1959).

There are various conceptualisations of intellectual capital. In this paper, we use the concept “intellectual capital” to refer to the capabilities of managers and other employees as the sine qua non resources to make an organisation “happen” and survive. In following other proponents of the concept, and in emphasising “intellectual”, we refer especially to the knowing capability of an organisation, intellectual community, business or professional practice. The term intellectual capital has largely been used, (e.g., by Saint-Onge, 1996; Edvinsson, 1997; and Sveiby 1997), to focus on valuing human assets and on fiduciary and managerial accountability for human skills, customer relations, and organisational forms, processes and functions as leveragable, and exploitable value-producers. The intellectual capital of enterprises depends upon the conversion of knowledge into something of value. In recent years, research and practice in the area of intellectual capital has been marked by heightened interest in the creation, sharing, and managing of knowledge. Studies, for example by Bontis (1999), Stewart, 1991, and Van de Ven et al. (1989), have focused on stocks and flows of knowledge in the organisation. Work in industry by Nonaka and Takeuchi (1995), based in part on earlier postulates by Polanyi (1967), posit that knowledge is created in four different ways that are different combinations of explicit and tacit knowledge: socialisation, externalisation, internalisation and combination. In the literature on strategic management, Crossan, et al. (1999) stress rebirth of the stock of knowledge as the underlying mechanism of organisational development. Furthermore, Hurst (1995) argues, this rebirth harmonises change and continuity within organisations and is fundamental to business performance. Bontis (1999:6) stresses individual level knowledge as essential to the company’s business performance. His research provides evidence of the positive correlation between individual-level knowledge and successful business performance. He argues that organisations tend to recruit human resources that are capable of increasing the company’s intellectual capitals and thereby their business performances. Aggestam and Keenan (1999) also noted that the intellectual capital of the enterprise might be enhanced by recruiting capable managers, executives and others involved in corporate governance. Sustainable business success, according to Libskind (1996), is based in the company’s intangible assets that include its total organisational knowledge-pool. Mintzberg et al. (1998) articulated the importance of aligning systems, structures and strategies with environment, stressing the interdependence of organisation and environment. Aggestam (1994), in similar vein, pointed to the seminal idea that individual actors revise and develop their individual knowledge in order to create their future. Thus, current environmental influences have impact not only on individual actors but also on the whole organisation. And, obviously, relations with the societal and corporate environment influence both the present and the future. Patently also, relations between individuals and organisations and their business environments in the past play a role in the creation and management of current knowledge and influence the structure and processes of corporate governance (Keenan, 1997). Our research on the intellectual capital of managers in privatised Polish companies indicates the strong influence of culture in coping with dramatic changes in business and societal environments (Aggestam and Keenan, 1999).

Corporate governance-intellectual capital paradigm

Table 2 presents our composite framework that illustrates the nexus that we conceive exists between corporate governance and the intellectual capital of enterprises. The nexus is set against the compass-like framework which allows us to consider both corporate governance and the creation of intellectual “capitals” as interrelated and jointly multidirectional. The model is a mapping of the relationships between the directional structures and processes of corporate governance and the major intellectual “capitals” posited among current intellectual capital paradigms (e.g., Sveiby, 1997 Edvinsson, 1997; and St. Onge, 1996). The framework illustrates relations among the four factors or “capitals” most often appearing among these recent conceptualisations of intellectual capital: human capital, internal/structural capital, inno-
Innovation capital, and external/customer capital. Three of the four capitals are readily correlated with directional governance activities. **Innovation Capital** is oriented toward dramatic organisational change. Corporate governance structures and processes need to focus on developing the innovation capital of the enterprise. Innovation capital includes, for example, orientation and climate for creativity and innovation, including motivation, support, and reward systems; competitive intelligence gathering; idea incubation; intellectual asset management, and support for organisational learning and unlearning; and a focus on brokering and alliance-building.

**Internal/Structural Capital** is focused on the resourcefulness of intra-organisational structures and processes and is also a fiduciary responsibility of corporate governance. Internal/structural capital includes, for example, management philosophy and practices, channels for transacting internal affairs, communication structures and technology, levels of administration and management, organisational climate and culture, organisational values-in-action, training and development processes, and relations among business functions and departments.

**External/Structure/Customer Capital** includes actors, structures and processes for constructing the core organisation, includes, for example, management philosophy and practices, channels for transacting internal affairs, communication structures and technology, levels of administration and management, organisational climate and culture, organisational values-in-action, training and development processes, and relations among business functions and departments.

Source: Aggestam & Keenan, 1999
structures and technology, levels of administration and management, organisational climate and culture, organisational values-in-action, training and development processes, and relations among business functions and departments.

*External Structural/Customer Capital* in current intellectual capital paradigms is focused toward extra-organisation relations. External structure/customer capital includes, for example, orientation to and procedures, channels, efficiency, and quality of relations with customers; intellectual property, brand loyalty, distribution channels, licensing, customer loyalty and repeat business, backlog of orders, relations with investors and financial community. The concept of external structure/customer capital may be expanded to include relations with all external stakeholders including suppliers, communities, governments, etc.

There is no intellectual "capital" from among the current intellectual capital paradigms that explicitly matches the organisational stability direction in our mapping. It could be argued, however, that both looking outward from the enterprise and looking inward at the enterprise can work to achieve not only organisational change but organisational stability. Achieving organisational change and stability are responsibilities of corporate governance.

In our scheme, there are two capitals that cut across the other capitals in the intellectual capital paradigms and are multi-directioned in terms of corporate governance. The two capitals, human capital and societal/culture capital, are described in Table 2 as directed toward all four governance values or orientations simultaneously: toward organisational change, toward organisational stability, toward extra-organisation relations, and toward extra-organisation relations and activities.

*Human Capital* includes, for example, the competencies of employees, employee know-how and know-how, education, attitudes and morale, motivation, developmental stage, age, attendance and other work patterns, diversity, and work-non-work orientations. The human capital of an enterprise could also include the competencies of all stakeholders since such competencies importantly enter into perceptions of the value of the enterprise and the value of corporate governance.

Our research strongly supports the positing of a fifth type of capital within the intellectual capital framework. We have called that capital societal/cultural capital (Aggestam and Keenan, 1999). Societal/culture capital is a topic that has not gone unnoticed in organisational research (e.g., Lubatkin et al., 1997). While it is not possible here to develop in detail the many ways in which societal culture and both corporate governance and intellectual capital are reciprocally influential, it is important to make explicit that culture is important among the variables relating to an organisation's success or failure in its business environment. Societal/cultural capital cuts across and transforms the human capital, internal/structure capital, innovation capital, and external structure/customer capital of the organisation. Societal/cultural capital operates in the interplay of societal and organisational cultures and in the reciprocal influence of enterprise and society values, in both the contents and processes of communication; in views of time, space, future and the past; in myths, histories; shared objectives; in social policies and processes; in societal and organisational normative behaviours; in concepts of organisational membership; in taxation and other regulatory policies; political and governance structures; foreign relation policies, especially business and trade policies; and in and through information and other infrastructures (Keenan, 1999). We do not argue that corporate governance is responsible for societal/culture capital in the functioning of the business. We believe that corporate governance is, however, responsible for understanding the role of societal/culture capital in directing corporate membership in organisations.

**Explications: characteristics of corporate governance styles in relation to intellectual capital**

Donaldson and Preston's (1995) review of trends among conceptualisations of the firm is helpful here in explicating the role(s) of corporate governance with respect to the intellectual capital of the firm. Definitions about the firm are important to understanding goals and dynamics of governance and the strategic purposes of intellectual capitals. Definitions are important also to understanding the work of organisational actors. Early views, for example by Adam Smith, viewed the firm as essentially producing goods and services using resources from investors. Other constructs by Marxists, economists, and recently by Sternberg (1996) view firms and the work of people in the firms as essentially serving their owners. Stakeholder views include employees, investors, suppliers, customers, governments, communities, professional associations, political groups, and unions as "interested parties" in the operation of the firm and as both contributors and...
recipients of benefits. Ideas about the role, structure and processes of corporate governance are, of course, related to conceptualisations about the firm. Tricker (1984: xi) argues that corporate governance and indeed the firm itself involves interactions not only with owners but with others interested in the affairs of the company. Demb and Neubauer (1992) earlier had asserted that publicly-traded corporations ought to be responsive to a wide variety of stakeholders. Sternberg (1996) rejected such expansive stakeholder involvement in the workings of the firm.

As the debate over definitions of the firm and corporate governance continues, what can we use here to help explicate the involvement of corporate governance in the provision, investment, and leveraging of the intellectual capital of the firm? We choose to use Tricker’s views of corporate governance:

“All human societies need governing, wherever power is exercised to direct, control and regulate activities that affect people’s interests. Governance involves the derivation, use and limitation of such powers. It identifies rights and responsibilities, legitimises actions and determines accountability...the idea of steersman — the person at the helm — is a particularly helpful insight into the reality of governance.” (Tricker, 1984: 8–9)

Tricker goes on to assert that the complexities of modern corporations necessitate a differentiation between governance and management. “If management is about running the business”, Tricker says, “governance is about seeing that it is run properly” (1984: 7). He further asserts that corporate governance has four principal activities: direction (formulating the strategic direction for the future of the enterprise); executive action (involvement in the crucial executive decisions); supervision (monitoring and oversight of management performance); and accountability (recognising responsibilities to those making a legitimate demand for accountability). Thus, we argue that corporate governance has the responsibility for formulating the strategic focus of, involving itself in critical decisions about, monitoring the management of, and being accountable for the adroit investment of the intellectual capital of the firm. Corporate governance is, in part, about seeing that the firm’s intellectual capital is managed properly.

What features are salient and involved in the fiduciary responsibility of corporate governance for the intellectual capital of the firm? Weimer and Pape’s (1999) taxonomy, presented in Table 1, supplies a useful description of eight features that cut across country systems and international/intercultural variations of corporate governance. The features include: the prevailing concept of the firm; the board system; the salient stakeholders able to exert influence on managerial decision-making; the importance of stock markets in the national economy; the presence or absence of an external market for corporate control; the ownership structure; the extent to which executive compensation is dependent on corporate performance; and the time horizon of economic relationships (ibid: 153).

**Market and network orientations and the governance of intellectual capital**

Broadly, corporate governance systems can be differentiated as market-oriented and network-oriented. A market-oriented system has an active external market for corporate control which serves as a mechanism for independent shareholders to influence (corporate governance) managerial decision-making (ibid: 153). A network-oriented system is by contrast relatively oligarchic and is predominately influenced by networks of interconnected shareholders, e.g., cross-shareholders and interlocking executives.

In the case of market oriented governance, the likelihood is high that outside investors can exert considerable influence on corporate governance decision-making. Such investors regard managerial executives as responsible to the shareholders and as instruments for creating wealth for shareholders. The shareholders expect, and are afforded by law, equal access to information about the firm (Funk and Major, 1990). They also require rights and influence through voting their shares. Stockholders in a market-oriented system characteristically hope for quick and continuing returns on their investment. Governance in market-oriented systems often includes hostile take-overs, proxy fights, mergers, and leveraged buyouts. Managerial influence over the development of intellectual capital can be affected in many ways in a market oriented governance system. The short-term focus on profits and the short-term investment can mean reduced emphasis on long-term support for innovation with, at the same time, and insistence on innovating as fast as possible to succeed in the changing market place. Investing in long-term R & D and innovation may be threatened. In some measure, also, corporate governance involvement in the developing and nurturing of knowledge capital and internal-structure capital may be affected by needs to reduce costs and maximise profits through reduction...
in training and development, downsizing, employee layoffs and reductions, or realignments of knowledgeable middle management structures and processes. The hostile takeovers, leveraged buyouts, mergers and acquisitions that sometimes occur in market-oriented governance systems can create perturbations that may negatively affect all aspects of intellectual capital of the firm. Such conditions can create dissonance, confusion, increased cynicism and distrust, staffing shortages, and problematic melding of diverse corporate cultures and missions, vision and values, different structures and process and diverse procedures.

Network-oriented corporate governance, in contrast, is generally less open to influence by individual shareholders and more influenced by family or bank networks of relatively stable relationships. The stability and long-term focus of such shareholders can mean a relatively consistent focus on developing long-term support of processes for innovation and for employee development and customer relations. Turnover, layoffs, and downsizing as a result of take-overs, mergers and acquisitions are likely to be fewer, a condition that may allow for the more consistent creation, communication, and institutionalisation of knowledge capital in the firm. Though not a foregone conclusion, interlocking executives and cross-shareholders may, however, be less contemporary and aggressive than the shareholders in a market-oriented governance system. They may develop a maladaptive group-think as part of their own executive-level intellectual capital and in their approach to developing the intellectual capital of the firm over which they have influence. Closed, networking shareholders can be relatively impervious to market, professional, scientific, and technological influences: they often make their own report cards and evaluations of their responsibilities for intellectual capital and other assets of the firm. This can not be readily assessed in the short term.

Concept of the firm and the governance of intellectual capital

As we have noted earlier, defining the firm is problematic in governance literature. Weimer and Pape (1991:1) differentiate between the shareholder-owned instrumental firm and the institutional firm. The two concepts of the firm have implications for the governance of intellectual capital. The instrumental firm exists as a means (instrument) for creating shareholder values. In the case of the instrumental firm, intellectual capital is, as are all of the firm’s assets, committed and expected to contribute to the production of the shareholders’ wealth. Broadly, intellectual capital serves the demands of the shareholders, as does corporate governance. This could mean, assuming the shareholders are concerned about the intellectual capital, that intellectual capital is afforded a high priority and given a special focus as a demand by shareholders. Knowledge capital as a producer of wealth could be afforded considerable emphasis. Increased scrutiny could be given executive management’s accountability for the creation and leveraging of intellectual capital. Indeed, shareholders may demand evidence from executives that intellectual capital is in focus and is being regularly assessed for its contributions to shareholders’ wealth. The institutional firm is an autonomous economic entity striving for its continuity as a coalition of shareholders, corporate managers, suppliers of goods, suppliers of debts, and customers (Moerland, 1995). In the institutional firm, the confluence of blocks of stakeholders and emphasis on the continuity of the firm could mean less risk-taking, greater emphases on stability and the continuation of historical structures and process, slowness or inability to change and innovate, lack of will to act, and failures to create and communicate new knowledge.

Board systems and the governance of intellectual capital

The boards of corporate governance systems are generally either one-tier or two-tiered (Weimer and Pape, 1999). A one-tiered board accomplishes all of the functions of governance (see Tricker, 1984) with one level of directors and does not make a legal distinction between executive and non-executive directors. A two-tiered board system has a management board and a supervisory board. The supervisory board monitors, appoints, and dismisses the managerial board (Bleicher and Paul, 1986; Kaplan, 1995). The membership of the supervisory board typically includes banks, trade unions and representatives of employees, and representatives of shareholders other than banks. The supervisory board is itself appointed by the action of the general assembly of shareholders. Individual shareholders have a limited power and banks are the most influential by virtue of their seats on the supervisory board and their unrestricted equity ownership.

The reciprocal influence of the board system and the management of intellectual capital depends, as in the case of other
features of governance, more on the attitudes and expertise of board members than on the structure of the board. In this regard, a two-tiered board structures may complicate the attention and importance given to creating and leveraging the intellectual capital of the firm, especially because of the often-conflicting interests, abilities and power of the membership, e.g., banks and employee unions. In both one tier and two tiered board systems, the execution of responsibility and priority and support for intellectual capital is a function of the attentiveness of board members to the knowledge capital and interrelated capitals within the intellectual capital paradigm (see Table 2). Little or no formal attention by the board to the intellectual capital of the firm is, as we see it, a failure of governance to direct and participate in executive action, supervision, or accountability for the business entity.

**Salient stakeholders and the governance of intellectual capital**

What we have just said in reference to the board system in corporate governance is applicable also to the *salient shareholders*. Whether the salient, influential stakeholders affecting governance are individual stakeholders, interlocked networks, banks, suppliers of goods and services, or investment firms, the attitudes and expertise of the shareholders are key to the implementation of governance responsibility for directing the development, nurturing and leveraging of the intellectual capital of the firm. It is not the purpose of this article to discuss the many dimensions or dynamics of board members’ attitudes and actions with regard to their responsibility and accountability for the intellectual capital of the firm. What is needed is awareness of that fiduciary responsibility and the knowledge as well as commitment to understand, monitor, and set direction for the investment in and of intellectual capital for the achievement of competitive advantage and the goals of the firm.

**The stock market’s importance in the national economy and the governance of intellectual capital**

Weimer and Pape (1999) point to the *importance of the national stock market* as a factor by which governance systems can be described and national variations compared. The influence of the national stock market on corporate governance varies across countries. For the many firms formalised by being traded on a stock market the pressure on corporate governance is clear: what the national stock markets “want” and regard as acceptable corporate governance is continued strong performance by the corporation. Most often, strong performance means financial performance. Strong performance is a perception and judgement made by investors on the basis of many variables. The reputation and financial security of a publicly-traded firm depends, in large part, on the investors’ perceptions and judgements that operate in the national stock market. The influence of such perceptions and judgements is greater or less, Weimer and Pape recognise, depending on the importance, the “invisible hand”, of the national stock market.

In explicating possible connections between the importance of the national stock market (as a feature of governance in the Weimer-Pape taxonomy) and the management of intellectual capital in the firm, our interest is focused on investor perceptions and judgements about the firm and its governance. What is important to us at this point in our paper is how such perceptions are formed and how they operate. We argue that investors form perceptions about the quality of the firm and its governance on the basis of many factors too diverse to discuss here. Importantly, however, some of the characteristics refer to and are, we believe, part of the intellectual capital of the firm. We argue that investor perceptions and judgements are, directly and indirectly, about the firm’s use of assets that we have been including here in the holistic intellectual capital construct. It follows then that corporate governance is responsible for recognising that investors, regardless of the strength of the national stock market, make and use judgements about features of the intellectual capital of the business entity. Information about such features, usually piecemeal, fragmented and without management by the firm, is variously mediated, e.g., in the press and in company reports, to investors. Corporate governance would do well to direct and influence the development and management of the firm’s intellectual capital as a system of business assets (along with financial and physical assets) and to assure communication to investors about the deployment and performance of such assets. The success of the corporation in the stock market can be, in some measure, attributable to reporting to investors information about the company’s intellectual capital (Edvinsson, 1997, referring to publishing stakeholder reports concerning the management of intellectual capital in the Skandia Corporation).
External market for corporate control and the governance of intellectual capital

Tied to the orientation, that is, market or network, of the governance system, an external market for control of the corporation may or may not exist. In the Weimer-Pape analysis, an external market for corporate control exists largely in Anglo-Saxon countries and not in Germanic, Latin countries or in Japan. External markets for corporate control exist where the firm is conceptualised as instrumental to shareholder wealth, where the salient stakeholders are individual shareholders, and where the national stock market has relatively high importance in the economic system. External markets for corporate control generally do not exist where the firm is seen as institutional, where the firm’s ownership and governance is largely by interlocked investors and oligarchic, and where the national stock market has relatively moderate importance for the governance of the firm. The relation between the presence or absence of external markets for corporate control and the governance of intellectual capital is complicated by the interplay of orientation, concepts about the firm, and type of ownership. Each of these factors has been discussed separately in the preceding sections. Our tentative conclusion here about the influence of the combined factors is that, especially where there is an external market for control of the firm, there is a need and benefit for governance to understand and direct and to communicate with stakeholders, e.g., for marketing and stockholder relations purposes, about the management of intellectual capital in the firm.

Ownership concentration and the governance of intellectual capital

Ownership concentration, in the Weimer-Pape scheme, has much to do with the orientation of the governance system, the concept of the firm and the composition of the salient stakeholders. In market-oriented governance systems and where the firm is regarded as instrumental to shareholder wealth and where the salient stakeholders are largely individual investors, the concentration of ownership is low. Control is spread over diverse and many shareholders. Conversely, where the orientation is toward network governance and where the firm is viewed as an institution striving for continuity and where the salient stakeholders are groups (families, banks, interlocked directors, etc.) of shareholders, ownership is relatively concentrated in the hands of a few stakeholders. There are several hypothetical implications for the management of intellectual capital in the firm. Diverse and relatively unconcentrated ownership may have less influence over governance and, therefore, may be less concerned about the intellectual capital of the firm. Governance may also be less concerned with understanding, directing, and becoming involved in executive action to assure the expert management of the firm’s intellectual capital. In the case of ownership concentrated in the hands of a relatively few stakeholders, the situation for the governance of the firm’s intellectual capital may also be problematic. Ownership and governance that is not sufficiently expert about intellectual capital, because, for example, of ignorance, inability, and/or unwillingness to act, may not properly execute fiduciary responsibility for directing and influencing the leveraging of the firm’s intellectual capital. The result may be less than adequate governance and faulty execution of responsibility for creating and using the intellectual capital that transforms the financial and physical capitals of the firm.

Executive compensation and the governance of intellectual capital

The Weimer-Pape taxonomy describes the relation between executive performance and executive compensation and governance systems as “high” in market-oriented systems and relatively lower in network-oriented systems. In relation to governance, concerns are about the connection of executive compensation to the performance of the firm. The matter is not without controversy and various performance-compensation schemes exist, including share-option and bonus approaches, (e.g., Monks and Minow, 1995; Abowd and Bognanno, 1995; Person, Roland and Tabillini, 1996; Hawley and Williams, 1996:57–65; and Turnbull, 1997). The issues, controversies and approaches for relating executive compensation to the performance of the firm are not in focus here. What is in focus, in relation to corporate governance of the intellectual capital of the firm, is the alignment (however compensated) of executive performance with responsibility for creating, nurturing, and using intellectual capital to create value for stakeholders. One way of looking at the executive performance/compensation feature in corporate governance is to imagine that we are looking at the intellectual capital of one or several executive(s) or function(s) to influ-
ence, especially to leverage, intellectual capital in the entire firm. The issue is about the executive’s performance in developing and using intellectual capital (at least as well as financial and plant/physical capitals) to create value for stakeholders in line with their interests.

**Time horizons of economic relationships and the governance of intellectual capital**

The Weimer-Pape taxonomy describes governance systems as being predominantly concerned with either short-term or long-term economic relationships. Noting governance conditions in the United States, United Kingdom, Canada, and Australia, Weimer and Pape (1999:157) report findings by Gelauff and Den Broeder (1996) which argue that in such market-oriented governance systems unrestricted markets for capital, labour, goods and services ensure rapid adjustment to changing circumstances thereby disfavouring long-term and stable relationships. Together with other researchers, Porter (1992) and Prodhom (1993) have contended that such constant and rapid adjusting to changing markets and economic relationships has created governance and management myopia which is focused on the accomplishment of short-term rather than long-term results. Except for “Germanic” systems, focusing on long-term economic relationships is, according to Weimer and Pape (1999:154), a feature of network-oriented governance and firms conceived as institutional (see Table 1).

What has the time horizon of corporate governance to do with governing the use of intellectual capital? Whatever the merits of either short-term or long-term outlooks, the firm’s existing intellectual capital needs to be deployed and leveraged. New intellectual capital may need to be created and developed either for immediate use or use later. As with financial and plant capitals, governance is responsible for directing and involving itself in the creation, deployment, and leveraging of existing and/or available intellectual capital. Short- and long-term time horizons affect the use and management of component intellectual capitals differently. For example, dramatic economic change, diversified markets, and rapid technological developments force corporate governance to be more attentive to the innovation capital component of the firm’s intellectual capital. Urgent short term market demands, for example, often emphasise speed of innovation and speed to market and involve, with urgency, developing and using the knowledge, structures and processes in the firm’s innovation capital. On the other hand, meeting short-term urgencies may mean underinvesting in long-term research and development and innovation capital. Focusing on the short-term accomplishment of immediate results may also mean diverting support from long-term employee training and the development of internal/structure capital. Short-term time horizons may emphasise increased, close attention to new customers and the deployment of external/structure capital for marketing new products. Short-term time horizons associated with marketplace urgencies may involve the quick formation of special teams, agile groups or other mobilisations of external/structure capital. Long-term time horizons may permit relatively slow and consistent exercise of external/structure capital, e.g., in attending to customers and other external stakeholders, and relatively consistent and programmatic development of innovation and internal/structure capitals. A short term outlook also can mean the temporary cessation of business-as-usual and of established routines in favour of quick turnaround and different procedures for meeting deadlines.

**Implications: corporate governance as intellectual capital**

One of the insights from the preceding explication of the role and characteristics of governance systems in relation to the intellectual capital of the firm is that corporate governance systems both at the firm-level and at the country-level have responsibility for systems of intellectual capital. Corporate governance is responsible for assuring, mobilising and orienting human, culture, innovation, external-structure, and internal-structure capitals oriented toward achieving the goals, and values of the firm. Corporate governance is itself a kind and level of intellectual capital which has been charged with oversight concerning the intellectual capital of the entire firm. Emerging paradigms concerning intellectual capital in organisations have important implications for the members, structures and processes of corporate governance boards.

**Corporate governors**

Amid increasing emphasis on intellectual capital and the management of knowledge, members of governance systems are challenged to understand and engage more fully with the constructs of intellectual capital and
to rethink their current views of the firm’s intangible capital for creating value and wealth. Corporate governance is challenged to search for sources of wealth in the anthropocentric knowledge and other capitals of the firm.

Corporate governors are forced to consider human capital – the assets that each day go home and which are readily movable – with diligence. The diligence required is at least as much as that traditionally devoted to the firm’s financial capital and its tangible liquidation assets in facilities and plant. Current intellectual capital paradigms require corporate governance members to think holistically about all the intangible assets that can be used to create both change and stability for the firm and to create value through both intra-organisational and extra-organisational relationships. Intellectual capital practices, pioneered by consultants and under increasing study by academicians, are challenging governors with outdated understandings to learn, unlearn, re-learn, and/or learn afresh ways of thinking about, leading and directing management and work in the post-industrial, information-age, and knowledge-intensive organisations of the twenty-first century. Paradigms concerning intellectual capital of the firm may be especially challenging, we believe, to board members who will not take this obligation seriously and/or who are lazy or unproductive, who are non-objective when it comes to tough decisions concerning current executive management, whose close ties to outside or inside interests interfere with the execution of their responsibilities, and whose role as governor is largely window-dressing or for political purposes.

Governance structures and processes

What we surmise concerning governors seems also true for governance structures and processes: committing to directing the creation and leveraging the intellectual capital of the firm may require possibly dramatic changes in the traditional or business-as-usual structure and processes of governance. Especially because the holistic intellectual capital paradigms cut across traditional organisational departments and functions, governance structures, (e.g., committees, task forces), and roles, and processes, (e.g., meeting, communicating, data gathering, and reporting), may need to be changed, developed, or differently aligned. Traditional governance structures and processes uninformed by understandings concerning the presence and critical importance of intellectual capital as

Conclusions

The sensitivities and responsibilities of corporate governance concerning the system of interdependent anthropocentric assets that comprise the firm’s overall intellectual capital will, of course, vary depending on the system of governance as illustrated by the Weimer-Pape scheme. We visualise the two sets of models as graphics that can be overlayered. Figure 1 illustrates the conceptual superimposition of the Weimer-Pape governance taxonomy on our intellectual capital model. Table 3 illustrates our conclusion: that managing the intellectual capital of the organisation is a responsibility and ingredient of all systems of corporate governance.

There are important connections between the concept of intellectual capital, which focuses on forming and leveraging an organisation’s intangible capital, and corporate governance, which focuses on patterns of stakeholder influences that affect managerial decision-making. There are three points of obvious convergence. The first point of convergence is that both constructs emphasise value-creation for the benefit of stakeholders. In both frameworks, focus is on creating corporate wealth. There is a second point of convergence between the intellectual capital and governance constructs. Both frameworks make room for multidirectional value-creation and leveraging. Current intellectual capital paradigms emphasise innovation, internal structure, and external, customer-oriented structure, all direction-oriented capitals. These are competing directions toward which the organisational actors turn. It suggests that both constructs provide insights into what we may call ‘ambi-valent’ corporate governance decision-making, that is, acting toward simultaneously competing and opposite directions. A third point of convergence between the Weimer-Pape (1999) governance systems
taxonomy and our intellectual capital framework is in the importance they place on societal/cultural variables. Both schemes recognise the interplay of business environment and society/culture and the organisational actors, structures and processes for governance and the creation of wealth through the management of intellectual as well as financial and physical-plant capitals.

This article raises questions concerning the fulfilment of corporate governance responsibility for intellectual capital of the organisation(s). The questions are many and some answers are not immediately clear. The questions are, however, agenda-setting for the actors, processes, and structures involved in the corporate governance of twenty-first century businesses. Some of the questions are included below:

- How can the members, processes, and structures of corporate governance be aligned with paradigms concerning intellectual capital?
- What, for example, is the responsibility of shareholders and investing institutions, as well as boards, for intellectual capital?
- How, and by whom, will corporate executives be held responsible for intellectual
Table 3: Interplay of features of corporate governance systems and ingredient assets of intellectual capital in firms

<table>
<thead>
<tr>
<th>INTELLECTUAL CAPITAL IN CORPORATE GOVERNANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INNOVATION CAPITAL</strong>/</td>
</tr>
<tr>
<td><em>Innovation Capital</em> includes actors, structures and processes for flexibility, change and renewal; includes, for example, orientation and climate for creativity and innovation, including motivation, support, and reward systems; intelligence gathering; idea incubation; intellectual asset management, support for organisational learning and unlearning; and a focus on brokering and alliance-building.</td>
</tr>
<tr>
<td><strong>INTERNAL-STRUCTURE CAPITAL</strong>/</td>
</tr>
<tr>
<td><em>Internal/Structural Capital</em> includes actors, structures and processes for constructing the core organisation, includes, for example, management philosophy and practices, channels for transacting internal affairs, communication structures and technology, levels of administration and management, organisational climate and culture, organisational values-in-action, training and development processes, and relations among business functions and departments.</td>
</tr>
<tr>
<td><strong>EXTERNAL-STRUCTURE CAPITAL</strong>/</td>
</tr>
<tr>
<td><em>External Structure/Customer Capital</em> includes actors, structures and processes for relating with external stakeholders; includes, for example, procedures, channels, efficiency, and quality of relations with customers; intellectual property, brand loyalty, distribution channels, licensing, customer loyalty and repeat business, backlog of orders, relations with investors and financial community. External structure/customer capital includes relations with suppliers, communities, governments, and other stakeholders.</td>
</tr>
<tr>
<td><strong>INTELLECTUAL CAPITAL ORIENTED TOWARD STABILITY</strong></td>
</tr>
<tr>
<td>Assets that are embedded in the routine, taken-for-granted, and institutionalised roles, structures, and processes that are motivated by the need for stability, order, and the status quo. These assets overlap with external/structure and internal/structure capitals.</td>
</tr>
<tr>
<td><strong>HUMAN CAPITAL</strong></td>
</tr>
<tr>
<td><em>Human Capital</em> includes, for example, the competencies of employees, employee knowwhat and know-how, education, attitudes and morale, motivation, developmental stage, age, attendance and other work patterns, diversity, and work-non-work orientations. The Human Capital of an enterprise could also include the competencies of all stakeholders since such competencies importantly enter into perceptions of the value of the enterprise.</td>
</tr>
<tr>
<td><strong>SOCIETAL/CULTURE CAPITAL</strong></td>
</tr>
<tr>
<td><em>Societal/Cultural Capital</em> cuts across and transforms the human capital, internal/structure capital, innovation capital, and external structure/customer capital of the organisation. Societal/Cultural capital operates in the interplay of societal and organisational cultures and in the reciprocal influence of enterprise and society values, in both the contents and processes of communication; in views of time, space, future and the past; in myths and legends, histories; shared objectives; in social policies and processes; in societal and organisational normative behaviours; in concepts of organisational citizenship; in taxation and other regulatory policies; political and governance structures; foreign relation policies, especially business and trade policies; and in and through information and other infrastructures (Keenan, 1999).</td>
</tr>
</tbody>
</table>

**FEATURES OF CORPORATE GOVERNANCE SYSTEMS:**

- Orientation
- Concept of Firm
- Board System
- Salient Stakeholders
- Importance of Stock Market in the National Economy
- Active External Market for Corporate Control
- Ownership Concentration
- Performance-dependent Executive Compensation
- Time Horizon of Economic Relationships

*(Weimer & Pape, 1999)*
capital in/of the organisation? How and by whom will boards be held similarly responsible?

- What kind of expertise and commitment at the governance level is needed to assure accountability for creating, developing, empowering, encouraging and leveraging intellectual capital of the organisation?

- How do these questions vary with the type of business entity? How is accountability for intellectual capital different in closely-held businesses? In global, cross-border entities whose equity capital is traded on the world’s stock exchanges? Or in alliances with several partner companies?

Corporate governance systems are themselves systems of intellectual capital. They are mobilisations of human, culture, innovation, external-structure, and internal-structure capitals oriented toward achieving the mission, vision and values of the firm. Top-tier, firm-level governance systems are systems of intellectual capital with fiduciary responsibility (varying with national culture and country) and influence over the systems of intellectual capital in their organisations or institutions. Top-tier systems have responsibility for lower-tier systems.

- Are these viewpoints key to connecting constructs concerning intellectual capital and corporate governance? Does firm-level corporate governance include only the “top” tier of key people, processes and structures or does corporate governance include managerial decision-making (or other lower tier systems of actors, processes and structures) at all levels in the firm?

- The previous question amounts to asking: is it useful to posit a hierarchical system of subsystems as the shape of corporate governance? What other models are there? If different models exist for corporate governance, what are they and how do they function with respect to the intellectual capital of the firm?

Increasingly, globalised business conditions create change. Not just incremental, gradual, expected and normal change but discontinuous, dramatic, unexpected and jolting change.

- How does corporate governance behave in times of environmental jolts when the institutionalised values, practices, and structures are in turmoil? In other words, how does corporate governance deal with incremental change and, even more importantly, with turbulent change? In times of turbulence and environmental jolt, cultural-capital can be important as a storage-pool of inherited values. This capital helps managers to leverage values in times of turbulent change (Aggestam and Keenan, 1999). Also, the turbulent times may influence what capitals are most important, e.g., may call for increased use of innovation capital. The question is how does the relative calm or turbulence in a firm’s environment influence the priority or relative importance of the various intellectual capitals?

In sum, a conceptual connection exists between constructs concerning corporate governance and intellectual capital. Intellectual capital is essential to the existence and success of twenty-first century, knowledge-intensive organisations. We have added the responsibility for intellectual capital to the responsibilities of contemporary corporate governance. Intellectual capital exists in every firm regardless of the governance system or skills of governance boards. Governance has fiduciary responsibility for the intellectual capital as well as the financial and physical capitals of the firm. This article has focused on explicating some of the relations between the holistic construct and ingredients of intellectual capital and features of corporate governance that cut across countries and cultures. In all systems of governance, attention to intellectual capital is important because intangible intellectual capital transforms the relatively tangible financial and physical capitals into added value and wealth. Thus, intellectual capital is critical to the performance of the firm. Responsibility for the prudent investment of intellectual capital resides with corporate governance. On the wisdom and expertise of corporate governance to create and leverage intellectual capital rests the success or failure of the twenty-first century, knowledge-intensive enterprise.

References


Maria Aggestam is a lecturer and doctoral candidate at Lund University in Sweden. Her research focuses on management and organisational transition processes in the former Eastern European Economies. Ms Aggestam is the author of several research articles on management, intellectual capital and corporate governance in times of environmental jolt.

James Keenan is a Professor of Management, Communication and Psychology at Fairfield University, Fairfield, Connecticut. Professor Keenan lectures in business administration, communication science and organisational psychology. His main research interest is management of knowledge and intellectual capitals in organisations. He has extensive consultant experience in the private and governmental sectors in the areas of management of knowledge and corporate governance. He is the author of a forthcoming book on Communication Capital in Organisations.

"There is now a great deal of research to show that given the choice, most people would prefer to invest successfully without compromising their principles." Patrick Meehan, Holden Meehan, The Ethical Investor, EIRIS, December 2000.