Intangible Assets, Human Capital and Spillovers.

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As intangibles became very important in the value creation process, experts became more and more interested in them.

An intangible asset is a source of future benefits that doesn't have a physical embodiment, while an intangible liability is a source of future losses that also doesn’t have a physical embodiment. The difference between intangible assets and intangible liabilities constitute intangible capital.

Intangible Capital = Intangible Assets – Intangible Liabilities[1].

There are soft intangibles and hard intangibles. Soft intangibles as a whole can be called ‘intellectual capital’. The components of intellectual capital[2]:

1) Human capital. Intangible assets (human assets): value creation per employee, training and education quality, employee motivation and morale (i.e. emotion assets), talents, and original skills of employees; Intangible liabilities (human liabilities): bad performance in value creation per employee, bad quality or no training and education, no motivation and moral, lack of talents, no original skills.
2) Relationship capital:
   - External. Intangible assets (external relationship assets): growth in number of external relationships, levels of trust, customer retention, good quality of distribution channels, business networks; Intangible liabilities (external relationship liabilities): reduction in number of external relationships, no trust, deficit or loss of customers, bad quality of distribution channels, undeveloped business networks.
   - Internal. Intangible assets (internal relationships assets): trust and loyalty of employees, i.e. emotion assets as well. Intangible liabilities (internal relationship liabilities): no trust and no loyalty of employees.
3) Innovation capital. Intangible assets (innovation assets): ability to generate new ideas and turn them into products, while improving productivity, discoveries; Intangible liabilities (innovation liabilities): lack of such ability.
4) Organizational Capital. Intangible assets (organizational assets): optimized structure and infrastructure, existence of non-human storehouses of information, the speed of the production of intangibles, good timing, etc.; Intangible liabilities (organizational liabilities): imperfect structure and infrastructure, lack of information, being slow in producing intangibles, bad timing, etc.

Hard intangibles are the intangibles that are legally protected and recognized (goodwill and intellectual property).

In my opinion the most important intangible is human capital. Any of intangible assets is the product of some person’s idea, and that is the reason why the person is more valuable than the results of his work, as he is the only possessor of unique knowledge system and information. But human capital is also one of the most difficult intangibles to measure.

The real attributes of intangibles are that they are intangible physically, can be identified, and can’t lose their properties with use[3]. But also, they are the creation of human mind.

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[1] IIMSI (The International Intangible Management Standards Institute).

[2] Made based upon the definitions of Baruch Lev, Goran & Johan Roos, Dr. Nick Bontis, and IIMSI.

[3] IAS 38

Being created by a human mind, intangible assets can be also regarded as human ideas. Almost any idea can be modified, and be replaces by something new and better, unless, of course, it's a perfect (complete) idea which cannot be replaced. But at the moment we can't state that there are only perfect ideas in our world, and thus they all are rival (competitive).

Baruch Lev names two main things that limit the growth of intangibles:

- size of the market and growth potential;
- 'managerial diseconomies' (difficulty to manage and operate).

While the first reason is certainly serving as a restricting power of the growth of intangibles, the second seems more doubtful. Even being absolutely uncontrollable intangibles still can grow. 'Managerial diseconomies' seem to be more of a disadvantage of intangibles, rather than a growth limiting factor. And in my opinion, sooner or later they will become manageable; the problem lies not in intangibles themselves, but in the ability and knowledge of people.

The other limiting factor I would name the creative ability of a human mind. Being a product of intellectual activity of people, intangibles are limited with the ability of human brain.

Spillover is not always a negative effect, that is also proven in the work of Lynne G. Zucker, Michael R. Darby, Marilynn B. Brewer 'Intellectual Human Capital and the Birth of U.S. Biotechnology Enterprises'. They can be a source of competition. And it could be termed intangibles competition (knowledge application competition). Probably at the certain time of social evolution there will be no need in patents. This can both widen the social return of intangibles, and enforce the true intangibles competition.

And since the patents seem to be not that effective anyway, companies should not worry about legal protection of intellectual property rights. If you are smarter than anybody else, it secures your position on the market, and then you won't have to worry about legal protection of what you do better than anybody. Success will depend on true intellectual abilities of people and companies, not on the fact 'who was there first', and it will also give more sources for overall information revolution.

The more society gains from intensified intangibles competition, the more incentives should the creator have to create more, so the new knowledge will create a new knowledge, and will keep on creating it infinitely, limited again only by market size and human intellectual ability (a Win/Win situation).

References:

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