Exploring to Acquire the Legitimacy Management and Disclosure of Intellectual Capital Information Practice

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Abstract

This paper provides an analytical viewpoint that includes two perspectives that expand the MERITUM guideline in order to acquire intellectual asset management legitimacy and disclosures. This will help spread intellectual asset management practices and disclosures. First, this paper proposes that there is a reflexive dynamism between the company's organizations and “boundary network organizations by sharing resources with boundary network organizations using the company's internal resources. In other words, we discuss a reflexive dynamism consequential from the interaction between the company's organizations and the boundary network organizations including both stock affiliated companies and loose businesses. Second, this paper places a great amount of importance on the viewpoint that corporate managers mobilize the company’s “current” resources into their corporate strategies. The companies need the “current” resources vector to adequately coincide with corporate strategies which include both “current” and “future” business area selections. This paper discusses how the Intellectual Capital Report will be able to acquire legitimacy within our society from these two perspectives.

1. Introduction

It has been almost a decade since the start of focusing on intellectual property as a driving force for economic revitalization in Japan. Koizumi Cabinet established the "Strategic Council on Intellectual Property" in March 2002, and issued the "Intellectual Property Policy Outline" in July 2002. It proposed promoting policies aimed at using intellectual property to create "a nation built on intellectual property." In line with this policy, the Ministry of Economy, Trade and Industry (METI) in Japan published the "Guideline for Disclosure of Intellectual Properties" to emphasize R&D and patents in January 2004. In this guideline, companies are recommended to recognize the importance of corporate intellectual property, formulate an intellectual property strategy that cooperates with their business and R&D strategy, and disclose an "Intellectual Property Report" to enhance the understanding of market participants about the management of intellectual property. In October 2005, METI issued "Guidelines for Disclosure of Intellectual Assets Based Management" that covers all types of industries. This guideline encourages companies to understand the importance of the originality of management that utilizes intellectual assets, such as human resources, technology, organizational strength, customer networking, and branding, etc. The guideline needs a management based on intellectual assets in collaboration with the management philosophy, the business strategy, and the disclosure of the "Intellectual Capital Report" to translate intellectual asset based management practices to stakeholders surrounding the companies[1].

"Guidelines for Intellectual Properties" and "Guidelines for Disclosure of Intellectual Assets Based Management," issued by METI, are based on Denmark guidelines (DMTI, 2000; DMSTI, 2003; A Guideline for Intellectual Capital Statements) and MERITUM guideline (MERITUM, 2000; MEasuRing Intangibles To Understand and improve innovation Management) whose central economies are in Northern Europe. However, these disclosure practices have not acquired social legitimacy necessary to spread reports with intellectual asset based managements, and is only a partial practice in Japan. In a situation where legitimacy has been established, a person's actions are

[1] Details for the Japanese movement on intellectual assets based management can be found in the METI's web site: http://www.meti.go.jp/policy/intellectual_assets/english.html.

evaluated as “appropriate” or “adequate” according to the norms, values, and beliefs that are built in society (Suchman, 1995). In addition, Meyer and Rowan (1977) referred to this situation as having a secure legitimacy, given that the values, norms, and beliefs are practiced daily.

This paper provides an analytical viewpoint that includes two perspectives that expand the MERITUM guideline in order to acquire intellectual asset management legitimacy and disclosures. This will help spread intellectual asset management practices and disclosures. First, this paper proposes that there is a reflexive[2] dynamism between the company's organizations and “boundary network organizations[3]” by sharing resources with boundary network organizations using the company's internal resources. In other words, we discuss a reflexive dynamism consequential from the interaction between the company's organizations and the boundary network organizations including both stock affiliated companies and loose businesses. Second, this paper places a great amount of importance on the viewpoint that corporate managers mobilize the company’s “current” resources into their corporate strategies. The companies need the “current” resources vector to adequately coincide with corporate strategies which include both “current” and “future” business area selections. This paper discusses how the Intellectual Capital Report will be able to acquire legitimacy within our society from these two perspectives.

The structure of this paper is the following: Section I discusses the propositions of the “current” internal resources that have been accumulated over “past” investments. Section II discusses the propositions of network organizations that surround the corporate organization, and have also accumulated over “past” corporate investments. Section III gives importance to narrative[4] explanations for the relationship between

[2] Reflexivity explains the relationship between knowledge and our social life. The social knowledge that we acquire might influence our mannerisms in society (Giddens, 2001, p. 697). In this situation, our actions might have an influence on the socio-economic circumstances. Therefore, when corporate organizations conduct their business, they might expand and/or shift into a new stage as a consequence of the interactions between corporate organizations and surrounding circumstances.

[3] Networks exist in the boundaries of the corporate organization. These networks involve cooperative organizations and/or corporations, such as R&D partners, cooperative products, and services manufacturing companies, partners for the market development and expansion, and partners for the construction of the supply chain networks. This paper calls these cooperative organizations “the boundary network organizations.”

[4] A written tale, story, and description and/or depiction of the situation.

corporate strategies and intellectual capital within organizations according to the intellectual capital management perspective. Section IV gives significance to the disclosure of intellectual capital, especially focusing on the reflexivity between corporate organizations and socio-economic environments. Lastly, Section V concludes this paper's main contributions and discusses future prospects.

2. Accumulation of "current" corporate internal resources

Edvinsson and Malone (1997) were the first to watch the management and disclosure of intellectual capital, and the fruits of this movement led to measurements, such as the Danish and MERITUM guidelines in 2002. In the MERITUM guideline (2002, pp. 10-11), intellectual capital is classified into three categories[5] : Human Capital[6], Structural Capital[7], and Relational Capital[8]. The MERITUM guideline relates these resources to corporate activities, and provides disclosures consistent with the corporate value creation strategies, and purposes.

However, even though the three classifications of the intellectual capital have been recognized by corporate managers and stakeholders in Europe and Japan, the following perspectives have not been understood appropriately. First, how are these three capital typologies relateable to corporate strategies in order for greatest efficiency for the corporate management. Second, how is the disclosure of the relationship between these three capitals and the corporate strategies beneficial for the corporate management. Therefore, this section discusses the reflexivereflexive dynamics of between resources by separating shared resources between the boundary network organizations and the internal resources.

The "current" corporate internal resources are comprised of tangible and intangible

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[5] Sakakibara et al. (2010) analyzed how the financial analysts, who are the key players in the financial markets, perceive these three capitals in the corporate evaluation.

[6] Human Capital involves individual's knowledge, technologies, know-how, and abilities for innovation. It also involves the educational and training effects.

[7] Structural Capital involves the "knowledge" embedded in the corporate organizations as a consequence of daily, ordinary businesses. It involves general use level of IT, organizational risk management system, the internal information transfer network equipment, innovative organizational culture, etc.

[8] Relational Capital involves all resources attendant on corporate external relationships such as customers, suppliers, and R&D partners, etc.

resources that are accumulated from “past” investments. Tangible resources involve land, buildings, and tools for production, such as machinery and equipments, etc. Intangible resources result from R&D and technology investment, employee skills development and management expertise training, and the construction of formal and informal institutions built into the organizational structure (Figure 1). Within the internal resources there are some that satisfy the recognition criteria and are visible in balance-sheet. However, resources that do not satisfy the recognition criteria, such as human resources and organizational institutions, are representative of intangible resources and not recognized in the balance sheet and labeled as non-financial information by stakeholders. Currently, the measurement of non-financial information is a challenging issue not only for the disclosure to stakeholders, but also for corporate management. Formerly, the disclosure of financial information only required tracing primary evidence. However, Cuganesan and Dumay (2009), for example, emphasized that the measurement of non-financial information needs more than tracing basic primary evidence, and also requires the facilitation of a measurement method with a narrative explanation supporting the correlation between metrics. Measuring non-financial information and creating supportive narrative descriptions are the basic facets for illustrating the reflexive dynamism between internal organizations and boundary network organizations discussed in Section II and III, and socio-economic environments define the reflexive dynamism between organizations, such as internal organizations and boundary network organizations.

[Figure 1 insert here]

3. The boundary network organizations

Why we need to separate the boundary network organization shared resources from the internal resources? The reason is that the structure typologies of these two resources reflect how to decide and construct the organization mode close related to corporate strategies. This includes either acquiring (mergers and acquisitions) corroborating organizations and/or companies with different interfaces, such as R&D partners, cooperative products, and service manufacturing companies, or making them stock affiliated companies, or keeping loose business ties. In Figure 2, arrow (a) indicates a situation where the company acquires boundary network organizations and makes them interior organizations. Arrow (b) illustrates the situation where the company maintains a stock affiliated or loose business relationship with boundary network organizations.

As Williamson (the emeritus professor at U.C. Berkeley, California; NobelPrize Winner for Economics in 2009) noted, the corporate management decision to either acquire (mergers and acquisitions) corroborating organizations, or make them stock affiliated companies, or keep loose business ties can be explained with the concept of "economic transaction costs." Henceforth, the discussion surrounding transaction manners shows that some, when used throughout the market, are not cost-efficient, and the company will acquire other organizations when internalization of these organizations is both cost and time efficient. However, U.S. historian Alfred Chandler advocates that "the organization mode follows their strategy," and therefore, the corporate strategies define the organizational structures 9. Since Chandler argues that the organizational structure is able to adjust their modes toward corporate strategies efficiently, the construction of an organization style is closely related with the corporate strategies.

The important focus in Chandler's proposed scenario is either on the internal organizations or the boundary network organizations, because these organizations do not remain static bearing dynamic interactions between them. The corporate organizations collaborate with other organizations in order to pursue R&D partners, cooperative products and service, manufacturing companies, market development and expansion partners, and supply chain network partners. Once "trust" is created between organizations after the organic corroboration is initialized (Schoorman et al. 2007) there is a relation to the next movement. In other words, the construction of "trust" can not only create the basis of corroboration with boundary network organizations, but also make the shift and/or expansion of their business into new ones

[9] Chandler's theory is based on the contingency theory where organizations optimally adjust themselves to socio-economic circumstances. On the other hand, Meyer and Rowan (1977) pointed out that there might be a possibility that the individual organizations create their surrounding circumstances by working on socio-economic circumstances. Satoh and Yamada (2004) brought in these theories and combined them into a new idea: the dynamic circulation between individual organizations and socio-economic circumstances (pp. 305-312).

smoother. We need to keep in mind that the shift and/or expansion of their business includes the development of new technologies, the development of a new customer market, and the broad logistical lattice construction. The appearance of dynamic reflexivity, produces interactions between organizations that will lead to a subsequent new business stage and organizations will transform themselves into a new style. Figure 2 illustrates this dynamic reflexive mechanism. The mutual influence between corporate organizations and the boundary network organizations are shown with arrows (c) and (d), and the corporation's shift and/or expansion of business into a new stage is shown with arrow (e).

Referring to the aforementioned penetrating vision, the selection for a dynamic relation between the corporate organizations and the boundary network organizations (M&A versus a stock affiliated or loose corroboration) is closely related with corporate strategies. In the next section, this paper shows the importance of the relationship between the corporate organizations and strategies, especially focusing on the "future" stipulates "current" perspective.

[Figure 2 insert here]

4. The analysis of the influence from both corporate strategies and the "future" probable phenomenon on the "current" corporate organizations --- The intellectual asset based management

Why is the management decision to either acquire (mergers and acquisitions) boundary network organizations, or make them stock affiliated companies, or keep loose business ties closely related with corporate strategies? The reason for the relation between the two is that the "future" performance and sustainability of corporations depends on the "future" phenomenon, and existing assets , such as corporate internal resources and share resources with boundary network organizations.

For example, Foucault (1980) views the social structure as the corporate "future" that can be represented by the probable phenomenon expressed by the "conditional probability" (Figure 3). He suggests that the future phenomenon can be mapped or predicted by the probable "conditional phenomenon," and describes social reality from the viewpoint of structuralism. His view would be productive given the following factors be utilized toward one of the “future conditional events”: the “current” resources, such as corporate human resources, the construction of formal and informal institutions within organizations, the accumulation of R&D abilities and technologies, and the sharing resources with boundary network organizations. The important point to consider is the direction of this utilization vector toward corporate strategies. If the corporate strategies have deficiencies and/or inadequacies, then the corporation might face default. On the other hand, if the corporate strategies, first, utilize both internal resources and shared boundary network organization resources efficiently and, second, are creative in a widely acceptable manner for future socio-economic audiences, then the corporation’s outlook and prospects might be satisfactory. Furthermore, the forecasts for the corporate organization’s growth might be at a high rate with a great amount of sustainability. Therefore, the management of internal resources and shared boundary network organization resources needs to be corroborated with corporate strategies.

[Figure 3 insert here]

This perspective makes intellectual capital seem worth managing. It is essential and vital task to manage corporate resources into mobilized vectors along the direction indicated by the corporate strategies. Figure 4 illustrates the mobilization vector X of the internal resources, and the mobilization vector Y of shared boundary network organization resources.

5. The significance for why intellectual capital needs to be disclosed

Why is it necessary to disclose intellectual capital to stakeholders, in addition to the management? The reason is that disclosing the relationship between the corporate strategies and their organizational resources leads to the development of a reflexive dynamism between the corporation and the socio-economic circumstances. The disclosure to stakeholders can be understood as an influential exertion from the corporation on socio-economic circumstances. The arrow (a) in figure 4 indicates that corporate organizations are able to change their surrounding circumstances by exerting their own influence upon the socio-economic circumstances. In this situation, the surrounding circumstances are not the given restraints for corporations.

We are also able to expect adequate supervision from stakeholders by disclosing intellectual capital to them. It can be understood as the exertion of the socio-economic circumstances upon the organizations. The arrow (b) in figure 4 illustrates the socio-economic circumstance influences on the boundary network organizations. The arrow (c) in figure 4 illustrates the influence of the socio-economic circumstances on corporate organizations. The stakeholder's supervision is shown through the efficient working of the disclosure indicated with arrows (b) and (c) in figure 4. This means that the corporate organization and the boundary network organization will be disciplined adequately by the socio-economic environment. Furthermore, if the dialogue with stakeholders through disclosure functions efficiently, then the corporate organization and boundary network organizations will acquire new business opportunities from the socio-economic environment.

The dynamic reflexivity between the organizations and the socio-economic environment, is illustrated with arrows (d) and (e). The arrow (d) indicates the reflexivity between the corporate organization and the socio-economic environment. Arrow (e) shows the reflexivity between the boundary network organizations and the socio-economic environment. This reflexivity might relate the corporate businesses to a new business stage. In other words, this enables the company to expand and/or shift towards a new business (arrow (f) in figure 4). This dynamic reflexivity is the significance for why intellectual capital needs to be disclosed.

6. Concluding remarks

This paper addresses the importance of measuring intellectual capital, and exposes the narrative explanation for the relationship between intellectual capital and corporate strategies. Intellectual capital exists not only in the corporate organization, but also in boundary network organizations. Measuring and disclosing intellectual capital in this manner might lead to legitimacy creation for intellectual capital reporting. We suppose that the process of the acquiring legitimacy can be achieved from three categorized procedures introduced by Suchman(1995): pragmatic legitimacy, moral legitimacy, and cognitive legitimacy10 (Figure 5).

If the reflexive dynamism between the corporate organization and the boundary network is generated with the disclosure of intellectual capital reporting, the company will able to expand and/or shift their businesses toward a new stage and would obtain pragmatic interests. Additionally, once the circulation between the corporate organization and boundary network organizations occurs and the social value of disclosing intellectual capital reports is acknowledged, even if only intermittently, their corporate legitimacy is a consequential effect. Henceforth, as these disclosure practices are matured by applying socially accepted techniques and procedures, then legitimacy becomes continuous. During this phase, the intellectual capital reporting practice will have become comprehensive and expected to be daily with an unappreciated attitude accompanied with inevitability. Lastly, this paper is expected to be a foothold for acquiring legitimacy in the disclosure practice for intellectual capital reports.

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[10] Pragmatic legitimacy is acquired temporarily or intermittently when benefits are exchanged (exchange legitimacy). Pragmatic interests are acquired not only through direct exchange, but also through political, economic, and social interactions. If the organization incorporates its constituents into its policy-making structures or adopts constituent performance standards as its own, then the influence over constituents becomes continuous (influence legitimacy). The nature of these exchanges are dependent on if the constituents share exchangeable "merits," or the episodic characteristics of legitimacy, and whether the organizational policy is of good character, which is the continuous characteristic of legitimacy (dispositional legitimacy). Moral legitimacy reflects a positive normative evaluation of the organization and its activities. This legitimacy is temporarily acquired as a consequence when practical activities are regarded as socially valued (consequential legitimacy), and becomes continuous when the organization embraces socially acceptable procedures and/or techniques (procedural legitimacy). Legitimacy can be acquired using the charisma of an individual organizational leader, however, as a general rule, this kind of personal legitimacy tends to be relatively transitory and idiosyncratic (individual legitimacy). Even without a charismatic leader, such as when entire systems of activity recur consistently over time, this type of moral legitimacy might be classified more as structural (structural legitimacy). Cognitive legitimacy is acquired when the chaotic social environment is arranged into coherent, understandable accounts. In order to provide cognitive legitimacy, an account must mesh the larger belief systems with the audience's daily life experienced reality (DiMaggio and Powell, 1991) (comprehensibility legitimacy). Furthermore, when constituent cognition is consistent, then legitimacy becomes continuous (taken-for-grantedness legitimacy). When the activity has become predictable, it naturally becomes more understandable. This nature is the plausibility, and if the activity becomes inevitable then it have a taken-for-grantedness nature. This nature is permanence (Sachman, 1995, pp. 577-584).

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Figure 1 The typologies of the “current” corporate internal resources

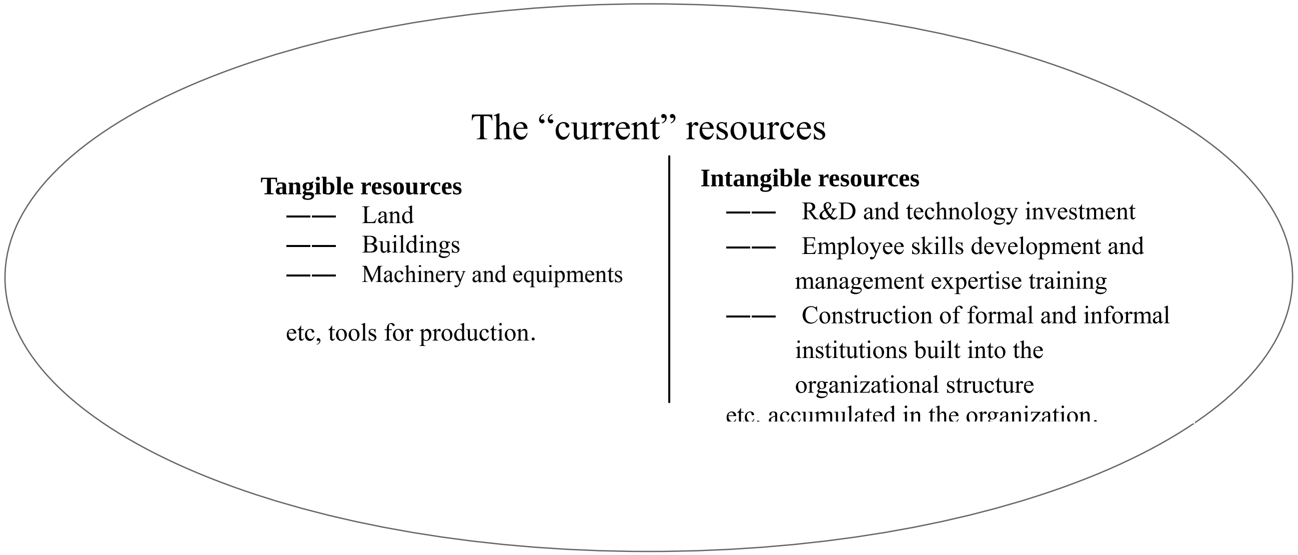


Figure 2 Relationship between the internal organization and the boundary network organizations

○･･･Boundary network organizations: Networks exist in the boundaries of the corporate organization. These networks involve cooperative organizations and/or corporations, such as R&D partners, cooperative products, and services manufacturing companies, partners for the market development and expansion, and partners for the construction of the supply chain networks.

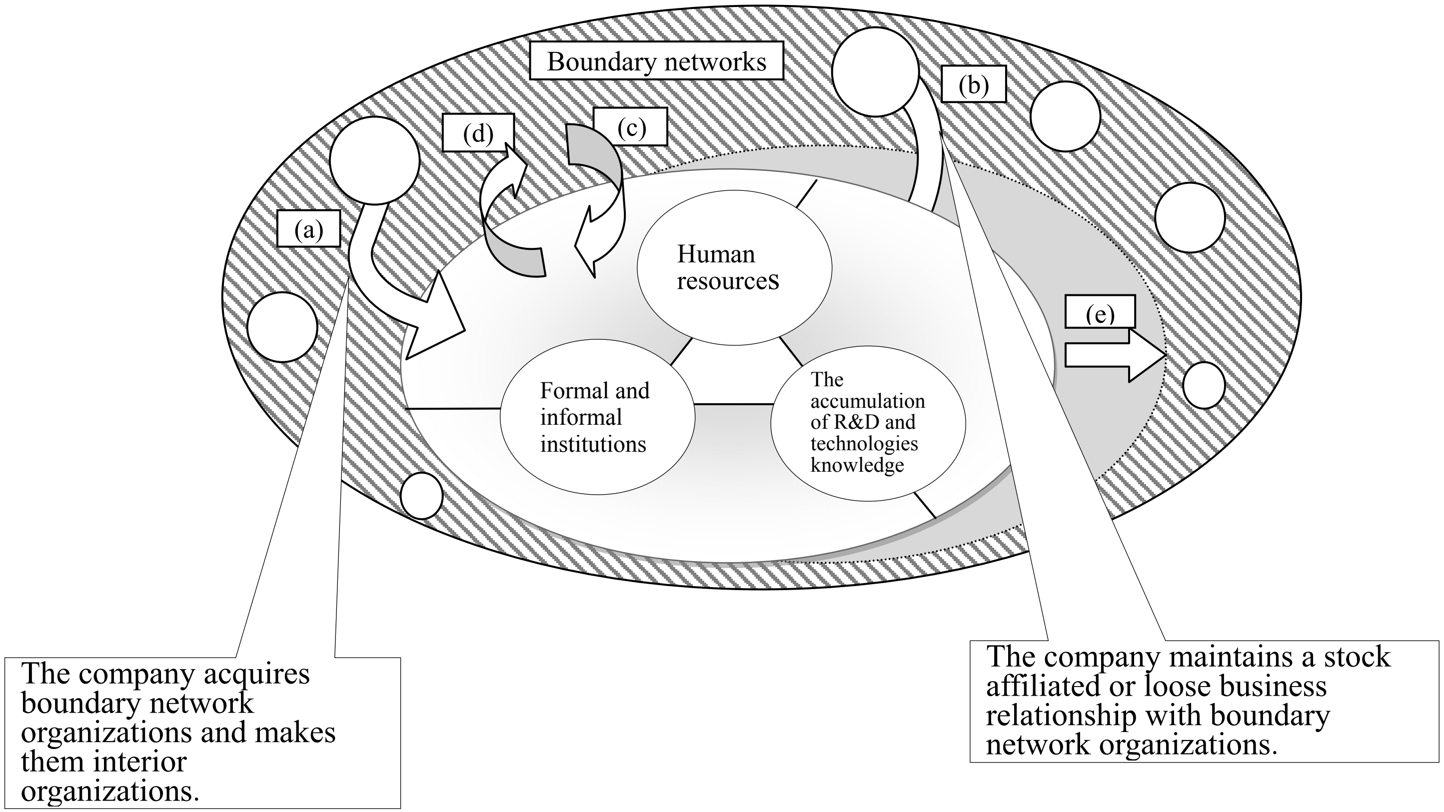
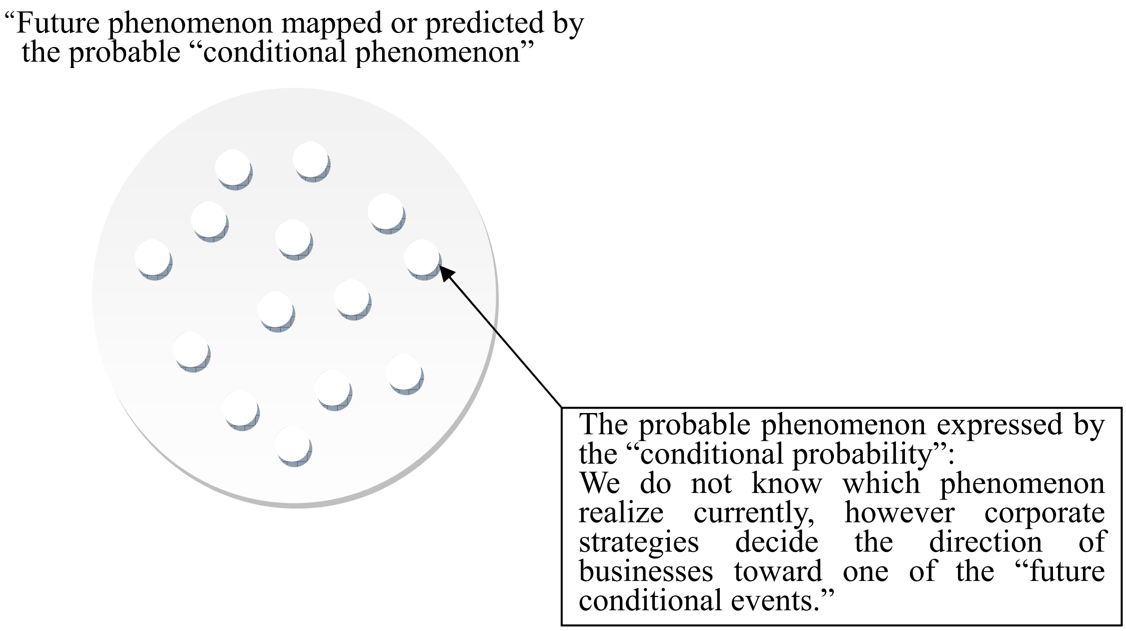


Figure 3



“Future phenomenon mapped or predicted by the probable “conditional phenomenon”
The probable phenomenon expressed by the “conditional probability”:
We do not know which phenomenon realize currently, however corporate strategies decide the direction of businesses toward one of the “future conditional events.”

Figure 4 The dynamic reflexivity between the organizations and the socio-economic environment

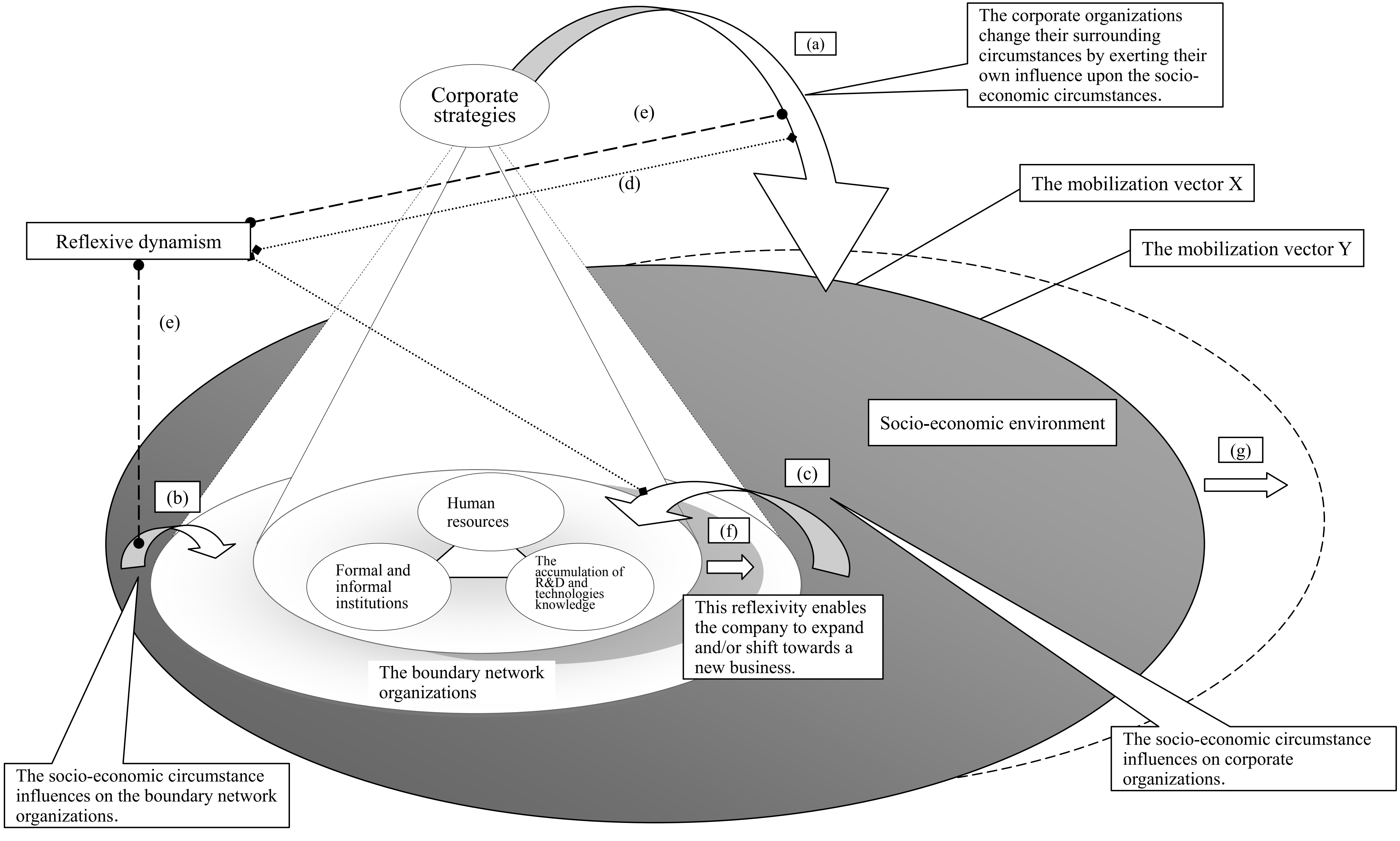


Figure 5　A Typology of Legitimacy

	Actions	**Essences**	
		Disposition	
Episodic	Excange	Interest	**Pragmatic Legitimacy**
Continual	Influence	Character	
Episodic	Consequential	Personal	**Moral Leitimacy**
Continual	Procedural	Structural	
	Comprehensibility		
Episodic	Predectability	Plausibility	**Cognitive Legitimacy**
	Taken-for-grantedness		
Continual	Inevirability	Permanence	

Source）Suchman, 1995, p. 584.