



CCLFI Philippines

**Defining Value for the Social
Development Sector:
The Role of Intellectual Capital**
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State of the Art



Mainstream Definition of Social Value: Sustainable Development

- Based on three value domains:
 - Economic
 - Social
 - Natural
- Not yet formulated in IC language, or in a language that fits IC discourse
- IC categories cut across two SD value domains: economic and social

Status of **measurement systems**

- “Triple bottom line”: KPIs e.g. GC360, not yet quantified in money units
- Environment and Natural Resource Accounting: well-developed satellite to national system of accounts
- Human Capital Accounting: less developed (e.g. HDI are only indicators); not yet part of national accounts
- Social Capital: no existing measurement



A Reformulation of Sustainable Development towards IC Language

Sustainable Development consists of "*growths in economic, social and natural capital that are not at the expense of each other*" (Talisayon, 2004)

- Problem: wide variety of definitions of social capital in the literature; most common meaning is "social relations that have productive benefits." (Claridge, 2004)
- Problem: no single widely-accepted operational definition and measurement of "social capital"



Two Separate Paradigms and Discourses

Sustainable Development

Foundational idea:

Development along *economic, social and environmental* dimensions.

Discourse largely among:

Social and economic development planners

Status of measurement:

"Triple bottom line" is very partially developed

Unit of analysis: nation, community

Knowledge-Based Management

= "knowledge management"

Foundational idea:

Market values are created more by, and consists more of, intangible assets (knowledge and other assets) than tangible assets

Discourse largely among:

Corporate sector

Status of measurement:

Various IC tracking/accounting systems

Unit of analysis: organization/corporation

Knowledge-Based Development

Sustainable
Development

Rio Summit, 1992

Knowledge-Based
Economy

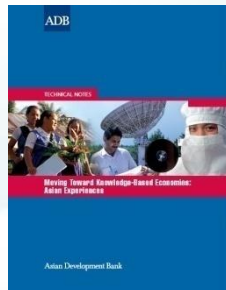
World Bank, 2002-2005



Knowledge-Based
Development

NATIONAL LEVEL

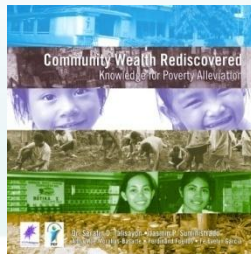
Asian Development Bank, 2007



Knowledge for Poverty
Alleviation

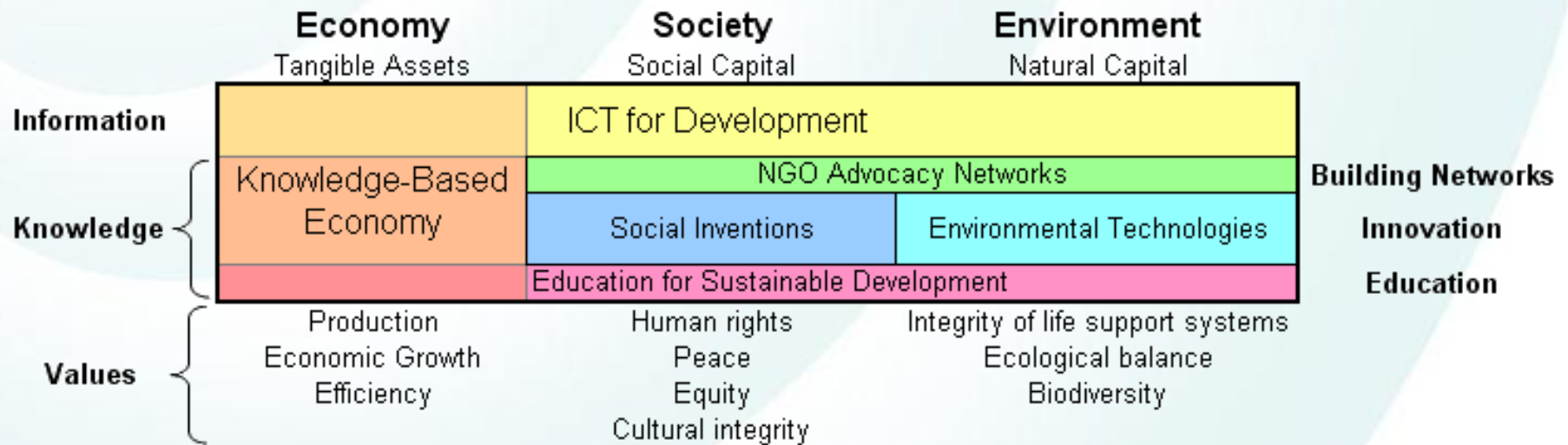
COMMUNITY LEVEL

CCLFI and PEF, 2008



ADB: Knowledge-Based Development

Knowledge-Based Development





KPA: “Knowledge for Poverty Alleviation” Model

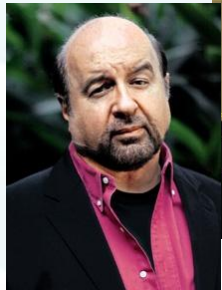
Best-practice anti-poverty projects are those which leverage on a community’s **intangible assets**:

- Indigenous knowledge including traditional crafts
- Human capital
- Cultural capital
- Access to natural and cultural resources, traditional, privately-donated or government sanctioned
- Social capital, within the community and between the community and external sources of information and support, e.g. local government, national support agencies, NGOs, etc.
- Stakeholder capital, e.g. government franchise

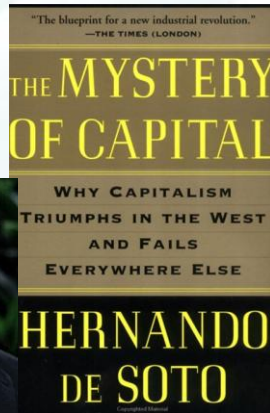


Next Developments:
(a) Redefine the term “capital”

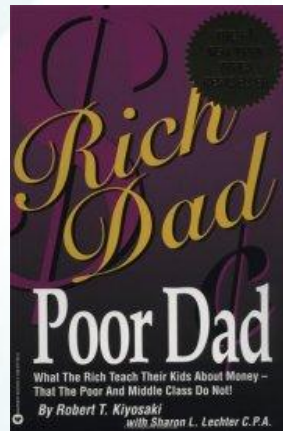
Stretching our Concept of “Capital”



Hernando de Soto

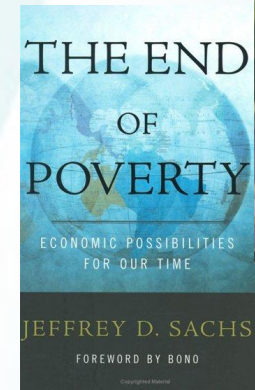


2000



2000

Robert Kiyosaki



2005

Jeffrey Sachs



These three authors are proposing: *Let us **STRETCH** our concept of "capital" to include anything that can be used to create value or anything that can yield regular income.*



Stretching our Concept of “Capital”

TYPE OF CAPITAL

EXAMPLE OF REGULAR INCOME

Natural capital: *"My livelihood depends on fishing in this coastal area."*

Technology + structural capital: *"We patrol our Marine Protected Area against poachers because it regenerates our fish stock."*

Social capital: *"When I was a child, my godfather gives me a cash gift every Christmas."*

Customer capital: *"My customers keep coming back and boost my sales because they trust me."*

Human capital: *"The Philippine economy gets \$15 billion yearly remittances from its overseas workers."*

Public infrastructure: *"The new road enables me to sell my farm products to the town center every week."*



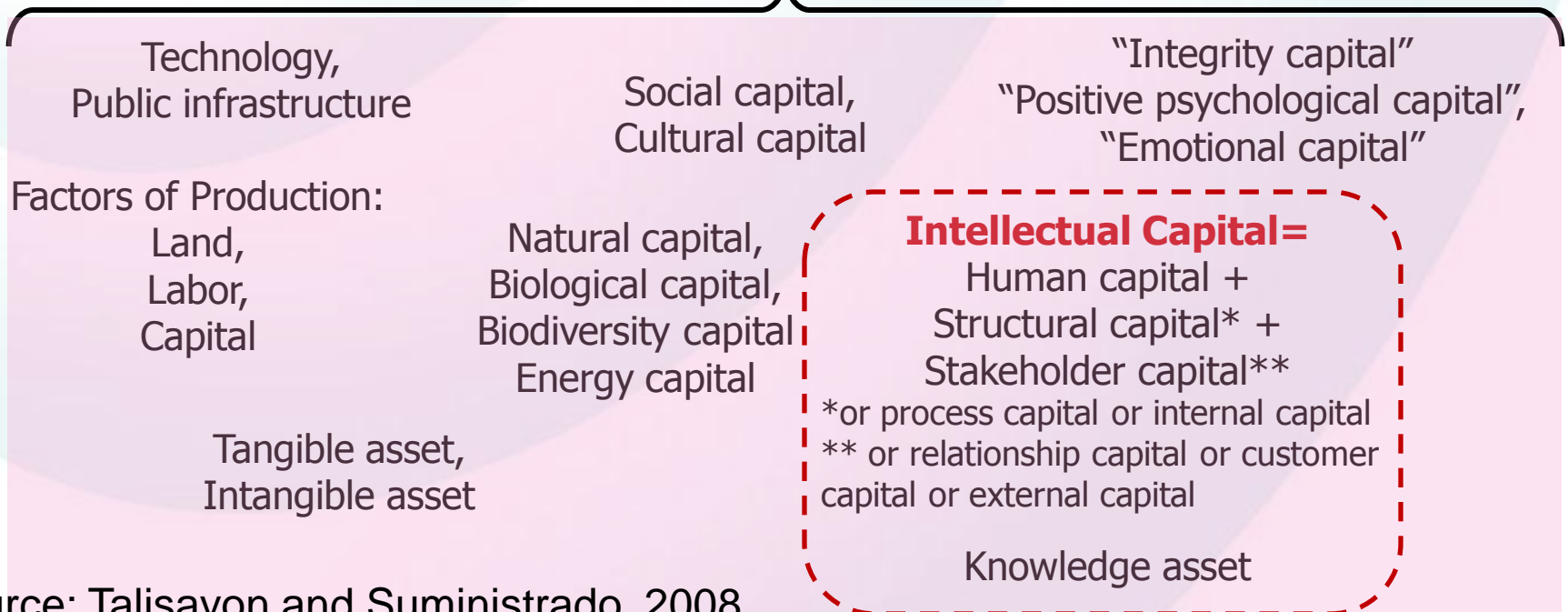
Stretching our Concept of “Capital” (continued)

TYPE OF CAPITAL	EXAMPLE OF REGULAR INCOME
Human capital + access to cultural assets:	<i>"My part-time job is French and Niponggo speaking tour guide in Bohol province. "</i>
Cultural capital + indigenous crafts:	<i>"Our Moriones tradition boosts our tourist income every March."</i>
Access right through formal agreement:	<i>"Our agreement with the government gave us usufruct rights over our ancestral domain."</i>
Traditional access right:	<i>"I gather and sell firewood from the communal forest every Saturday."</i>
Indigenous knowledge:	<i>"Knowing the forest intimately enables the Ayta to survive there for months."</i>
Structural capital:	<i>"My PowerPoint presentations attract more clients to my workshops."</i>



Many factors contribute to wealth creation → “Metacapital”

Wealth/Value Creation
or Production
or Performance

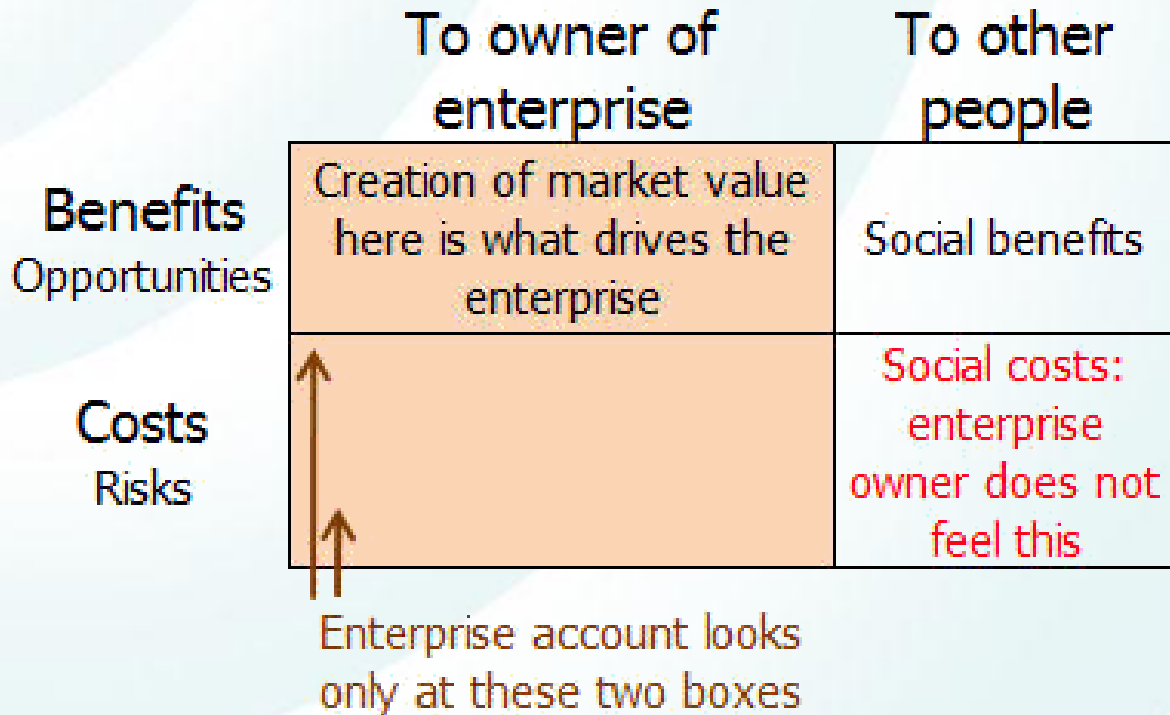




Next Developments:
(b) Redefine the scope of “intellectual capital”



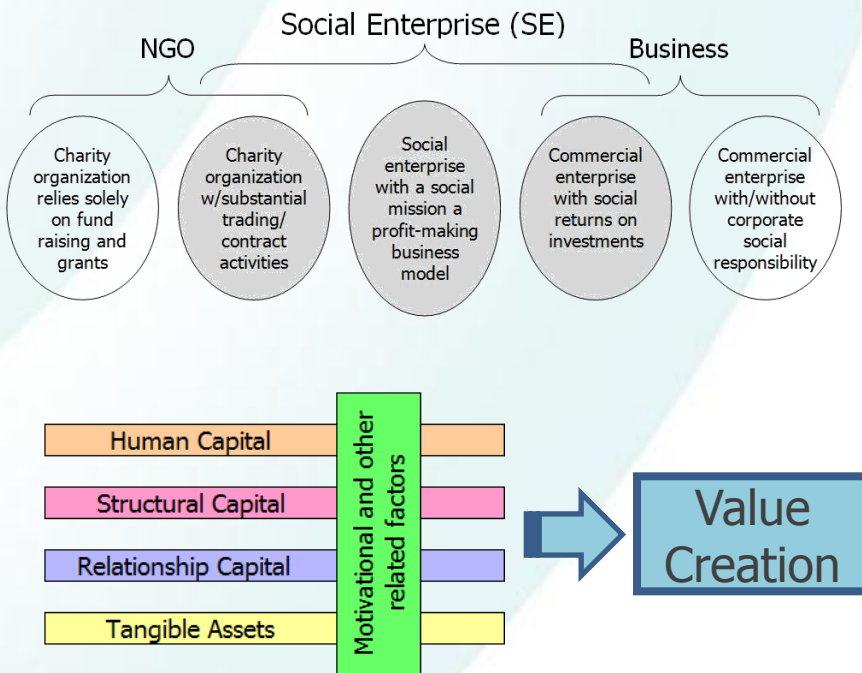
To Avoid Sub-Optimization: Shift from Corporate to Wider Social Perspective





Re-Scoping “Intellectual Capital”

- “Stakeholder capital”, “Customer capital” or “Relational capital” misses the fact that the **quality of intra-organizational relationships** (e.g. “team building” and “team learning”) also contribute to value creation. Use “Relationship capital.”
- “Corporate social responsibility” (CSR) is primarily to enhance stakeholder capital (“triple bottom line” is only for PR purposes). New forms of enterprises are evolving (“**socially-embedded corporations**” and “**social enterprises**”) towards genuine pursuit of the “triple-bottom line” (Talisayon and Leung, 2009)
- Intangible assets include **affective factors**. Are these parts of IC also?





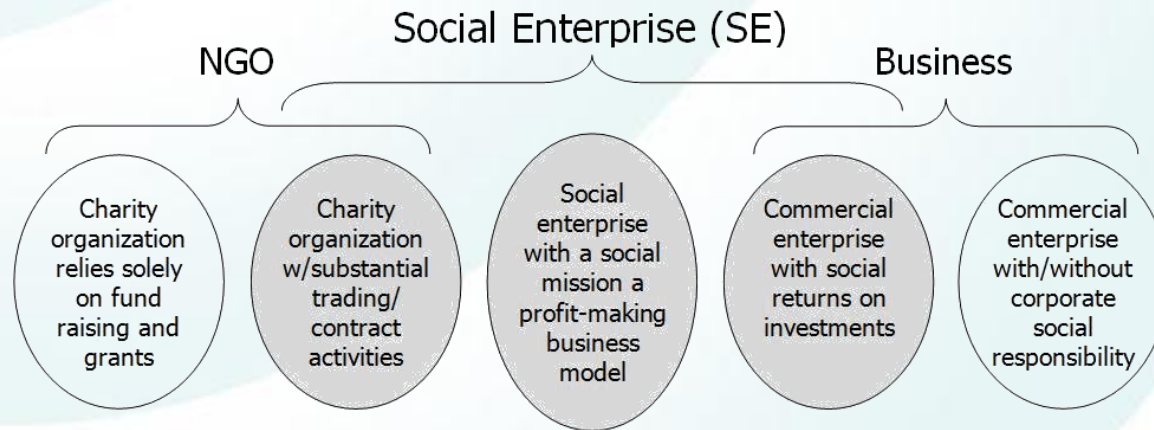
Next Developments:
(c) Retain “value creation” objective
but expand its scope/application



Example 1: A Value Creation-Destruction Scale for Assessing Social Enterprise Innovations

Value Creation Scale

Value Destruction of:	All= present and future generations	1
	Many	2
	Few	3
Transfer to:	Few	4
	Many	5
Value Creation for:	Few	6
	Many	7
	All= present and future generations	8



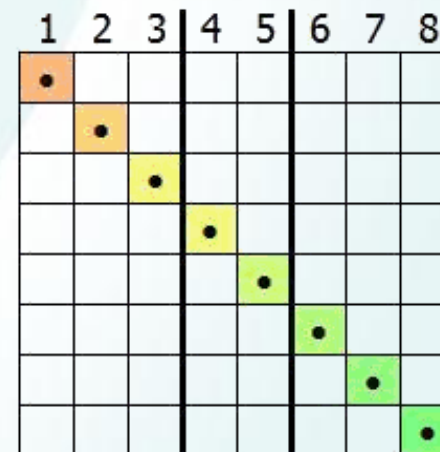
Source: Talisayon and Leung, 2009



Examples of Application of Value Creation-Destruction Scale

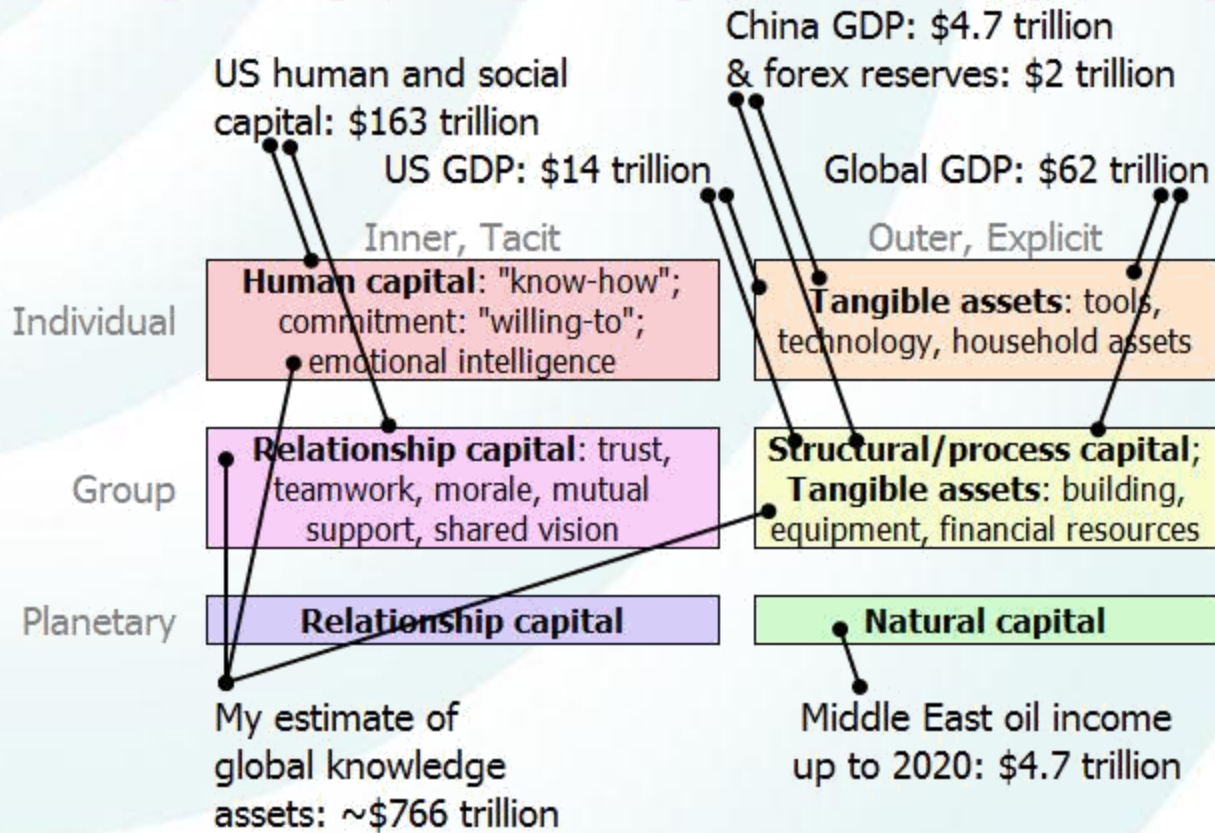
Examples

Global nuclear war
Conventional war
Proletarian revolution
Sheriff of Nottingham; pure rentier firms
Robin Hood; socialism
Capitalism with uneven playing field
Social market economy ~German model
Protected nature reserve; protected species

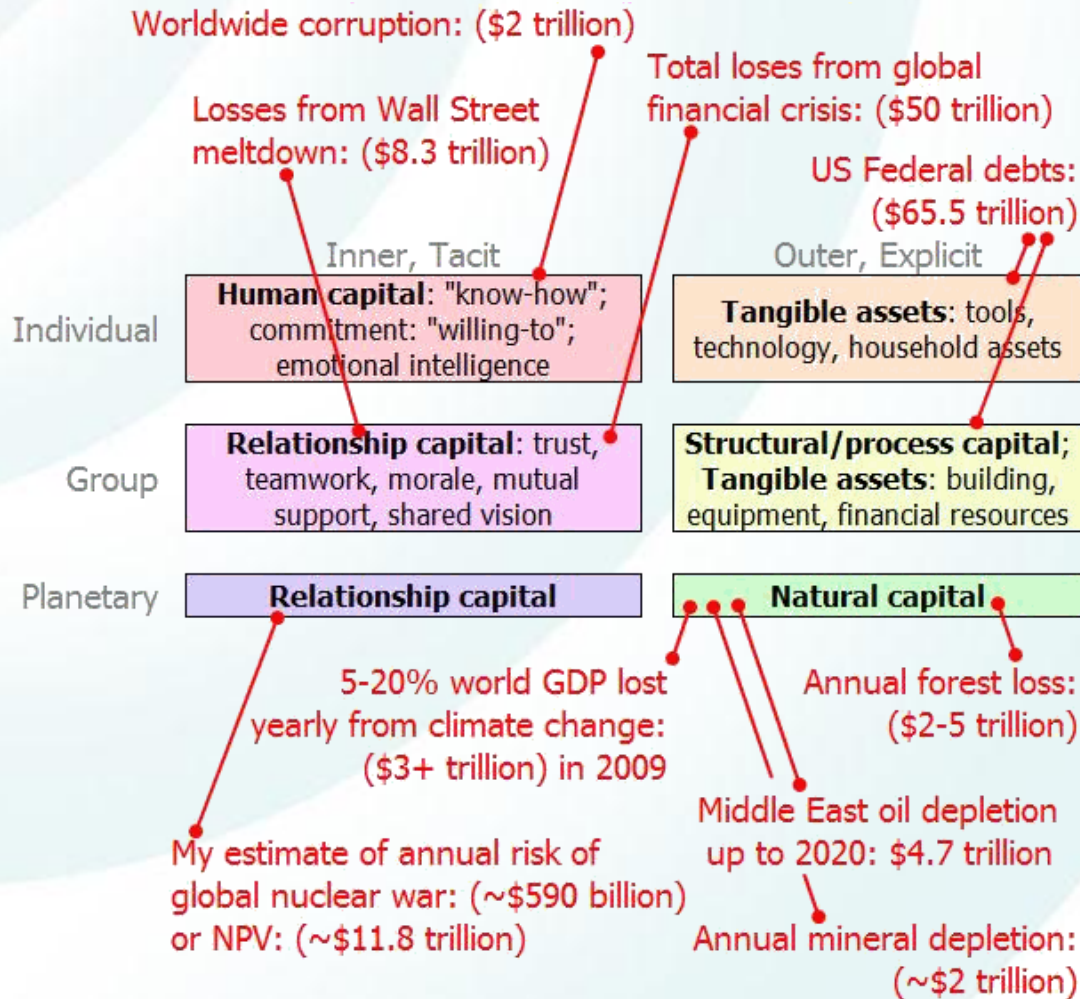




Example 2: Estimation of Global Stocks



Example 2: Estimation of Global Stocks





Example 2: Estimation of Global Stocks

**Stock of
Intangible Assets**
(mostly knowledge,
appreciates with use)

Losses from Global
Financial Crisis
(from loss of business
confidence)

**Stock of
Tangible Assets**
(depreciates with
use)

Annual Depletion
of Natural Resources
(non-renewable;
regenerative stocks)

Present value of risk of global nuclear war
(probability can quickly change overnight)



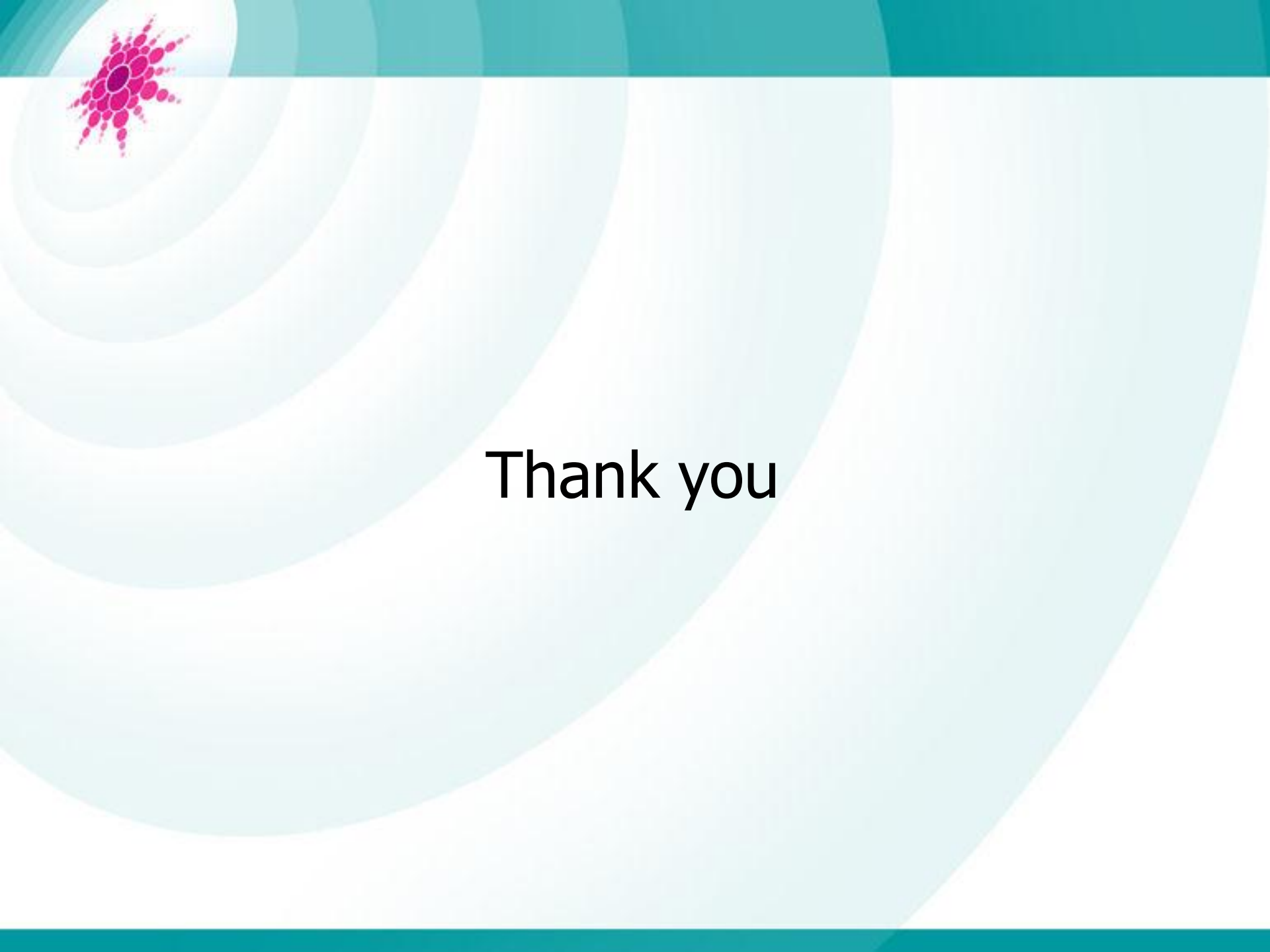
Summary



There is still a long way to go...

If the IC framework is to be usefully applied to the **social development sector**, the following next steps must be undertaken:

- Expand the concept of “capital” to “metacapital”
- Broaden the perspective from corporate to social
- Retain the value creation objective but expand its scope/application
- Formulate operational standards for the above to prepare for development and testing of measurement systems



Thank you