

A photograph of a lighthouse with a black base, a red middle section, and a white top section, situated on a rocky outcrop overlooking the sea under a blue sky with scattered clouds.

# Viewpoint

Corporate consulting

*Directors are charged with maximising value in a framework of governance.*

## Intellectual Property: The Director's role

Dr Kate Andrews, Partner, Consulting, BDO Kendalls

### Challenge area

Throughout OECD countries, corporate investment in intangibles (research, education and knowledge) is growing at a faster rate than tangible investments. The recent focus for Directors has been to strengthen Corporate Governance Principles. An associated challenge is to balance the need for a strong management environment and accountability with managerial risk taking, entrepreneurial energy and capability – that is, the value creation process. Value increasingly derives from intangibles: what does this mean for governance?

### New perspectives

The board is the pivotal element of corporate governance and as such is the embodiment of the intent to operate the company in the best interest of its owners: Directors are charged with maximising value in a framework of governance. A key component of the Board's role is therefore to understand and manage how value is realised in the company.

The traditional view of 'commercial value' emphasises tangible or financial resources (those typically found on the balance sheet – cash, property, buildings, machinery and equipment). In the modern economy we are seeing the emergence of organisations whose value is better represented by also understanding their intangible resources. Figure 1 summarises the three categories of intellectual assets: Organisational - the firm's business processes and methods; Relationship - external assets such as reputation and alliances; and Human – the firm's people, their capabilities and expertise.



*But who is lying awake at night worrying about improving the results achieved from its knowledge-based assets?*

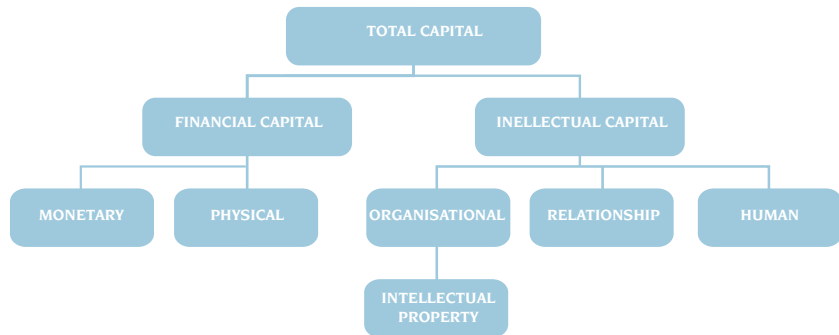


Figure 1 - The intellectual capital approach

Of course knowledge creation, use, sharing and retention has always been important. What is new is the significant shift towards a systematic and strategic approach to managing the primary assets of the knowledge economy: people, knowledge processes, and knowledge products.

Intellectual Property is a subset of organisational capital (Figure 1). It represents a bundle of knowledge-based assets that can be formally recognised and protected by the firm. However, simply possessing intellectual property will not itself achieve competitive advantage – these resources must be managed in ways that allow the organisation to leverage them for strategic advantage. In summary, effective IP Management mitigates risk and drives benefits (revenues and intangibles such as enhanced organisational capability and brand positioning).

## The way forward

To maximise shareholder value, Directors should be asking the following questions at Board level:

- What IP has the firm created? Our experience tells us that whilst research and innovation-focussed organisations intentionally create IP, most enterprises create IP incidentally – simply by finding better ways to get the job done. The existence of incidental IP may not be recognised by the firm – and not managed appropriately.
- Is our IP adequately protected? Issues here may include omitting to deal contractually with IP ownership or inappropriate disclosure of IP.
- Is our IP managed to maximise its value? Who is accountable for IP management? What processes and methodologies underpin IP identification and management?

In conclusion, today's organisations have well developed processes that track financial and physical assets. But who is lying awake at night worrying about improving the results achieved from its knowledge-based assets? Identifying, understanding and managing IP is an important plank in maximising the organisations results from knowledge.



## Related links

[BDO Kendalls Corporate consulting](#)

## About the author

Dr Kate Andrews is Partner, Intellectual Capital at BDO Kendalls.

Kate is an organisational psychologist with an extensive background working with organisational information and knowledge assets. Her pioneering doctoral research explored the knowledge creating processes used in a medical research and development consortium. Kate's identification of the social processes underpinning knowledge transfer is influential.

Kate established BDO Kendalls' Intellectual Capital (IC) specialisation in 1999. Since then the IC team has worked with organisations throughout Australia to measurably improve the impact and contribution made by information and knowledge-based assets. From our extensive experience we have developed robust and proven methodologies for diagnosis, analysis, planning and evaluation knowledge endeavours.

Kate continues her academic involvement by lecturing at masters level in knowledge management and intellectual capital development for universities in Australia and Asia. She also conducts executive master classes in these topics in India, Malaysia, Singapore and Australia.

## For more information

Phone 1300 138 991 or visit [www.bdo.com.au](http://www.bdo.com.au)

BDO Kendalls is a national association of separate partnerships and entities. \*Liability limited by a scheme approved under Professional Standards Legislation. Disclaimer: This publication is issued exclusively for the general information of clients and staff of BDO Kendalls. The contents are not a substitute for specific advice and should not be relied upon as such. Accordingly, whilst every care has been taken in the presentation of the publication, no responsibility is accepted for persons acting on this information.

© 2007