

# INTELLECTUAL CAPITAL AND PUBLIC SERVICES IN POLISH AND US COUNTIES

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ABSTRACT

The aim of this paper is twofold. Firstly, to show some theoretical background of Intellectual Capital (IC) measurement, with special emphasis on IC in public entities and, secondly, to analyze the similarities and difference between Polish and US counties. Some research findings from interviews conducted among representatives of local governments in the USA are presented here. Intellectual Capital in public entities, such as counties is, in many ways different from IC in business organizations. Intellectual Capital in public administration is strongly related to the quality of services provided to citizens and enterprises. The research findings from Poland and the USA may be useful for generalization and dissemination in other countries in Europe and elsewhere. The conclusions are shown in the form of a analysis the similarities and differences between the formation of intellectual capital in Polish and US counties. These comparisons can be also helpful in understanding the fundamental differences between public and private intellectual capital.

## Introduction

The aim of this paper is twofold. Firstly, to show some theoretical background of IC measurement, with special emphasis on IC in public entities and, secondly, to analyze the similarities and difference between Polish and US counties. In order to provide some empirical insights, one of the authors (Windham Loopesco) conducted a series of telephone interviews with employees and politicians involved in the management of US counties. The conclusions

are shown in the form of a comparative analysis of the counties in Poland and USA. The term IC needs a definition or should relate to a (defined) school of thought (for reference, see e.g. Journal of Intellectual Capital). If you follow the idea of IC as covering a people dimension, some structures within defined system boundaries and interaction with third parties outside the system, Human Capital, Structural (or Organizational) Capital and Relational Capital might be appropriate. However, there are long and still ongoing discussions in the literature on “proper taxonomy”. Some authors talk about “knowledge regions” without clarification what exactly they understand by the term “knowledge”. The EU Commission or the World Bank use the term “knowledge economies” (See Interview with Manfred Boremann, <http://www.kapitalpowiatow.ue.poznan.pl/index.php/interviews> [20.01.2016]).

## Measurement of Intellectual Capital (IC)

The Organisation for Economic Co-operation and Development (OECD, 1999) describes ‘intellectual capital’ as the economic value of two categories of intangible assets of a company: (a) organisational (“structural”) capital; and (b) human capital. Edvinsson and Stenfelt (1999) stress the value of ideas and solutions created through the interplay of human and structural capital. In other words the synergy between the structural capital and the people functioning within the structure is more important than each of the components alone.

Since the late 1990’s business practitioners and academics have developed a number of concepts and methods for measuring the intellectual capital in business organizations. One comprehensive system, the Intellectus Model, has been developed in Madrid; another well-known project in this field is the European work within the Meritum project, where Uppsala University in Sweden has taken an active part. The IC has been analyzed primarily from the interest of private companies to explain differences between the accounting value (financial information) and the market value as the possible basic source of competitive advantage for companies. Currently, new approaches are being developed that try to adapt these methodologies to regional or national levels. For regional use, generally accepted methodologies are not yet developed, even though they are crucial for determining a region’s position and decisions on future initiatives. The IC-work within SPRING should be seen as a contribution to develop such tools for use within European regions. The research findings from Poland and the USA may be useful for generalization and dissemination in other countries in Europe and elsewhere. Professor Baruch Lev together with the Brookings Institute Task Force, Washington published the first White Book on intangible assets, in collaboration with SEC-Securities and Exchange Commission. Most organizations have realized that relying purely on financial measurement can encourage short-term thinking. Financial measures have been criticized for being too historical and “backward-looking”, for encouraging dysfunctional behaviors, and for giving inadequate consideration to the development of intangible assets such as employee capabilities and customer satisfaction. It is worth mentioning that many research studies related to the IC of counties are conducted in the form of city rankings (see for example Moonen, Clark, 2013). Such research studies, often very rigorous, are narrowed down to most prestigious metropolitan areas overlooking the smaller towns.

In the last 15 years a large number of IC measurement initiatives were undertaken. In early 2000’s the most frequently quoted IC reports originated from the Nordic countries, namely Sweden (Skandia report; developed by Leif Edvinsson), the former vice president for Intellectual Capital at Skandia, a Swedish global financial services company. The model measures the tangible and the intangible assets of the organization/country/region) and in Denmark (see Intellectual Capital Statements – The New Guideline, the Danish Ministry of Science, Copenhagen

2003). A prominent contribution to the development of IC measurement theory was the Meritum Project. Nick Bontis and his associates prepared a report on IC in Arab Nations in 2002. According to Bontis “the intellectual capital of a nation (or a region of nations as is the case for this paper) requires the articulation of a system of variables that helps to uncover and manage the invisible wealth of a country. Most importantly, an emphasis on human capital allows for a better understanding of the hidden values, individuals, enterprises, institutions, and communities that are both current and potential future sources of intellectual wealth” (Bontis, 2002). Currently, new approaches occur that try to adapt these methodologies to regional or national levels. For regional use, generally accepted methodologies are not yet developed, even though they are crucial for determining a region’s position and decisions on future initiatives. The project will offer new insights into the measurement methodologies, especially in the public sector. The investigators are aware of the weaknesses of IC measurement initiatives in contemporary literature. So far there is no evidence of the incremental use of non-financial measures related to IC in Polish counties. There have been some attempts to measure IC in Polish regions (“województwo” – see Bronisz, Heijman, Ophem, 2012). The development of the IC measurement tool and its subsequent application will contribute to: 1) decreasing the communication gap between the county’s office and the inhabitants of a county (a similar challenge is faced by companies and the stock market); 2) increasing the efficiency of investments in counties, both financed from internal and external (e.g., EU funds, FDI) sources.

## Measurement issues

For the purpose of this study two qualitative methods of analysis were selected: 1) a literature review; 2) in-depth-interviews. The comparative analysis of Polish and US counties presented in this paper is based on literature studies and interviews (N = 20) with US local politicians conducted in 2015. Additionally, one of the authors conducted 88 interviews with employees of Polish county offices, also in 2015. The questions asked to Polish and US respondents during the interviews related to a variety of issues related to the management of county offices and their environment. The Polish respondents expressed their opinions on such issues as: the impact of intellectual capital on the development of local economies, drivers of growth, priorities for investment decisions, leadership and the barriers for growth as well as the opportunities for change. In the case of Polish respondents (n = 88), 60% were from western Poland (Wielkopolskie, Lubuskie and Lower Silesia regions) and the rest from other Polish regions. The respondents from the USA were asked a slightly different set of questions which were not limited strictly to the situation of the respondent’s county. They were mostly recruited from City of Colorado, City of Detroit and some smaller towns in the Mid-West of USA. The results are not representative to the whole population of counties in both countries but provide some material for further research on IC. It is the first study of attempting to compare the IC of counties in the two countries.

In the case of Polish respondents (n = 88), 60% were from western Poland (Wielkopolskie, Lubuskie and Lower Silesia regions) and the rest from other Polish regions. This research is of exploratory nature and aims to:

- reveal possible similarities between the situation of counties in Poland and in the US,
- shed some light on the nature of IC at county level,
- describe some relationships between intellectual capital and the quality of public services.

## Building IC in counties: the US perspective

This section consists of the research findings collected from interviews conducted by one of the authors among US practitioners of public administration. Thirty telephone interviews were conducted in the 3rd quarter of 2015.

Below are presented some examples of initiatives supporting the growth of IC in US which do not have their parallels in Poland, at least on a large scale:

1. Local government officials receive intensive training in the field of local democracy (*Skills in Elections*). Regional/statewide training is provided to counties by attorneys and specialists that make policies and shape what should be taught on a “learn by doing” basis.
2. Business incentives for ‘green energy’. State requires businesses have to use 20–30% renewable energy.
3. Strong focus on in-land mobility. Although some Polish cities are recruiting most talented undergraduate students and attracting them with stipend schemes to settle, such schemes are not widely spread and focus mainly on the youth rather than skilled professionals (Chen, Rosenthal, 2006).
4. Fresh Produce Ordinance – food act made legal to allow homes to produce and sell home grown produce and sell to neighbors up to \$5,000 monthly worth of certain produces. This is a micro way to help local families.
5. Strong focus on the quality of local democracy. Colorado is the fourth state in USA to have online voting. Colorado is the fourth state in USA to have mobile voting optimized for iPhones and iPad’s. Colorado is the first state to allow voters who have a driver’s license the permission to vote as opposed to a Social Security.
6. Tax breaks – although Polish counties do have some instruments to reduce the total cost of tax burdens they are not as effective as in the USA. For example Detroit competes by giving tax breaks, packaging land together to meet businesses space needs, and figuring out the land needs to promise infrastructure of businesses to be able to do what they want to do (Hanson, Rohlin, 2011, 2013).

Below are presented some examples of the situation in US counties (including urban areas), which bear strong similarity to the situation in Poland:

1. Business incentives to attract business (addresses work toward better-than-average results in terms of relationship with business sector).
2. Focus on making the county more accessible e.g.: through subsidizing certain flight connections. The State pays to have more direct flights (ex. Tokyo, Panama, Iceland, Mexico City, Canada).
3. Investments into promotional efforts aimed at drawing in investors. For example Metro Denver Economic Development Corporation is sponsored by counties and companies to recruit nationally and internationally for new companies.
4. Emphasis on diversification of local economy. For example Denver in the 70s–90s was reliant on oil&gas. Now it diversified into financial, IT, health care, digital health.
5. Accessibility to citizens – easy access to citizens and limiting the negative effects of ‘urban sprawl’. Vibrant downtown is attracting millennial focus. As a result, companies follow educated millennials.

6. Events supporting entrepreneurship and start-ups – for example Denver Start-up Week is the largest free innovation event in the country. Also Polish cities (e.g. Poznań, Kraków, Wrocław) are hosting similar events.
7. Investment in downtown establishments is intended to attract tourists and increase the quality of life. In US sales tax generates a large share of counties' so all investments in retail space bring direct positive outcomes.
8. Establishment of “sister cities”: these are cities which reciprocate benefits, and are decided based on the fact that they either have a good we import a lot of (or vice versa), or on the fact that they are doing something that we want to do and implement into our system (or vice versa).
9. Large investments into Human capital – Denver launched “City University” to learn how to mediate difficult conversation. It is paid for employees working in the City and County of Denver. They learn business by taking classes and it is not open to the public (Kotkin, 2013).

### Intellectual capital in counties in Poland and the USA

As shown above, public administration may have a significant role in creation and facilitating of IC. This can be done for instance by using public e-services, public procurement aiming to seek for innovative solutions or the training of employees. Public administration can also play an active role in the establishment of innovation communities which solve societal problems in collaboration with other private and public actors involving citizens, companies, higher education institutions and interest groups.

According to Prof. John Hartley in a city or region, normal management cannot apply, because no one agency or person has control over the “capital”, intellectual and otherwise. A city is cool because of its population, who may cluster in scenes, or in districts, often founded on alternative lifestyles (cuisine from the poor; fashion from the young; music from the marginal; diversity and difference from the migrant). Any attempt to “manage” such scenes or districts is likely to kill them. So “intellectual capital” in cities has to be nurtured among agencies, organisations and individuals, using coordination mechanisms, e.g. communication networks such as media, novelty-bundling events such as festivals, competitions, experiments and crazes. The best public policy is to remove rules not set them: a readiness to accommodate change. Thus, letting empty shops and factories for creative makers (short term leases, low rents) is better than boarding up old buildings; relaxing parking laws to allow inflows of traffic is better than raising revenue while pricing people out of spontaneous visits... etc.” (See Interview with Prof. John Hartley, <http://www.kapitalpowiatow.ue.poznan.pl/index.php/interviews> [20.01.2016]). Cities that are open to entrepreneurship and change are more successful than those built on authority and power. There needs to be a strong collaborative relationship between private investment and public investment, such that major regional attractions have a civic as well as commercial ethos.

Table 1 presents some conclusions regarding the similarities and differences between the formation of IC in Polish and US counties. It introduces some criteria for comparison which are especially relevant to public entities. The comparisons shown in Table 1 can be also helpful in understanding the fundamental differences between public (e.g. of a county) and private (e.g.: of a business enterprise) intellectual capital.

**Table 1.** Comparison of selected aspect of local governance in Poland and the USA for the development of IC at county level

	Polish Counties	US Counties	Comments
Importance of local democracy	+	+++	The Polish system of local democracy is still at its early stage of development compared to the US democracy. Local governments in the USA have more power than Polish ones.
Importance of local taxes for stimulating economic development	+	++	Many local taxes in the USA are paid directly to the local governments whereas in Poland, only a few taxes (e.g. property tax) is 'local'.
Value attributed to the quality of human capital in local government offices	+	+++	The respondents in the U.S indicated that the local leaders should present high level of competence. Polish respondents, in turn, complained about the low quality of HC, lack of transparency in hiring staff for county offices, irrational decisions etc.
'Green economy' and renewable energy	+	+++	Green economy is a hot topic in the USA. It corresponds with the broader issue of quality of life which is stressed both in Poland and the USA. The meaning of 'quality of life' in Poland is expressed through building new roads, providing access to water etc. Such issues are not a challenge for local authorities in the USA.
Focus on making the county more accessible	+++	+++	Although road infrastructure may be thought of as material capital rather than 'intangible assets'; but in fact, it should be thought of as an enabler for the free flow of Human capital. Both Polish and US respondents recognize the importance of good accessibility. Polish cities such as Wroclaw or US cities such as Denver subsidize airlines in order to maintain direct air links with world-class cities.
Investment in downtown establishments is intended to attract tourists and increase the quality of life	+++	+++	The development of services is stressed both in Poland and the USA.
Establishment of "sister cities" and reaping benefits from this kind of cooperation	+	+++	Most of the Polish counties have signed "cooperation agreements" with sister counties in other, mostly European counties. This potential, is however underutilized in Poland. Polish counties do not see it in principle as a tool for networking, knowledge transfer etc. Sister-cities in Poland are mostly used for cultural exchanges where as US counties see economic potential in such bonds.

Source: own elaboration.

## Summary

The local government can be an active player in developing "intellectual capital" in cities. Intellectual Capital of a county is interrelated with the quality of public services provided by local government offices. The quality of public services is both an enabler and the outcome of intellectual capital. Polish counties can learn many valuable lessons from the initiatives implemented in the USA. It has to be stated, however, that not all solutions can be easily transferred. Cultural issues and different legal systems come into play. On the other hand, one can ascertain that most of the aspirations expressed by the authorities of counties in Poland and USA are very similar. The phenomenon of de-population, brain-drain and shrinking cities (e.g. Detroit in the USA) is not characteristic only to Poland. It seems the loss of intellectual capital pre-dates the loss of financial capital.

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