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# Balancing the intellectual capital books: intangible liabilities

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## Abstract

To balance the intellectual capital books organizations must recognize unfunded intangible liabilities. Just as knowledge processes, innovation, patents, brands and a host of other intangible assets create value there are many things that create unrecorded and unrecognized intangible liabilities. These include things such as weak strategic planning processes, dangerous work conditions, potential environmental cleanup, potential product tampering, poor corporate reputation, and a host of other things.

A classificational schemata is developed which categorizes intangible liabilities and then a six step managerial framework for assessing the magnitude of these liabilities is developed. In addition, the nature and scope of liabilities is reviewed with special attention given to those intangible liabilities for which there is imperfect information and for which the economic magnitude is difficult to calculate. This is critically important if firms are going to balance the books. The books simply don't balance or are misleading if all intangible assets are translated into increased equity without recognition of any

offsetting liabilities.



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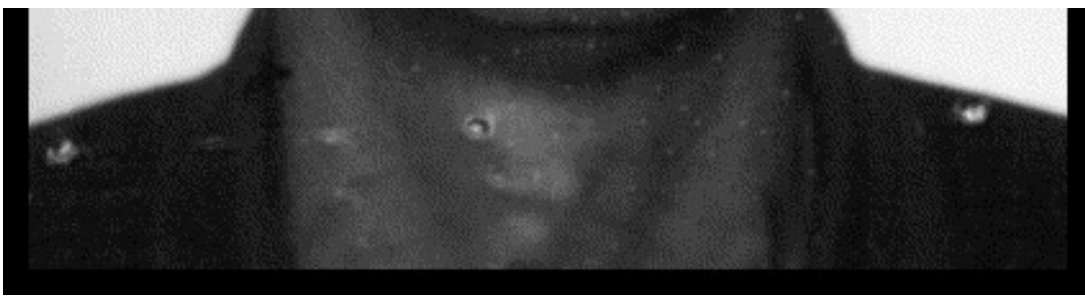
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