



**Symposium Intellectual Capital**

**Bruchsal**

**November 11, 2005**

## **Presentation**

# ***Swiss Made Intangibles Report***



Thomas Auer  
Auer Consulting & Partner  
Zwillikerstrasse 58  
CH-8908 Hedingen  
Tel. +41 44 776 18 10  
Mail [auer@hrm-auer.ch](mailto:auer@hrm-auer.ch)  
Web [www.hrm-auer.ch](http://www.hrm-auer.ch)

# Documentation

## *Swiss Made* Intangibles Report

### *Project Partners:*

 <b>Skandia</b>	 <b>visana</b> Wir tragen Sorge.
<b>WOLFSBERG</b> The Platform for Executive & Business Development	

The following pages contain the slides presented at the *Intellectual Capital Symposium*, held at the International University in Bruchsal, Germany. The slides speak in general for themselves. However, please find a comment to each of them.

For further information please contact:



**Auer Consulting & Partner**  
Tel: +41 44 776 18 10

**Zwillikerstrasse 58**  
Mail: [auer@hrm-auer.ch](mailto:auer@hrm-auer.ch)

**CH-8908 Hedingen**  
URL: [www.hrm-auer.ch](http://www.hrm-auer.ch)

## • Definition & Scope Swiss Made Intangibles Report

***Swiss Made Intangibles Report is a tool to produce a harmonised presentation and a controlled development of an organisation's Intellectual Capital.***

***On one hand it optimises corporate communications to specific stakeholders. On the other hand it supports strategic planning using the raised indicators.***

### Comment Slide No. 1

The question, what additional information is needed to get transparency about the true organisational value, is answered by the Swiss made intangibles report. It bases on the Intellectual Capital Reports, which are popular in Scandinavian countries. Intangibles reports use (like sustainability reports) an indicator system to show results and to determine strategic and operative goals for upcoming reporting periods. Subjects of the reports are immaterial assets of the reporting organisation. Those assets are commonly not shown in conventional annuals reports.

Compared to classical financial reports, an intangibles report does not deal with financial assets. It uses a broader range by evaluating investments in Intellectual Capital (meaning efforts, preconditions, initiatives inputs etc.) on the one side. On the other side it measures the reached results of those investments (meaning added value). Thus, an intangibles report communicates the outcome of a knowledge-based strategy.

## • Theses about Intellectual Capital Reporting

### **Thesis # 1:**

**Intellectual Capital can be measured and controlled**

### **Thesis # 2:**

**Intellectual Capital can be evaluated, but a standardised benchmarking is impossible**

### **Thesis # 3:**

**The integration of an *Intellectual Capital Management System* allows a harmonised report form**

## Comment Slide No. 2

### *Thesis 1:*

There are dozens of concepts to measure Intellectual Capital. All of them use a non-direct approach using an indicator system. Such indicators need to be contextual, long-term accessible and reproducible to obtain meaningful results. To measure and steer knowledge, the balanced scorecard (BSC) has shown its usability and is widely accepted.

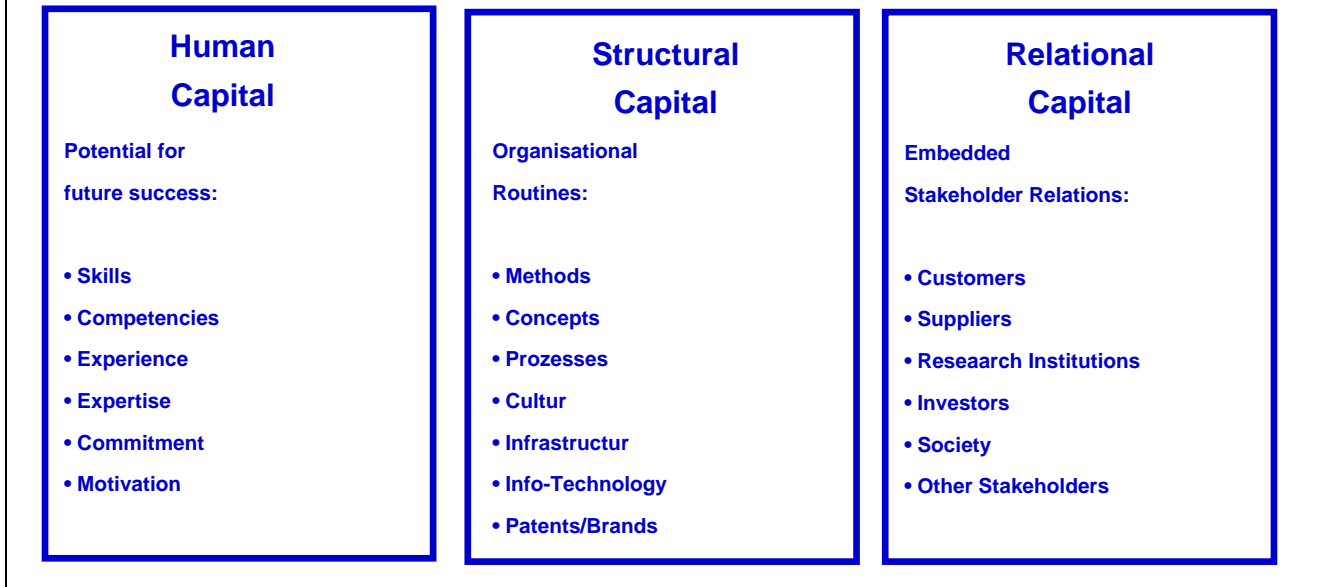
### *Thesis 2:*

Each organisation needs to decide for itself, which knowledge resources are actual, relevant or obsolete and how it treats them in a sustainable manner. This is valid even for comparable organisations. Thus, a standardised benchmarking is impossible. In addition, individual secrecy reservations avoid full disclosure of (sometimes sensitive) data.

### *Thesis 3:*

Assuming, that a true benchmarking of knowledge work results (the "WHAT") doesn't work, why don't we look HOW the results were reached? Doing this can be done by using an *Intellectual Capital Management System* (ICMS-15649).

## • Intellectual Capital (IC)



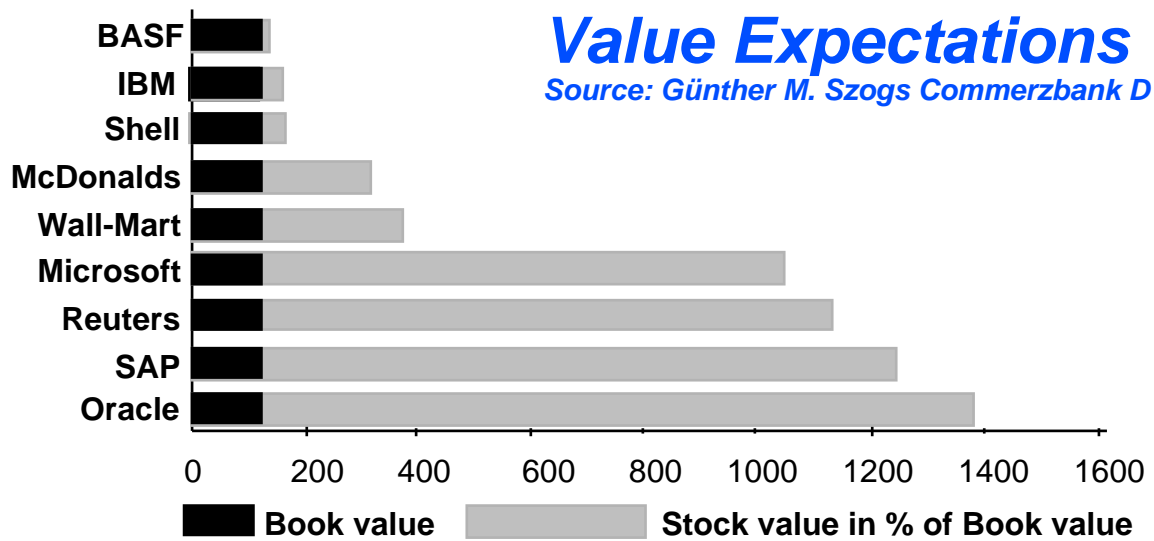
### Comment Slide No. 3:

Intellectual Capital is often described as the difference between the market- and the booking value of an enterprise. This formula is somehow questionable, since an organisation showing a market value below booking value, has certainly not a “negative Intellectual Capital”. A better definition might be “IC = expected future economic success”.

It is undisputed that the Intellectual Capital represents the most important asset of a knowledge-based organisation. This value is usually not declared in annual reports and does not appear in conventional analysis models. Intellectual Capital must be converted into knowledge resources to formulate an Intellectual Capital statement. The most common classifications or types of knowledge resources are technologies, processes, stakeholders and (of course) employees. The three components of IC are interactive: The human Capital raises the Structural Capital; both together generate the Relational Capital.

The presence of resources is not sufficient to create value: for example, there is no correlation between the number of graduates in an organisation and its innovative competence.

• IC = *Difference between Stock value and Book value?*



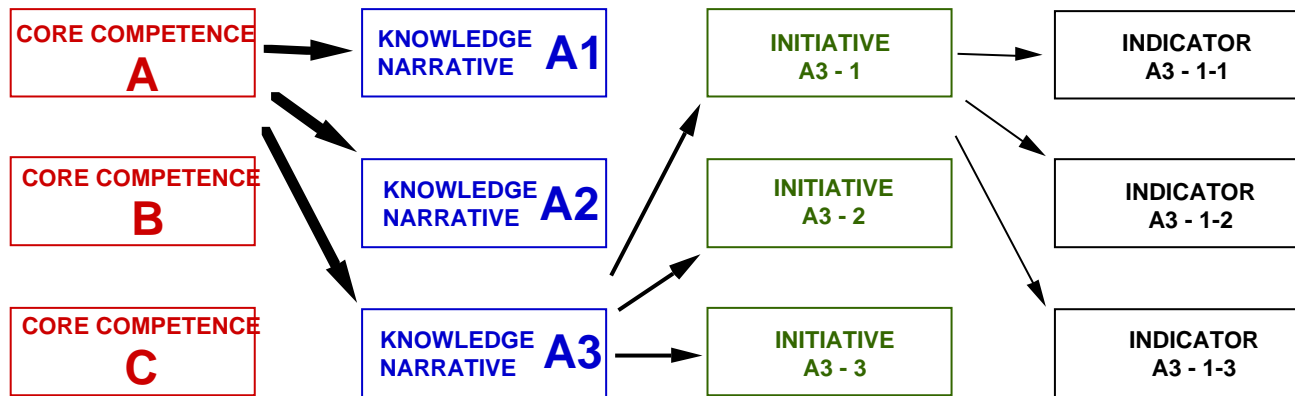
BASF, IBM & Shell	= <i>Production Enterprises</i>
Wall-Mart & McDonalds	= <i>"Strong Brands"</i>
Microsoft, Reuters, SAP & Oracle	= <i>Supplier of knowledge conserves</i>

**Comment Slide No. 4:**

The graph shows the large range of the difference between book value and market value. Production enterprises reach market values between 110 and 120% of the book values; "Strong Brands" 300 to 380%, whereas suppliers of "knowledge conserves" can reach up to 1380%. However, it is remarkable, that organisations with a high *market-book-ratio* show far more fluctuations in their market value.

## • The Measurement of Knowledge

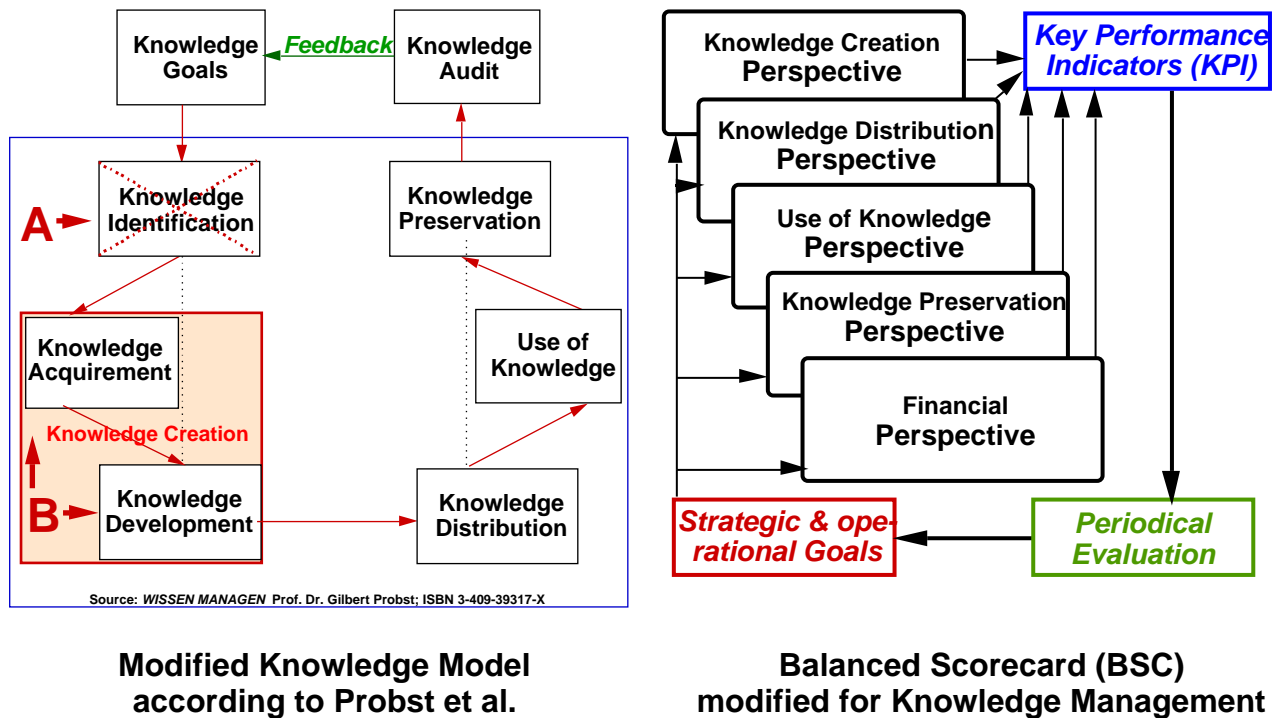
### *From Core Competencies to Indicators*



#### Comment Slide No. 5:

For core competencies strategic and operational goals (knowledge narratives) are defined. The number of necessary initiatives depends on the complexity of the narratives. The effects of the initiatives are measured with derived indicators. Those are key figures showing metrics, time frame of measurements, owner, data source etc. Indicators shall be long term accessible, reliable and calculable. A pragmatic approach is the determination of sub goals for the initiatives, since reaching a goal leads always to alterations, which are measurable.

## • Controlling Knowledge

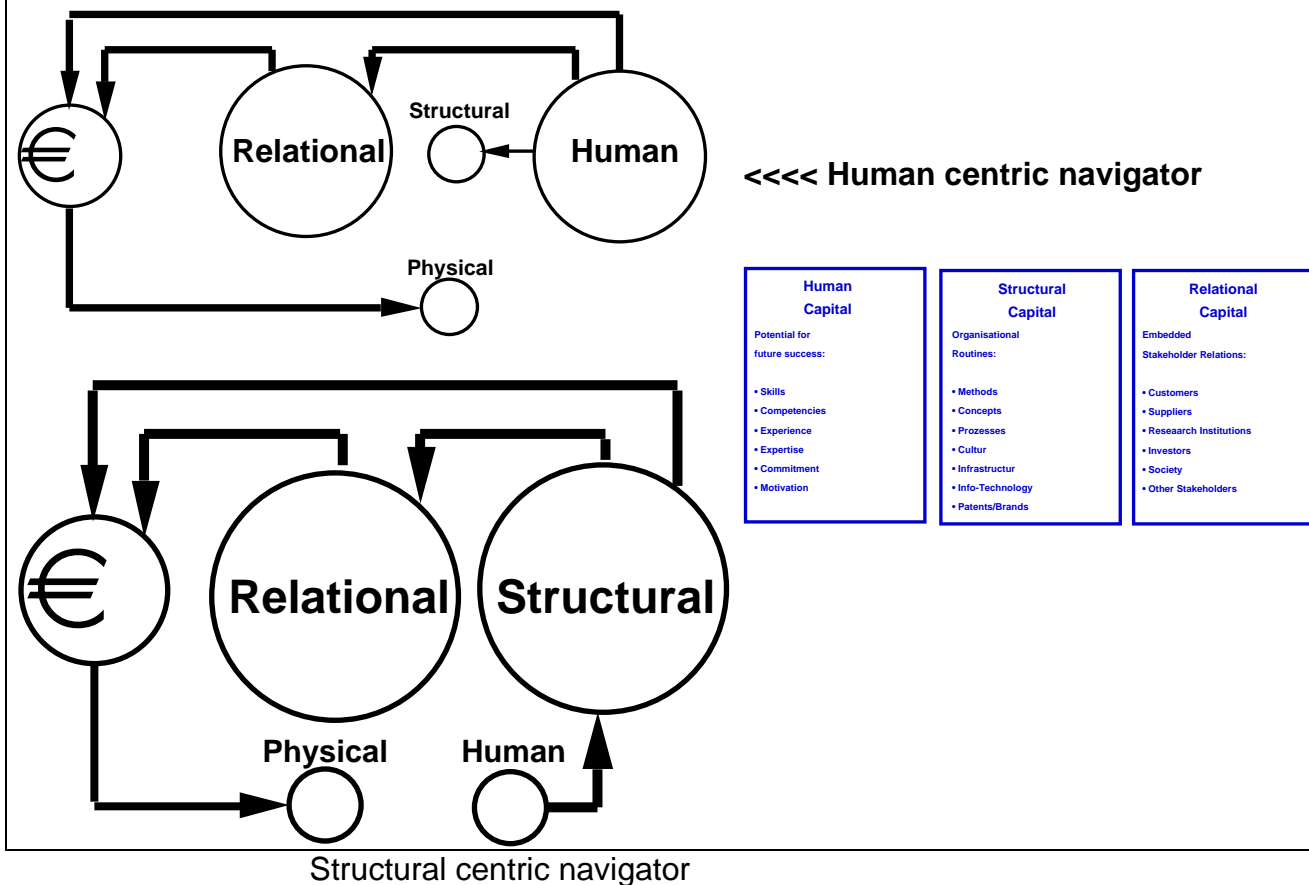


### Comment Slide No. 6:

Using the BSC for knowledge management applications needs an adaptation of the standard BSC perspectives. Knowledge perspectives are defined according to the knowledge management model introduced by Probst et al. This model puts six operative core processes into a coordinating frame. On the strategic level this model includes two additional processes: *Knowledge Goals* and *Knowledge Audit* are essential for the BSC application. Strategic goals are the basis for each knowledge perspective. Auditing knowledge is (besides steering) the main reason for the BSC invention. The strategic goals of knowledge work need to be defined for each perspective individually. Each organisation has to define its own knowledge strategies, which are products of the superior economic goals. The core process *Knowledge Identification* (A) is not foreseen to act as a perspective, since knowledge transparency is expected as to be at hand in a BSC-based management process. The core processes *Knowledge Acquisition* and *Knowledge Development* are linked resulting in the *Knowledge Creation* perspective (B).



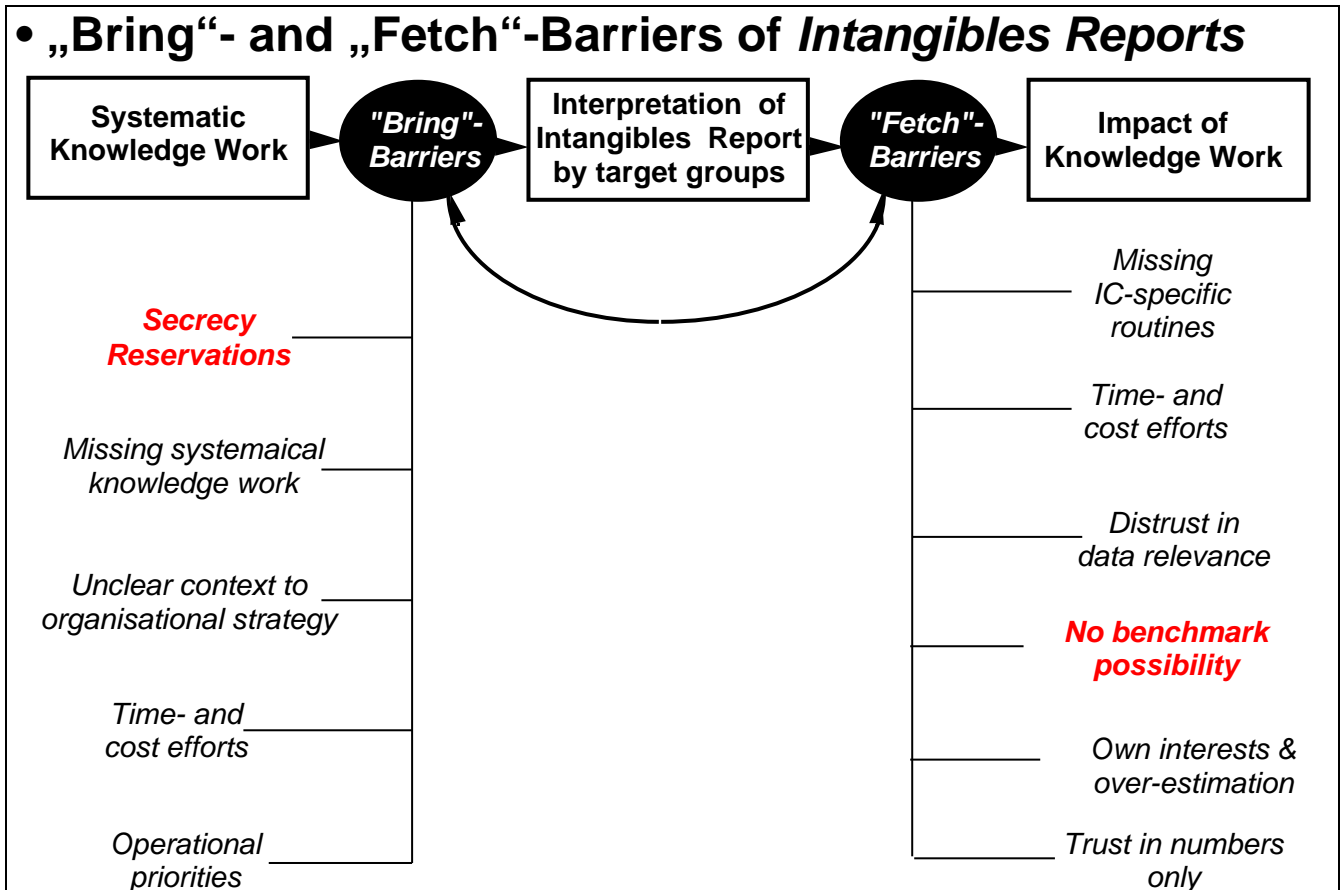
## • Functions of knowledge based organisations



### Comment Dia No. 7:

**Human centric navigator:** The navigator shows an organisation that relies heavily on its human and relational resources. It does need some monetary resources, but hardly any physical or structural resources. This is an organisation focused around very knowledgeable and competent individuals who use these attributes to form personal relationships with their clients and to deliver value. The organisation survives and thrives thanks to low fixed costs and high billing rates and margin. Typical examples are consulting services and providers of individual products (e. g. software). Some of the money that is earned is used to sustain the relationships with clients and some to maintain and develop the competence of the individual. The quality of the products or services delivered may vary according to who is doing the job.

**Structural centric navigator:** This organisation places a much more emphasis on its structural resources and is less dependent on bright individuals. This does not mean that people are not important, but their relative importance is lower. The best people are used to develop processes which are “activated” by less skilled employees. There is more codification and rules and the company may have higher fixed costs and lower margins than a people centric one. Typical here are all kind of manufacturing, the chemical industry and public services. Product quality is more standardised and therefore a more system-focused approach is evident.



### Comment Slide No. 8:

Considering the reporting organisation as being a supplier of information and the target groups as being information receiver, we can observe typical barriers on both sides. They even influence reciprocal.

On the "bring-side" the four barriers from bottom up are typical for a poor or non-existing knowledge based organisational culture, while **Secrecy Reservations** are a tough barrier: many organisations refuse to disclose their IC data. They declare them as strategic and secret information, which are reserved for the internal IC management. IC data demonstrate how resource processes contribute to competitive advantage. IC oriented organisations show (somehow legitimate) reservations, since the newly realised advantages might be negated by full IC transparency.

On the "fetch-side" all barriers (**except the missing benchmark possibility**) are influenced by the *Not-Invented-Here-Syndrome* and could be resolved, if the receiver acknowledges the value of systematic knowledge work and acts accordingly. **No Benchmark possibility** is a true barrier too, since depending on the type of organisational knowledge work, different IC aspects dominate. Thus, a generally accepted IC evaluation, as required by the financial markets, cannot be fulfilled or at best partly: The impossibility of comparing IC data in a standardised and benchmarked manner requires an alternative IC evaluation.

## • Components of *Swiss Made* Intangibles Report: Matrix

KNOWLEDGE >	Identification	Acquirement	Development	Distribution	Use	Preservation
<b>Human Capital</b>						
Skills						
Competencies						
Experience						
Expertise						
Commitment						
Motivation						
<b>Structural Capital</b>						
Methods						
Concepts						
Processes						
Cultur						
Infrastructure						
Info-Technology						
Patents/Brands						
<b>Relational Capital</b>						
Customers						
Suppliers						
Research Institutions						
Investors						
Society						
Other Stakeholder						

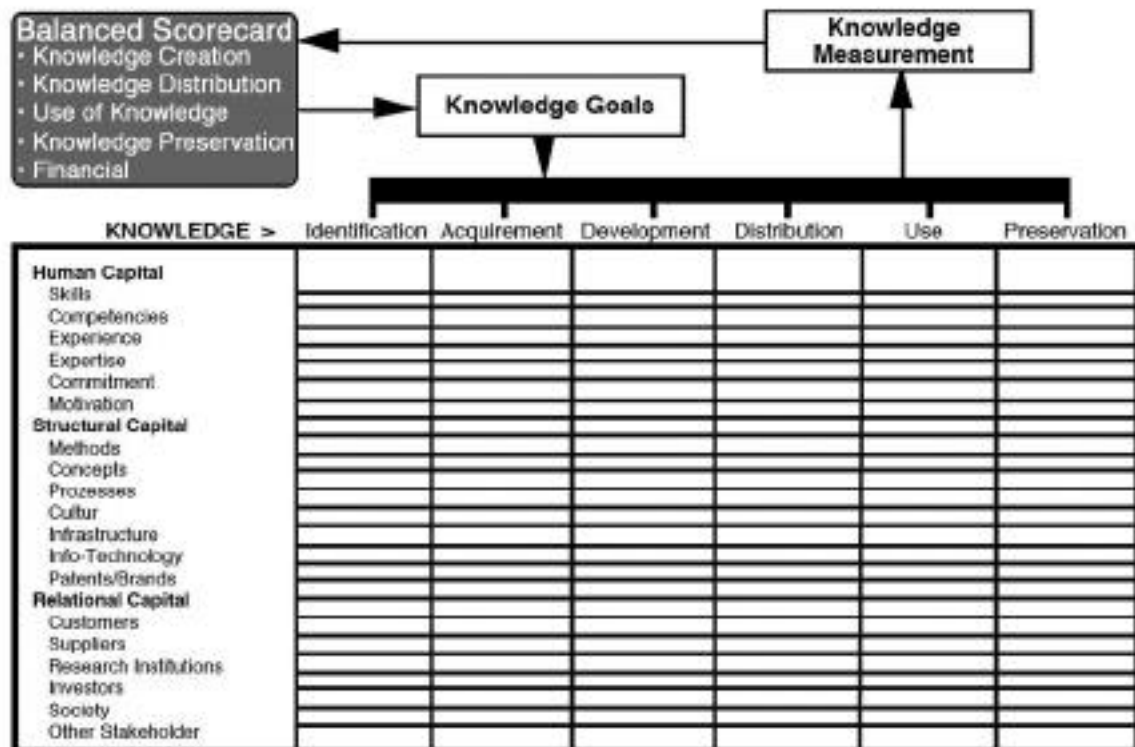
### Comment Slide No. 9:

The matrix is the heart piece of *Swiss Made* Intangibles Report. It ties the components of the Intellectual Capital with the operative components of Probst's knowledge management model: Launched knowledge initiatives are described in the intersection of involved IC resource and the activated operative component.

Example: Customer knowledge shall be collected systematically. The intersection will be between the IC resource customers (Relational Capital) and the operative component knowledge acquirement.

Depending on the complexity of a knowledge based initiatives it may be possible, that several resources and operative processes are involved. In the example above it might be thinkable, that the operative component *knowledge identification* is involved too.

## • Components of *Swiss Made* Intangibles Report: BSC



### Comment Slide No. 10:

Each systematic management of Intellectual Capital depends on its measurement and evaluation. Without according tools the future IC development is a matter of hazards or good intuition of individuals.

The application of a modified Balanced Scorecard is the established tool to measure and evaluate knowledge processes. As an interface to the knowledge matrix serve the two strategic components *Knowledge Goals* and *Knowledge Measurement*. The strategic goals of knowledge work, which are dedicated to the perspectives, have to be defined individually. Each organisation has to define its own strategies according to the defined knowledge goals. Since all activities of knowledge work shall result finally in a monetary success, the inclusion of a financial perspective is advisable. Thus, a balanced scorecard for knowledge work consists of five perspectives.

Out from the strategic and operational knowledge goals Key Performance Indicators (KPI) are defined. Those are key figures: Metric sizes, Time of Measurement, Data Owner, Data Source etc. Using the BSC for knowledge work requires some creativity, since general accepted key figures for this application are not established yet.

## • Components of *Swiss Made* Intangibles Report *Intellectual Capital Management System (ICMS-15649)*

### IC-Assessment:

#### 1 IC-Management

- Policy (Normative Knowledge Goals)
- Commitment of Top Management

#### 2 Human Capital

Declaration of implemented Instruments and Processes

#### 3 Structural Capital

Declaration of implemented Instruments and Processes

#### 4 Relational Capital

Declaration of implemented Instruments and Processes

The IC-Management-System-15649 doesn't compare quantified data (indicators), but it evaluates provable proceedings for a sustainable IC management.

Besides the three IC categories, superior aspects of IC management (most important for a knowledge based culture) are evaluated. Concerning Pos. 2 – 4, some criteria might be obsolete for evaluation, if their non-relevance can be shown.

### Comment Slide No. 11:

Accurate benchmarking (Systematic comparison one's own abilities with the competition's performance) fails due to the variety of organisational structures, with their corresponding variety of knowledge work and their refusal to publish sensitive IC data. Therefore a measurement tool is required, which enables a high degree of standardisation and maintains the necessary privacy. New thinking is needed and new processes must be adopted to define standardised IC measurements.

A prospective evaluation is attained using a tool analogue to a QMS, in which instruments and processes used for sustainable IC maintenance are researched. A uniform IC assessment serves as a comparison tool: *Swiss Made Intangibles Report* uses an Intellectual Capital Management System (ICMS) covering all components of the Intellectual Capital. The reporting organisations are obliged to respond to each item, how they fulfil the ICMS requirements. In fact, this proceeding doesn't focus on WHAT (resulting IC data), it measures the HOW (implemented and documented processes and tools). This is comparable with the established ISO-9000, where the resulting product quality isn't the subject of interest, but the efforts to reach quality including the documentation and traceability.

The IC-Assessment is based on *IC-Management-System 15649*. (ICMS-15649)

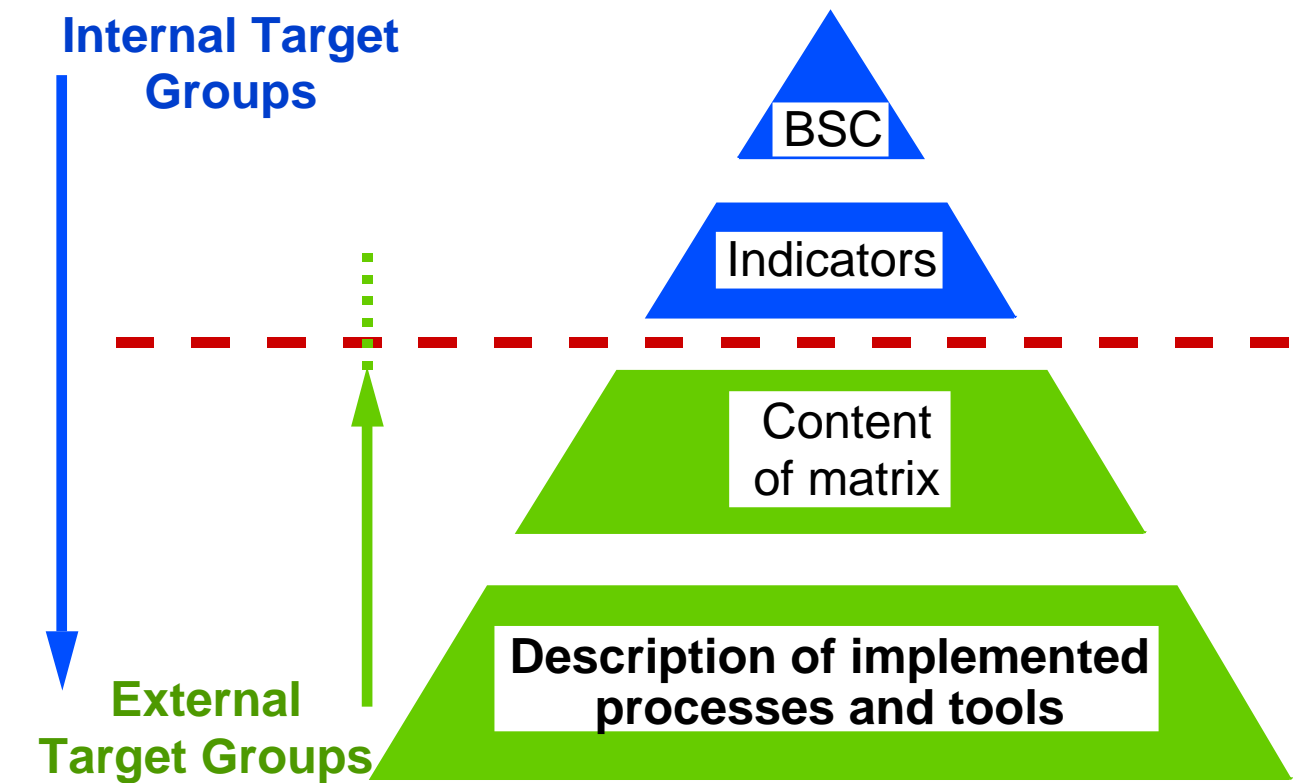
<p><b>Human Capital:</b></p> <p><b><i>Collective Knowledge Development</i></b></p>	<p>The organisational learn- and innovation capacity becomes more and more a decision making criteria for market advantages; Quantitative and qualitative networks containing varying skills will dominate the future working environment. Besides efficient data- and knowledge acquirement requires this prospective and pro-active learning processes:</p> <p><i>This includes, but isn't limited to:</i></p> <ul style="list-style-type: none"> <li><b>a)</b> the use of internal Best-Practices</li> <li><b>b)</b> the performance of Think Tanks, Learning arenas and Lesson Learned Projects</li> <li><b>c)</b> the use of established creativity methods</li> </ul>
--	---

#### **Comment Slide No. 12:**

Human Capital consists of “rented resources”, owned by the individual employees. They include personal employees experiences on the following subjects: Work processes, skills, experience, expertise, working tools, methods, team work, culture and personal relations in the organisational environment.

Slide No. 12 shows a selection from the requirement catalogue of ICMS-15649 covering the IC category Human Capital, paragraph *Collective Knowledge Development*.

## • Contents of *Swiss Made* Intangibles Report: External vs. internal target groups



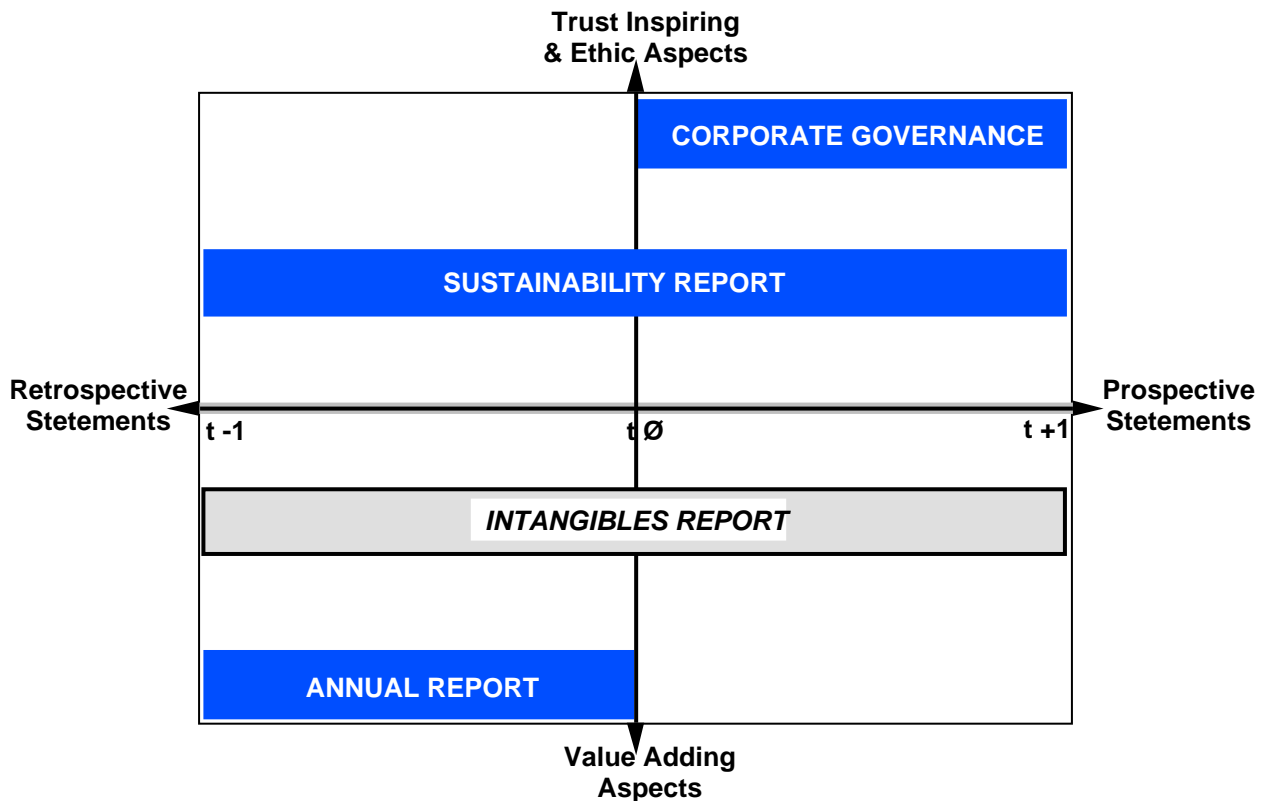
### Comment Slide No. 13:

The graph shows the relation between information content and target groups:

- Disclosure of implemented tools & processes and content of matrix for external target groups.
- BSC data for internal target groups to control knowledge work and to support strategic decisions.
- The disclosure of key performance indicators is somehow difficult! Here, the following subjects shall be considered:
  - What do we intend to show?
  - How much can we disclose internal information without cannibalising our market advantages?
  - Is our communication aiming towards our target groups?

## • Positioning of Swiss Made Intangibles Report in Communications

*INTANGIBLES REPORT in the environment of Corporate Communication*



### Comment Slide No. 14:

Even when the Intangibles Report contains *trust inspiring aspects*, its true value are prospective indices in the value adding aspects: An innovative capacity of an organisation relies mainly on the non-financial assets and its sustainable management. Other than in the conventional annual reports the Intangibles Report doesn't aspire full benchmark ability, but an adequate level of harmonisation. This doesn't focus on WHAT (resulting IC data), it measures the HOW (implemented and documented processes and tools).