

Project

Swiss Made INTANGIBLES REPORTS

Intangibles or Intellectual Capital (IC) are equivalent terms for the non-accountable assets of an organisation. The change from the agrarian economy to the knowledge society has led to the situation, that the 'unreported' assets in a balance sheet are on average several times those of the tangible assets. Increasingly, there is criticism from stakeholders that traditional balance sheets do not account for the intangible factors that influence an organisation's value and its growth prospects. So, financial analysts are asking for standardised tools to measure and benchmark intangibles. A further development of Intellectual Capital Reports, popular in Scandinavian countries, faces this challenge. Following the structure of intellectual capital categories an *Intangibles Report* includes aspects of Human Capital (Employee's skills, competencies, commitments etc.), Structural Capital (IT, intellectual property, organisational culture, process organisation etc.) an Relational Capital (customer- & supplier relations, stakeholder communication etc.).

The INTANGIBLES REPORT is a tool to an aimed reporting and development of an organisation's Intellectual Capital. It demonstrates the relationship between the goals, the economic processes, the Intellectual Capital and the economic performance of an organisation and describes those elements using derivative indicators.

The project *Swiss Made INTANGIBLES REPORT* supports knowledge based organisations in their systematic knowledge work and the publication of these initiatives. This includes the output of documentation for external target groups (stakeholder communication). These reports shall be congruent, independent of a organisation's size and purpose. For internal target groups (Strategic planning, innovation management, employees) the Intellectual Capital is embedded into a value adding model, that includes the knowledge strategy, the performance processes and their reached results.

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Foreword

Why accounting knowledge?

Target groups of an *INTANGIBLES REPORT* may include all institutions and individuals, which are important for the reporting organisation. They can be divided into internal and external stakeholders: Internal means the management, employees and specific business units, while external groups include investors, potential employees, customers and partners. For each of those groups the *INTANGIBLES REPORT* shall satisfy different information needs. Besides the content and structure, the report's design and layout might play a major role to submit the desired message in an appealing and useful style. The following questions should be kept in mind:

- Main interest of target groups?
- What can be presented without disclosure of sensitive data?
- How do we present the information?

There are different motivations to raise an *INTANGIBLES REPORT*, depending on the actual situations and challenges of the reporting organisations.

• *Systematic steering of an organisation:*

Each systematic management of Intellectual Capital depends on its measurement and evaluation. Without adequate tools, chance or the good intuition of individuals controls the prospective development.

• *Capital acquisition*

The more an organisation shows transparency, the less is the investor's risk: He can assess the management of resources and how the value adding processes work. A limit of full transparency is the competition, since sensitive Intangibles data is often secret.

• *Fulfilling legal requirements*

Basle II, IFRS and other reforms of accounting standards require statements of immaterial assets as an attachment to the conventional annual reports.

• *Employee recruitment and -retention*

The chase aiming to the so called "high potentials" indicates the great impact of monetary compensation. But it is obvious that the longer, the more immaterial items like the organisation's image, the technical know how, career perspectives, the organisational culture and the related working environment play a major rule in the employee's decisions.

• *Development of co-operations:*

Trends towards global value adding chains require an optimised stakeholder communication. Meaningful information about the know how, the organisational culture and existing market relations support sustainable business co-operations.

• *Customer acquisition and -retention*

Customers like to know, from whom they purchase products or services. More transparency and security can be reached by providing facts and figures about promised features resulting as an important argument for customer acquisition and -retention.

1. Background

In Scandinavian and Anglicistic countries, Intellectual Capital Reports were introduced since 1996, while in the German speaking countries first initiatives started in early 2004:

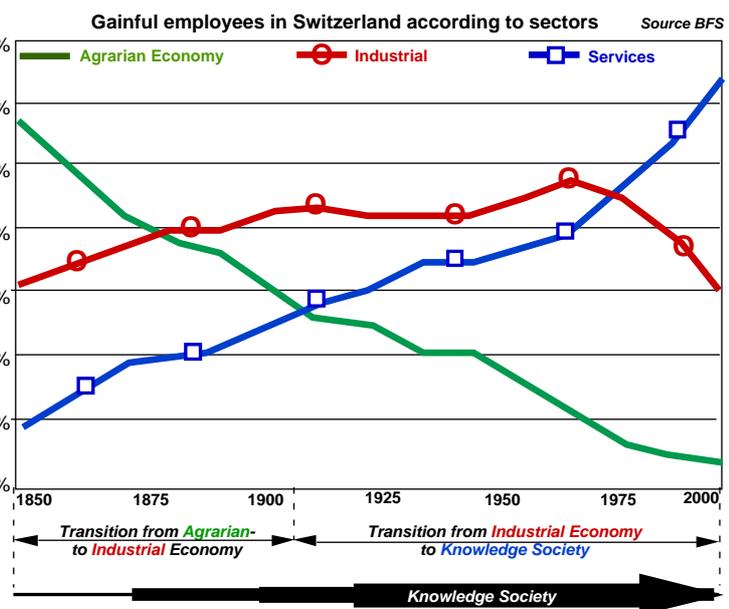
- In Germany the ministry of labor and economics (BMWA) initiated a pilot project including 14 SME's from different sectors: "Wissensbilanz, made in Germany"
- In Austria a new law obligates all universities to publish an annual Intellectual Capital Report

In Switzerland the big enthusiasm of some knowledge management pioneers has turned to a certain sobering. The reasons for that are manifold, among others:

- The selective focus on IT tools. They are efficient instruments to optimise the information & document management, but in processes of knowledge development and knowledge measurement IT cannot offer any support.
- The delegation of knowledge management tasks to an isolated knowledge manager in a service position. Knowledge work is indeed a leadership task! This requires, that even the management owns sufficient fundamental knowledge about instruments and processes of knowledge work to evaluate their usefulness for the organisation.
- The concentration on the individual skills management. On the one hand the is and remains an important aspect to anchor and develop existing core competencies. On the other hand it is obvious that the technical know how is characterised by a continuous shortening life cycle, while the organisational knowledge (keyword interdisciplinary team-work) gains importance.

Historical summary: From the agrarian economy to the knowledge society

In the 19th and 20th centuries changes in the working sectors was a major supposition for sustainable economic growth. Occupational activities have undergone a complete change since 1850: The dominating position of the agrarian economy and forestry shrunk from 60% to less than 5% in 2000. The industrial sector overtook the agrarian economy in the early 1880s, the service sector at the beginning of the next century. Since then, services grew faster than both the industrial and agrarian sectors. 1970 the industrial and service sector had approximately the same number of employees, while today about two out of three receive their income from the third sector. As a conclusion we observe a transition from agrarian economy towards industry in the late 19th century, while the industrial society was replaced by a service society in the late 20th century. At that time the new term *Knowledge Society* was born: Organisational knowledge (= Intellectual Capital) gains more and more acceptance as being the most valuable resource for a sustainable successful economic future. An adequate sustainable treatment of this resource becomes for knowledge based organisations of question of survival. Stakeholders (especially investors) require insight in the organisation's immaterial assets. These challenges can be faced by raising and publishing an INTANGIBLES REPORT.



2. Project Goals

2.1. Project Partner Compilation

Swiss Made INTANGIBLES REPORT is a pilot project supporting knowledge based organisations to raise and publish reports on their intellectual assets. The project aspiration aims to set up a heterogeneous group of project partners. This includes profit- and non-profit-organisations, institutions of public services and education. To establish a aspired knowledge exchange between the project partners, a simultaneous participation of direct competitors will be avoided.

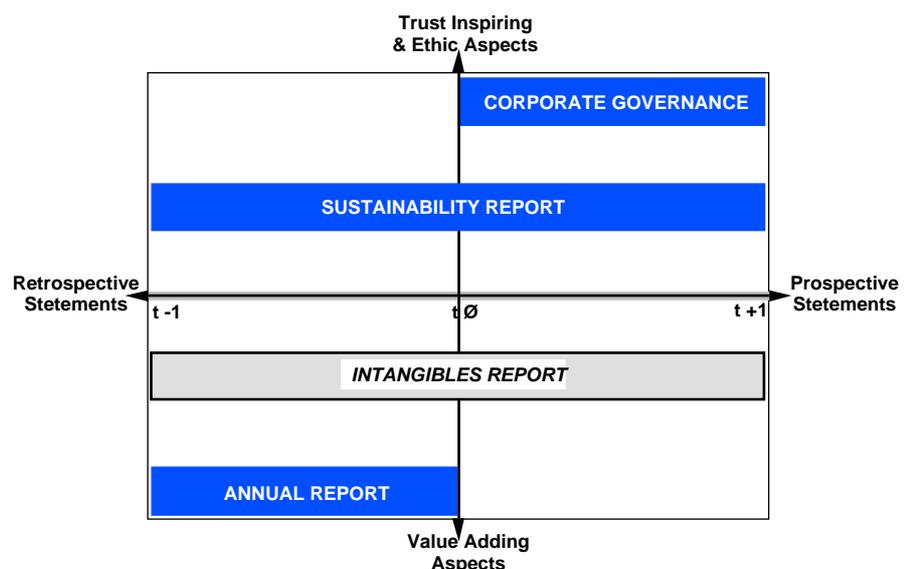
2.2. Goals on level project partners

Project partners don't understand the value of an INTANGIBLES REPORT as an additional PR tool, but as a management system. They aware of the facts, that even its creation leads to process optimisation, which steer and assess the resource knowledge. This requires the willingness to rethink structural, instrumental and social processes.

2.3. Goals on level external target groups

Different stakeholders (especially investors) require in these days insight in non-financial assets as a supplement to conventional annual reports. This allows information about the organisation's innovation competence and thus, about its economic future. To reach comparability, the INTANGIBLES REPORT's structure shall be harmonised in a manner, which is valid for all type of organisations, regardless of their size and purpose. Even when the INTANGIBLES REPORT contains trust inspiring aspects, its true value are prospective indices in the value adding level: An innovative capacity of an organisation relies mainly on the non-financial assets and its sustainable management. Other than in the established

INTANGIBLES REPORT in the environment of Corporate Communication



Corporate Communication the INTANGIBLES REPORT doesn't aspire full benchmark ability:

On the one hand even between direct competitors, knowledge work is never the same, since each organisation makes its own decisions, which initiatives shall be implemented to reach the strategic goals. On the other hand, decisive indicators are often secret data, which would cannibalise competition advantages if disclosed. The INTANGIBLES REPORT shall (similar to a QMS) demonstrate, which tools and processes are established for resources management.

3. Realisation

The project is characterised by a conceptual and organisational preparation phase (1st half year 2005) and an operative realisation phase (2nd half year 2005). The overall goal are finished manuscripts of INTANGIBLES REPORTS by week 49/2005 to allow a simultaneous publication with the conventional annual reports.

3.1. Timeframe

- KICK OFF Meeting:

Meeting before summer vacation 2005. Goal is a consent finding about the structure & content of the reports as well as providing enough knowledge to project partners to allow them to collect and classify meta data.

- Periodical Workshops:

Regular (moderated) exchange of experiences and presentation of reached results. (Knowledge sharing and idea finding processes).

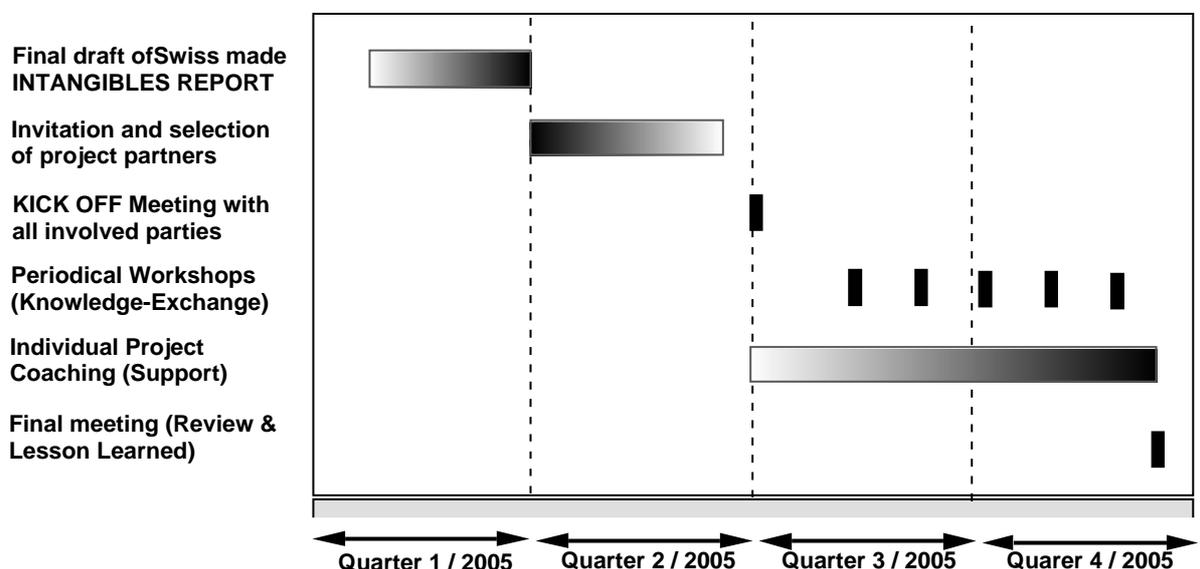
- Project coaching:

During the realisation phase a project coaching service is offered to the project partners, depending on the availability of their competencies in knowledge work.

- Final meeting:

Presentation and reflection of the project (Lesson learned).

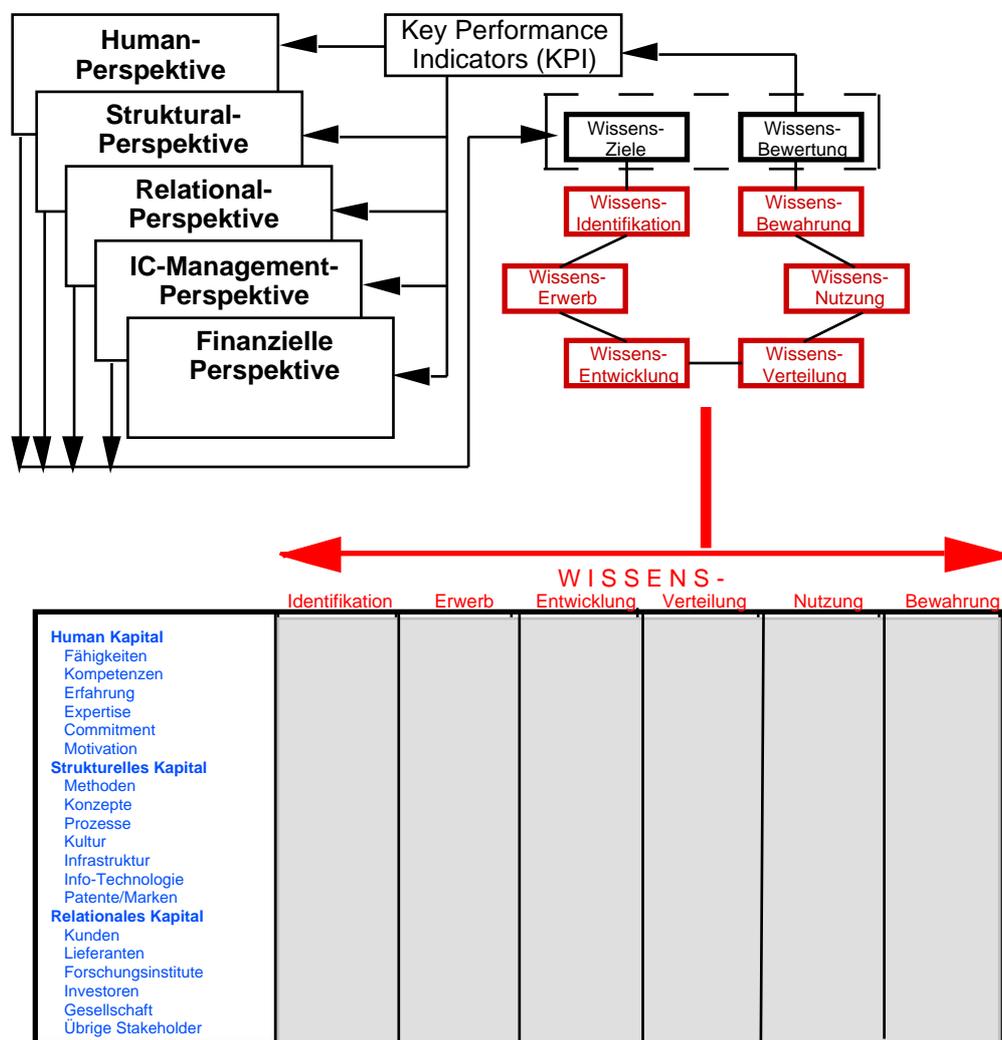
Timeframe Project Swiss Made INTANGIBLES REPORT (Draft)



3.2. Architecture of the INTANGIBLES REPORT

The creation of an INTANGIBLES REPORT shall allow an efficient communication about competitive deciding knowledge with different target groups (stakeholder) using a structural presentation and a knowledge based language. To set goals, measure and steer knowledge work a knowledge matrix is used, which is based on established, from the literature well-known components.

The knowledge matrix contains in the horizontal axis the six core processes of knowledge work described by Probst et al. In the vertical axis the matrix contains the components of the intellectual capital, divided in human, structural and relational resources. To see the initiatives serve the strategic processes (Probst) "Knowledge Measurement" and "Knowledge Goals", where by a modified Balanced Scorecard (BSC) is used.



NOTE: To consider the potential refusal to disclose of sensitive data, the strategic aspects are not communicated by indicator data, but as a relative size (difference goals/results), while the implemented tools and processes are shown in the matrix.