

## ***Intangibles Reports are a HIT but nobody looks after it*** Concept of a consensual reporting form

The title reflects the actual status of a new organisational reporting form, known as Intangible Report. Its scope is to overcome the obvious deficiencies of conventional annual reports with the goal to demonstrate the “true value” of knowledge based organisations. This innovative reporting tool is actually in the early-adopter-phase. And it will remain there, until mental and instrumental barriers at the provider side (reporting organisations) and at the receiver side (stakeholders of the organisation) can be eliminated. This paper uses the Pareto-Formula in extremes on a high level and offers a solution for the two main challenges: A harmonisation of reported contents and the consideration of secrecy reservations.

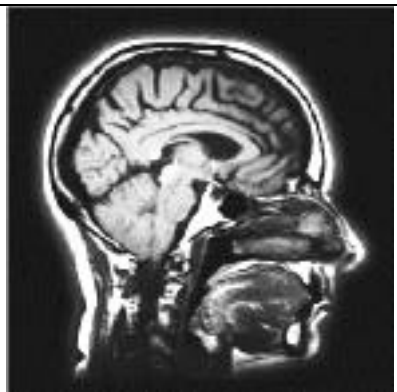


Photo: Photo Disc

The capital has its place in the heads: Knowledge based organisations depend primarily on immaterial resources such as Know How of the employees, which creates improved performance and innovative culture.

What earlier used to be an exclusivity of scientific organisations, is in these days valid for all types of knowledge based organisations: The values of intangibles can be several times those of physical capital (monetary resources). In addition, the sustainable treatment of this Intellectual Capital (IC) has become a key driver for innovation efficiency and thus, for the long-term survival. For about one decade, embedded relational stakeholders ask for information about the set-up of the Intellectual Capital (divided in human, structural and relational resources) and about the initiatives to treat IC in a sustainable manner. For scientific organisations, the subject of interest is the ratio between public investments and research performances, while for profit-oriented organisations the insight in the development of future-securing potentials is in the focus.

These questions are answered by *Intangibles Reports*. On one hand, they show the relations between organisational goals, processes, the Intellectual Capital and the success of knowledge based organisations.

On the other hand, *Intangibles Reports* generate in addition key figures for strategic decisions. These indicators include often-sensitive information. Thus, they are reserved for internal use only.

A matrix is the heart piece of an Intangibles Report (See Figure 1). It ties the components of the Intellectual Capital with the operative components of Probst’s knowledge management model (Probst, Raub, Romhardt, 1999). 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

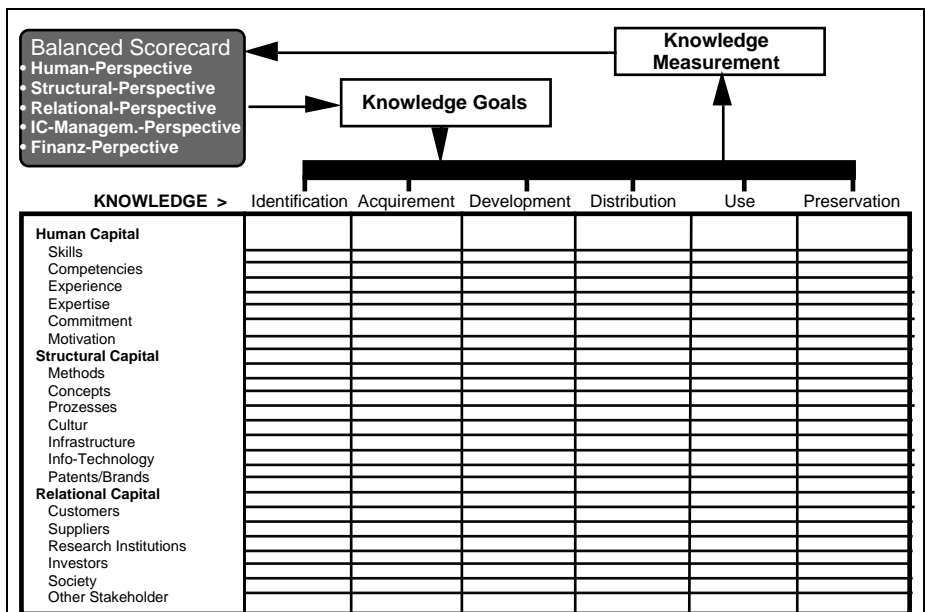
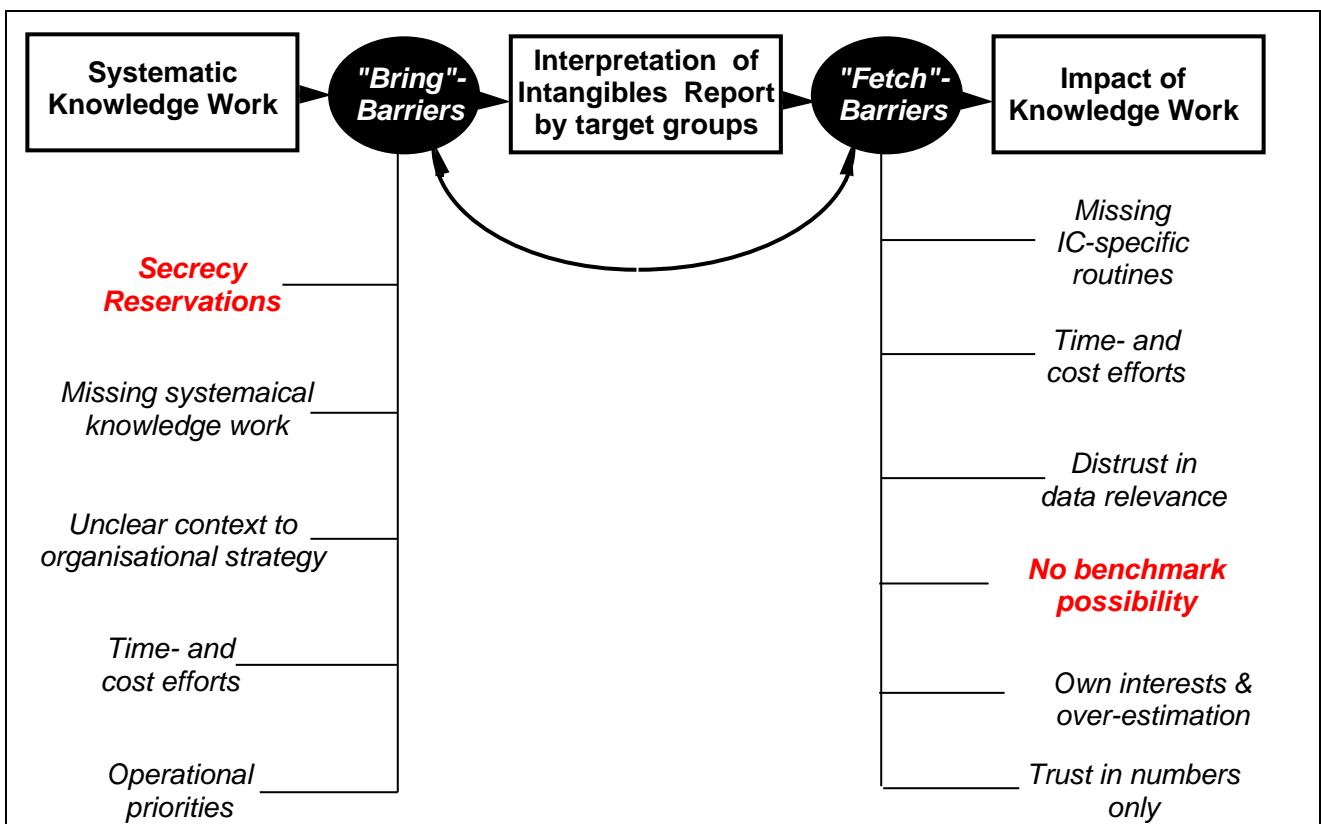


Figure 1: Architecture of an Intangibles Report

Capital) and the operative component *knowledge acquirement*. Depending on the complexity of knowledge based initiatives it may thinkable that several resources and operative processes are involved. In the example several resources and operative processes are involved. In the example above it might be thinkable, that the operative component *knowledge identification* is involved too. Target groups of *Intangibles Reports* can be separated in internal and external groups. Internally, this covers mainly the strategic management, while the *Intangibles Reports* for external communications aims toward carriers of scientific institutions, financial markets, potential employees, suppliers, customers and partners. Pioneer of *Intangibles Reports* is the Swedish financial firm Skandia. Since 1995, this company adds to its conventional annual reports an Intangible Report, which became famous with the name *Skandia Navigator*. In Germany, the ministry of economy and labour (BMWA) launched an initiative to promote *Intangibles Reports* as a strategic tool to acquire, measure and present immaterial assets for German middle-class organisations. In Austria, a new law obliges all universities to publish *Intangibles Reports*. Even national and international accounting standards (IAS 38, DRS 12, IFRS, Basle II) recommend to annex of immaterial assets to conventional annual reports.

**„Bring“- and „Fetch“-Barriers in *Intangibles Reports* Projects**

Nevertheless, the Intangible Report is actually not more but a good intention: Between its indisputable potential and its effective impact is a significant gap! The reason for this is a missing standardisation that allows benchmark capability. Even the question, which qualitative criteria contain substantial information, cannot be answered in general due to the different knowledge processes: Each organisation has to define for itself, what their equitable knowledge resources are, these should be treated and developed in sustainable manner. 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 (See Figure 2). They even influence reciprocal.



**Figure 2: Barriers in Intangibles Report Projects**

### Bring-Barriers:

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* is a trough 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.

### Fetch-Barriers:

On the “fetch-side” all barriers (except the missing benchmark capability) 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 capability* 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.

### Intangibles Report: Quo vadis?

The breakthrough of *Intangibles Reports* depends on the elimination of the listed barriers. The presupposition to reach this is the acceptance of the knowledge society’s challenges. First of all a knowledge based culture is mandatory. Here, the top management is obliged to translate normative knowledge goals into action. The acceptance of external target groups (especially investors) depends mainly on the comparability of the report’s contents. Thus, the architecture of an Intangibles Report needs to be the same for each type of reporting organisation, regardless of their scientific, profit- or non-profit goals. 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 Quality Management System (QMS), in which instruments and processes used for sustainable IC maintenance are researched. A uniform IC assessment serves as a comparison tool: 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 Intellectual Capital Management System (ICMS)

The ICMS evaluates processes and tools according to a defined framework that includes all components of the Intellectual Capital. Below is an example covering the requirement *Collective Development of Knowledge*, which belongs to the component Human Capital:

An introduction explains the background of the requirement

*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 this requires prospective and pro-active learning processes:*

After the introduction, the ICMS becomes concrete

*This includes, but isn't limited to:*  
**a)** the use of internal Best-Practices  
**b)** the performance of Think Tanks,  
Learning arenas and Lesson Learned Projects  
**c)** the use of established creativity methods

Generally, all reporting organisation are obliged to provide statements to each of the requirements: Since every knowledge based organisation does already something for each of the IC components, even when this doesn't run under the term knowledge management. However, it is thinkable, that (similar to ISO-9000) specific requirements have no relevance in fact. In such a case the reporting organisation is asked to conclusively show and explain the non-relevance. This proceeding has the advantage, that it becomes visible, which knowledge based initiatives are subjects to be optimised and/or can be managed in a more systematic approach. The ICMS covers besides the three IC categories those superior aspects of IC management, considering the top management's commitment to a knowledge based organisational culture (See Figure 3).

IC-Management: <i>Declaration of normative knowledge goals and a knowledge policy</i>		
Human Capital	Structural Capital	Relational Capital
<i>Description of the implemented processes and tools to treat the Human Capital in a sustainable manner</i>	<i>Description of the implemented processes and tools to treat the Structural Capital in a sustainable manner</i>	<i>Description of the implemented processes and tools to treat the Relational Capital in a sustainable manner</i>

Figure 3: Architecture of ICMS-15649

### Communication to external and internal target groups

As mentioned earlier, *Intangibles Reports* serve external and internal target groups. Here it is worth to demarcate the content of information for the different target groups. That means, the reporting organisation has to consider the degree of detailed information in context with the claim of target groups (See Figure 4).

- 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?

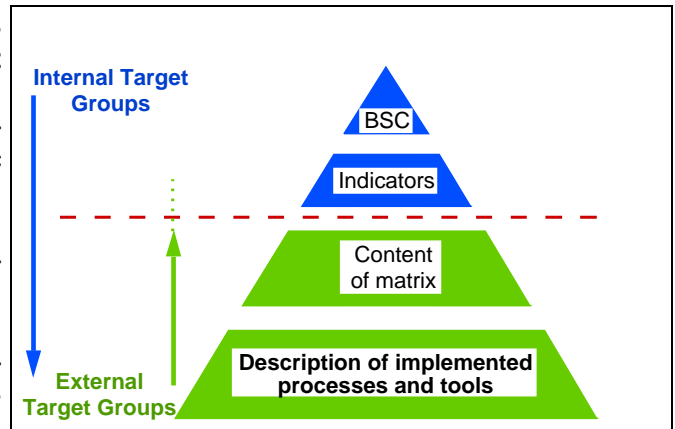


Figure 4: Content of information for target groups

## Summary:

It is undisputed that there is an increasing interest in intangibles by stakeholders (especially by financial analysts). They are asking for a standardised IC benchmark tool. This produces a conflict of interest: *Secrecy of IC Data vs. Stakeholder Communication* and the challenge to set up a *standardised benchmark for different knowledge work*. This requires a conjoint measurement system that fulfils the demands of all concerned parties. These challenges answers the introduced reporting form: External target groups get insight in actual running knowledge initiatives and their proceedings (content of knowledge matrix), while the requirements of an Intellectual Capital Management System disclose, which established processes and tools are implemented for the sustainable treatment of intangibles. The plausibility of the statements can be judged by their reciprocal correlation. For internal target groups, the generated indicators are embedded in the value adding chain, serving as steering parameters for strategic decisions. This is an additional benefit for reporting organisations: The systematic management of intangibles depends on its periodic measurement. Otherwise, the future development of the most important resource is a product of hazard and/or depends on the good intention of individuals.

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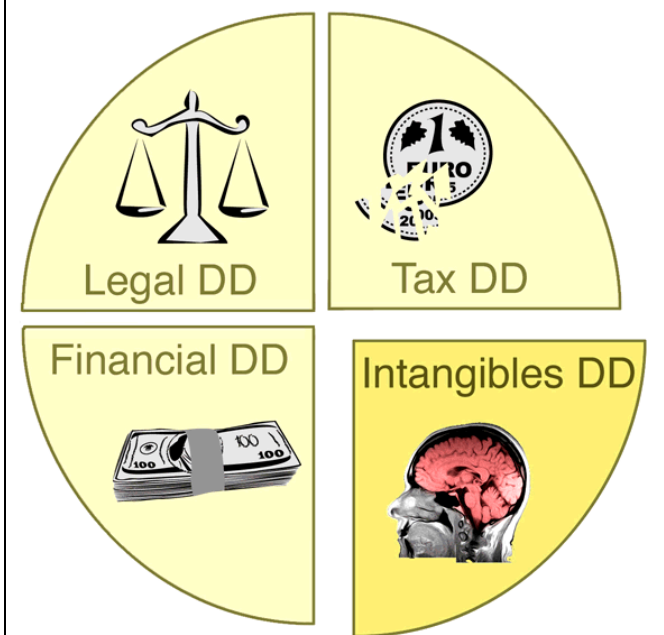
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Thomas Auer is the initiator of the project *Swiss Made Intangibles Reports*. He is specialised in transfer of tacit knowledge process models. Besides project- & process management coaching, Thomas Auer lectures at private academies on "Knowledge Management for Non-Knowledge Managers"

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