Managing companies using Intellectual Capital Reporting (ICR)

15 years of experience – another 15 years to go?

Senior statement by the inventor of the IC methodology “Wissensbilanz”, Günter Koch

The IC Reporting method represents something more than the usual and offers more coherent company management and clearer external representation. That is also why the author describes this method as „luxurious“.

IC Reporting is the process of creating a story that shows how an enterprise creates value for its customers by developing and using its Intellectual Capital (IC). This involves identifying, measuring, and reporting its Intellectual Capital, as well as constructing a coherent presentation of how the enterprise uses its knowledge resources. In a concrete implementation of this objective, an IC report on the organisation´s Intellectual Capital combines indicator based numbers with narratives and visualizations, which, in practice, can have two major functions:

• complement management information (internal management function);

• complement the financial statement (external reporting function).

The main idea behind IC Reporting is that financial information informs about the past performance of the enterprise but tells little to nothing about its future potential. The future potential of an enterprise lies not only within its financial capital, but more than 50% - some experts from the auditing community claim up to 75% - in its Intellectual Capital. Creating transparency about the enterprise´s IC will enable it to manage its intangible resources better, increase its staff´s confidence and motivation as well as imparting greater certainty to investors and other stakeholders about its future earning potential.

Interconnection between financiers and entrepreneurs

An IC Report particularly helps to overcome the differences in knowledge between entrepreneurs and financiers (“information asymmetries”) by providing key points and associated narratives which demonstrate that an SME looking for financial support:

- understands its technologies and areas of expertise – its skills, competencies and capabilities;
- understands its areas of competitive advantage, its intellectual property (IP) and the technical standards related to its products, processes and markets;
- understands its customer´s needs, wants, aspirations and the value that its products and services are able to deliver to them;
- understands its markets and how to access them;

- has a credible strategy for getting its products and services to market, profitably, despite local or even global competition;
- has a credible strategy for managing the overall sequence of activities needed to succeed (e.g. value chain positioning and operation management);
- is able to substantiate the assumptions used in the preparation of financial projections and is able to provide a flow of information to lenders and investors to keep them informed on how the business is progressing.

Comparison with the Balanced Scorecard

Although Intellectual Capital Reporting has been applied first hand in around a thousand cases in German speaking SMEs by a method called “Wissensbilanz – Made in Germany”, it has remained an exclusive method in comparison to others e.g. the Balanced Scorecard (BSC) approach. The reason for the author´s experience is simple: BSC translates the different (in total: four major) dimensions of a company´s strategy into concrete and quantitative forecast objectives given to each responsible manager as a scorecard to be fulfilled, whereas IC reporting and conduct requires a more self-responsible intelligent interpretation in the following dimensions:

- market-environmental and competition influential factors,
- the classic, self-conducted trialogue w.r.t. vision – mission – strategy of a company,
- the potential in human, relational and structural capital which a company has at hand,
- the key processes and their optimization – a business which is so common today, that large parts of processes are delegated into software running the company in its clerical dimensions, however, the strategic steering still remains with the managers,
- finally, the presentation of financial results, but, as an equivalent, the non-financial outcome and impact which also define the future-proofing of a company as are the (material) factors, i.e. its financial health.

Main benefits of the method for company management

For large companies of > 1.000 employees, studies say that the time investment required to produce an IC report is less than 0,001% of the total work time. Although there is no empiric or scientific proof to allow extrapolation to smaller scales, reducing the number of employees down to 10, i.e. by a factor of 100, should keep the reporting effort lower than 1%, which conforms to practical experience. The gain on the other side of the balance sheet is argued to be 5% in cost reduction, which is made by factors such as

- easier communication because of better understanding of responsibilities and decision processes,

- less time spent searching and finding, mainly because employees know better who knows what or who has best access to information needed,
- avoiding redundancies mainly w.r.t. meetings, also better preparation, better allocations of responsibilities and better control of follow-ups,
- reducing “underground communication” and gossip, because everybody has a clear picture of the company´s strategy, policies and rationale of decisions.

Of course, the disclosure of previously hidden “secrets” in an organization in the course of an IC Reporting project may raise tensions and even cause “explosions” between certain people. This happens, in our experience, only rarely but their existence should not be denied. The experience which the consultants and moderators in IC Reporting projects had is that in such cases the ICR-project serves as a catalyst for necessary changes. These changes would otherwise be initiated by other triggers maybe too late to prevent or with destructive effects. The rational methodological approach given by IC Reporting can avoid or at least smooth these issues.

To introduce IC Reporting a company needs some extra motivation (just as if one started a diet or exercise regime etc.). Compared to other methods for improving competitiveness it requires a deep understanding of concept of values beyond material values. Due to this abstract condition, this method is more “luxurious” than “hand-crafted” methods such as Balanced Scorecard. The subtitle of this article may give an answer to the tool´s future: After 15 years of experience with IC Reporting / Wissensbilanz it may take some time until such methodology finds the broader acceptance which it deserves.

Author: Günter Koch, execupery, Vienna, and Humboldt Cosmos Multiversity, Tenerife

Günter Koch has been, amongst many other affiliations and engagements, one of the major “drivers” of introducing advanced IC Reporting in Europe. In 1999 he managed that first time an IC report was applied to a larger knowledge organization, with remarkable spin-off effects, namely that his “Wissensbilanz” approach was taken up by the Austrian Government introducing IC reporting as an obligation by law to all Austrian universities. The German “Wissensbilanz - Made in Germany” was based on the Austrian model and was broadly introduced in German SMEs over the last 10 years .