ASSESSMENT OF INTELLECTUAL CAPITAL

A SCORECARD – APPROACH

“The soft issues are the hard issues”
“One of the greatest tests of leadership maturity, I have come to believe, is the ability to deal with the INTANGIBLES.”

Tom Peters
MARKET VALUE

- Tangible Net Book Value
- Intangible Assets

- Financial Capital
- Intellectual Capital
Drivers of Value Creation have shifted from Tangible to Intangible Assets

Percentage of market value related to

<table>
<thead>
<tr>
<th>Intangible Assets</th>
<th>38%</th>
<th>62%</th>
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<tbody>
<tr>
<td>Tangible Assets</td>
<td>62%</td>
<td>38%</td>
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INDUSTRIAL ECONOMY RESOURCES

- Raw material
- Real estate
- Cheap labor

INNOVATION e-COMOMY RESOURCES

- Information
- Knowledge
- Skills and Ideas

CAPITAL INVESTORS

COMPETENCE INVESTORS
INTANGIBLE ASSETS

Leadership
Knowledge
Skills
Values
Speed
Reputation
Relationship to customers
Innovation
Talent
Culture
Decision making process
INTELLECTUAL CAPITAL

The non-financial and non-physical drivers of success

HUMAN CAPITAL
STRUCTURAL CAPITAL
RELATIONSHIP CAPITAL
INNOVATION CAPITAL
ENVIRONMENTAL CAPITAL

Knowledge that can be converted into profit
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<tbody>
<tr>
<td><strong>STRUCTURE OF SCORECARDS</strong></td>
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<tr>
<td><strong>HUMAN CAPITAL</strong></td>
<td>- Competence</td>
<td>- Attitude</td>
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<tr>
<td><strong>RELATIONSHIP CAPITAL</strong></td>
<td>- Customers</td>
<td>- Business Partners / Institutions</td>
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<tr>
<td><strong>STRUCTURAL CAPITAL</strong></td>
<td>- Organization / Leadership</td>
<td>- Information Technology</td>
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<tr>
<td><strong>INNOVATION CAPITAL</strong></td>
<td>- Strategy / Culture</td>
<td>- Processes</td>
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<td></td>
<td>- Processes</td>
<td>- Structures</td>
</tr>
<tr>
<td></td>
<td>- Quality / Achievements</td>
<td>- Resources</td>
</tr>
<tr>
<td><strong>ENVIRONMENTAL CAPITAL</strong></td>
<td>- Objectives</td>
<td>- Processes / Resources</td>
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The experience and expertise of people who produce knowledge and solutions for customers.
HUMAN CAPITAL
- SCORECARD -

Please indicate: actual = x
Desired = o

A. COMPETENCE

1. We have an adequate number of experts with up-to-date knowledge to deal with today's and tomorrow's tasks and opportunities.

2. Our experts transform their knowledge into innovative products, lower costs and increased productivity.

3. We have an adequate number of high potential people ready for leadership succession.

4. In the ongoing "war for talent" our company is better positioned to attract highly qualified people than our opposition.

5. Our management has found ways to keep the key-people by offering career opportunities for growth.

6. We regularly remove individuals with low or sub-par performance.

7. We spend more money to train and develop our employees than the industry in average.
Of all the decisions management makes, none is as important as the decisions about people, because they determine the performance capacity of the organization...

Peter Drucker
“Only talent will allow you to be unique, to escape business as usual.”

“In this world we need business as unusual, we need innovative business.”

Jonas Ridderstræle, Kjell Nordstroem
(Funky Business)
"The ability and resources to do something new or different to create quantifiable business value in the future."
“IDEAS are capital, the rest is only money!"
“The supportive organizational infrastructure that enables and facilitates connectivity, efficiency and knowledge accumulation.”
“At its core, a company is its talent, its expertise and its relationships.”

Richard Branson
THE SCORECARD APPROACH

RELATIONSHIP CAPITAL SCORECARD

“The strength of partner relationships and ability to customize solutions, driving business performance.”
“The real reason technology companies are examining their green practices is because of genuine market opportunities.”

PWC-survey on “Sustainable growth strategies”
THE SCORECARD APPROACH

ENVIRONMENTAL CAPITAL
SCORECARDS

“The ability and willingness to manage and reduce the environmental impact, promoting sustainability.”
INTELLECTUAL CAPITAL RADAR

INNOVATION CAPITAL

RELATIONSHIP CAPITAL

HUMAN CAPITAL

STRUCTURAL CAPITAL

Strategy / Culture

Customers

Business-Partners/ Institutions

IT

Organization

Quality / Achievements

Processes

Resources

Structure

Competence

Attitude
<table>
<thead>
<tr>
<th>Respondents</th>
<th>Scores</th>
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<tr>
<td></td>
<td>Actual</td>
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<tr>
<td>CEO</td>
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<td>EXCO</td>
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<td>Middle Management</td>
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<td>Customers</td>
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<td>Business partners</td>
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CONDUCTING AN INTELLECTUAL CAPITAL AUDIT

While the particulars of such an audit will differ from company to company, one should follow these basic steps:

**Step 1:**
Identification of areas critical to meeting company goals and delivering on strategy
- discussion / agreement with top management
- selecting / developing the right questions

**Step 2:**
Evaluation of the organization's performance by interviews / surveys
- establishing a base-line difference: actual / desired
- defining the scope: 90-360-720-degree assessment
CONDUCTING AN INTELLECTUAL CAPITAL AUDIT

Step 3:
Analysis / discussion of the findings at EXCO-level
• gaps actual / desired
• gaps internal / external views
• priorities for value creation

Step 4:
Recommendations / dashboard design / action plan
• measures / critical indicators
• targets
• time frame
• responsibilities
• communication
• benchmarking
## BENEFITS OF THE SCORECARD APPROACH

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<tbody>
<tr>
<td>1.</td>
<td>Better understanding and transparency of non-financial assets and organizational capabilities</td>
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<td>2.</td>
<td>Identification of gaps regarding the various elements of intellectual capital.</td>
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<tr>
<td>3.</td>
<td>To help executives to assess company weaknesses and strengths</td>
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<td>4.</td>
<td>To show where improvements are necessary for better performance and strategy alignment</td>
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</tbody>
</table>
5. To help to translate the business strategy into results and to make intelligent investment decisions

6. To support midlevel managers in executing strategy

7. And – it helps customers, investors and employees alike to recognize the organizations intangible values.
IC Drives Financial Performance

Australian study on 150 public listed co’s in Singapore

Utilizing Pulic’s model (VAIC™) to empirically measure IC against ROE, EPS and annual share returns

From 2000 to 2002, published 2007

Key finding

Direct correlation between IC and company performance
IC Drives Financial Performance

University of Sri Lanka study – impact of IC on capital gains of listed shares.

Utilizing data from companies listed on the Thai Stock market using the VAIC™ method.

“The empirical research found that firms’ IC has a significant positive relationship with investors’ capital gains on shares.”
IC Drives Financial Performance

Key finding

Researchers from Taiwan and Arizona State University utilized data from Taiwanese listed companies to empirically investigate the relationship between the value creation efficiency (VAIC™ method), financial performance and valuation.

Published 2005

“The results support the hypothesis that firm’s IC has a positive impact on market value and financial performance.”
IC Drives Financial Performance

Study on 300 UK companies divided into 3 groups: high tech, traditional and services.

Utilizing the VAIC™ method, correlation and linear multiple regression analysis
Published in 2010

Key finding:
Company’s IC has a positive impact on economic and financial performance. (however, the association between IC and stock market performance is only significant for high tech and service industries)
“YOU ARE IN WAR -
AND YOUR ONLY WEAPON IS YOUR BRAIN!”

Nick Binedell