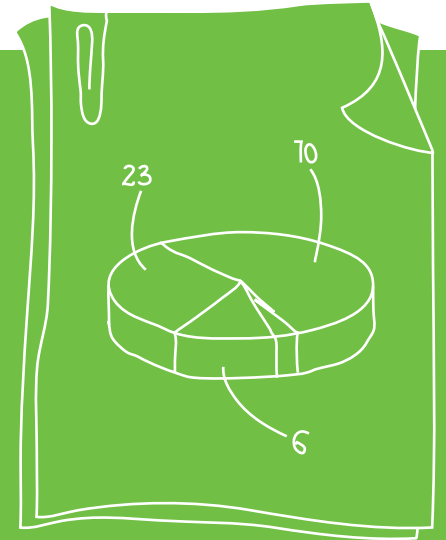
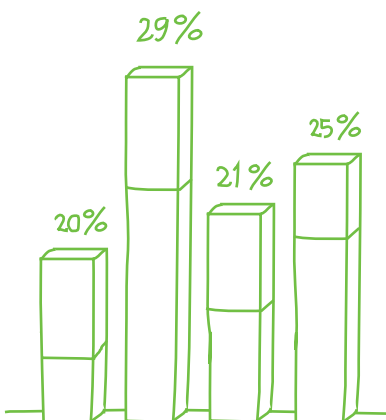


Intellectual Capital Reporting Implementation



ERP strongly believes that intellectual capital accounting would bring these benefits to your organisation:

- Possibility to manage intangible assets;
- Exhaustive information for management;
- Possibility to monitor execution of management strategies;
- Comprehensive information for investors, partners and clients.



Intellectual Capital Reporting Implementation

Accounting, reporting and management of an organisation's intellectual capital is a new business trend, brought about by changes in business environment.

As a result of rapid market globalisation, the accumulation, sharing and application of knowledge is becoming the main critical success factor for all businesses and institutions. The importance of material resources, such as real estate, equipment, and raw materials is diminishing, whilst the significance of knowledge, human resources, relationships with clients and partners is rising.

All this influences changes in business management and accounting. Traditional accounting, which is based on financial or quantitative accounting, is geared only towards accounting of material resources, which can be expressed in monetary or quantitative measures. But intangible resources, such as knowledge or employees' competence, can not be expressed in monetary or any volume, length or weight measures. Today's business needs new means that will help account for and manage intangible assets - intellectual capital.

First interest in intellectual capital accounting was shown by Scandinavians. One of the biggest Swedish financial companies, Skandia, published the first public intellectual capital report. Interest in intellectual capital accounting has since been steadily growing- more companies are making their intellectual capital reports, new intellectual capital accounting models and methods are being introduced and developed. Not only businesses, but also ministries and other government bodies have recognised the importance of intellectual capital and have

started to develop their own reporting systems.

Intellectual capital accounting and reporting can be of two kinds:

- Internal information for company's management;
- External information for stakeholders - investors, partners, clients.

In the first case, intellectual capital information is used to make management decisions. Intellectual capital reports include information on human resources available at the company, development of human resources, client dynamics, work organisation, resource utilisation etc. Comparison of intellectual capital reports of different periods can show how successful is the process of strategy execution, which aspects need more attention, and so on.

In the second case, intellectual capital information is presented to external stakeholders, usually with the intellectual capital report published as a part of corporate report, together with financial report. Inclusion of intellectual capital report into the corporate report draws a more comprehensive picture of the company. This joint accountability for investors, clients and partners presents not only the financial indices of the company, but also the potential of the company, which resides in its employees, relationships with clients and partners, how successfully work is organised inside the company. This additional information makes the company more attractive for investors, future partners, clients and employees.

Intellectual capital reports in most cases con-

Intellectual Capital Reporting Implementation

sist of three main parts (this number can vary depending on the chosen intellectual capital accounting model):

- **Human capital** - employees, their experience, qualification, education, development etc;
- **Relational capital** - clients, partners, their dynamics, co-operation etc;
- **Structural capital** - infrastructure, processes, innovativeness etc.

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- Possibility to manage intangible assets;
- Exhaustive information for management;
- Possibility to monitor execution of management strategies;
- Comprehensive information for investors, partners and clients.

Intellectual capital reporting implementation process:

- **Primary analysis;**
- **Selection of indices;**
- **Information collection;**

- **Information analysis;**
- **Preparation of report;**
- **Preparation of means for continues accounting of intellectual capital;**
- **Consultancy and solutions.**

Process consists of following steps:

Primary analysis - information on organisations business specifics, needs, discussion on future activities and tasks;

Selection of model and indices - based on primary analysis, intellectual capital valuation model and indices are selected, accordingly to information availability and information collection possibilities;

Preparation of information collection tools - tools to collect information are created and submitted to the client (questionnaire, lists etc.), information is collected;

Information analysis - summary of client information, analysis, calculation of indices, identification of problem areas;

Preparation of intellectual capital report - intellectual capital report is created, based on information collected;

Preparation of means for continues accounting of intellectual capital - preparation of guidelines to ensure the continuity of intellectual capital accounting;

Consultancy and solutions - relevant consultan-

cy and solutions are offered according to identified problem areas.

Typically it takes 10 to 15 working days to prepare intellectual capital report for an organization of up to 50 employees. The duration of process may vary upon the specifics of business, organizational structure, information availability and other factors.

