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The essence and stages of monitoring of development of company's intellectual capital

Annotation

Efficient management of a company's intellectual capital is ensured based on adequate assessment and continuous monitoring of its development dynamic, and on the identification of growth trends of specific types of intangible assets. It is implemented in the course of the company's financial and economic activity. In scientific literature, monitoring is defined as "constant observation of any process with the aim of establishing its compliance with desired results or estimations."

The monitoring of a company's intellectual capital must have the following features: interrelation of objects, subjects and methods of measurement, unified goal and multifaceted criteria base. The systemic approach is the methodological foundation for conducting monitoring. It means the implementation of five stages, including: defining strategic and tactical goals, tasks, functions, terms of conducting, monitoring methods and forming a system of indicators; conducting the monitoring of a company's intellectual capital; analysing the results; preparing analytical reports; drafting recommendations to increase the value of intellectual capital and preparing management accounting.

An important condition for the credibility of monitoring results is the high level of qualifications for analysts who conduct the monitoring and the presence of clearly defined strategic and tactical goals.

Having an efficient system to monitor the dynamic of a company's intellectual capital development is an important condition for the increase of value of intangible assets.

Keywords

intellectual capital, monitoring company's intellectual capital, assessing intellectual capital, monitoring stages

1 The essence and the stages of conducting the monitoring of the development of a company's intellectual capital

Efficient management of a company's intellectual capital is ensured based on reliable assessment and continuous monitoring of its development dynamic and on the identification of growth trends of specific types of intangible assets. It is implemented in the course of the company's financial and economic activity. Conducting systemic monitoring of these valuable assets ensures not just quality management accounting, but also important information for management decisions.

In scientific literature, monitoring is defined as "constant observation of any process with the aim of establishing its compliance with desired results or estimations" [3]. The notion of monitoring is also interpreted as systemic aggregation and processing of information which can be used to improve the decision-making process, as well as to inform the public and as a feedback tool for project implementation, programme assessment or policy

development [2]. Monitoring is a complex method of cognitive and objective practical activity, aimed at constant observation of the objects of the social environment following pre-set parameters in order to analyse the condition of the environment and to control it. Monitoring allows efficient forecasting and making optimal management decisions.

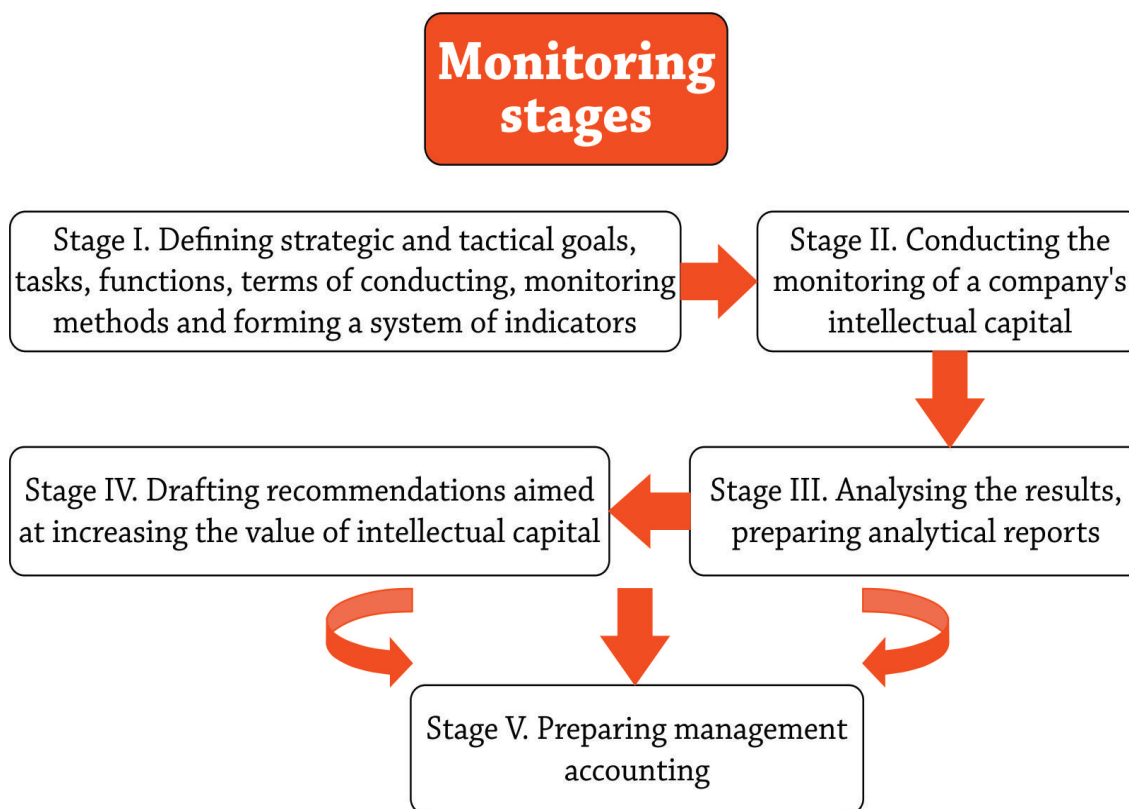
Nowadays, assessing intellectual capital is a very topical issue. For the first time monitoring became particularly important with the emergence of small companies with limited material assets but with high development potential due to a high level of intellectual capital. Monitoring of intellectual resources means a system of observation, assessment and forecasting of all organisational changes created by the use of intellectual resources.

The monitoring of a company's intellectual capital is a type of social labour monitoring. Conducting it is appropriate due to the fact that in contemporary conditions, intellectual capital is a most valuable company asset which allows one to define the key factors that impact the efficiency of

company activity and to perform a more credible assessment of its value. Company management need current information about the dynamics of intangible assets in order to make management decisions. Monitoring ensures the systematic gathering of this information. Monitoring also allows taking into account the key factors of

internal and external environment which impact the dynamics of company intellectual capital.

The monitoring of a company's intellectual capital must have the following features: interrelation of objects, subjects and methods of measurement, unified goal and multifaceted criteria base. The systemic approach is the



methodological foundation for conducting monitoring. It means the implementation of five stages, including: defining strategic and tactical goals, tasks, object, subjects, functions and principles of monitoring. The monitoring of a company's intellectual capital development dynamic means the implementation of the stages listed below.

First stage means setting strategic and tactical goals, tasks, functions, terms of conducting, monitoring methods and forming a system of indicators.

The strategic goals for conducting monitoring are: providing the information necessary for efficient management of a company's intellectual capital and increasing its value in the long term.

Tactical tasks include gathering information about differed types of intangible assets of the company, the systematisation of this information and forecasting the dynamics of intellectual capital.

In order to reach the goals the following tasks must be performed:

- Assess all the types of a company's intangible

assets;

- Systematically follow the dynamics of key indicators which characterise intangible assets;
- Create an information base;
- Conduct an analysis of trends in intellectual capital management on a micro-level;
- Perform a forecast of intellectual capital dynamics;
- Define problem points in intellectual capital management in the company and draft recommendations;
- Prepare a report for management decision-making.

Monitoring methods consist of a variety of means and tools to obtain, to process and to analyse data from researched companies. These methods include observation, document analysis, surveying, interviews, experiments, methods and models of assessing a company's intellectual capital.

Observation method includes registering facts, phenomena, and processes which occur in the domain of intellectual capital management. The

advantages of this method are:

- Overall assessment of intellectual capital on micro-level;
- Gathering facts which take place in real life, capturing real situations and details;
- Objectivity.

The analysis of documents during the monitoring of a company's intellectual capital means research based on the information found in financial and management accounting documents. Special forms can also be used, with indicators characterising specific types of intangible assets.

It is prudent to conduct surveys when perfecting the list of indicators for monitoring a company's intellectual capital. When conducting a survey one must involve specialists from the company who are involved in the direct management of intangible assets. Interviews can also be used in order to get additional information from the experts.

The experiment must be used when designing monitoring forms during the trial run of gathering information about the dynamic of intangible assets of the company. Using the experiment method shall contribute to the minimisation of monitoring expenses for data gathering and processing.

The methods of intellectual capital assessment are considered to be: methods of direct intellectual capital assessment, market capitalisation, return on assets, point system assessment, precise measurement systems, as well as models of a company's intellectual capital assessment (Hubert Saint-Onge model, Skandia Navigator model, Celemi intangible asset model, Value Chain Blueprint model, Intangible Assets Monitor, VAIC model).

Basic criteria for selecting indicators are significance, information yield, lack of similar characteristics, blocking principle of organising (selecting discrete components).

The indicator system for conducting monitoring includes groups of indicators which characterise human, structural and market capital in a complex manner.

In the framework of measuring human capital, the following components have to be assessed:

- Company innovativeness;
- Employees' attitude towards the company and dedication to work;
- Personnel flow, experience, training;
- Knowledge bank;
- Other measurable indicators of human capital.

When conducting proper analysis, each component of human capital must be quantified with appropriate methodology.

The level of a company's innovativeness is determined by calculating the share of innovative product sales in the total sales volume of the company.

Employees' attitude towards the company and dedication to work can be reasonably assessed by

using a quantitative scale. In order to do that, a selective survey of company employees regarding job satisfaction at different departments is conducted. After that, average results are calculated for specific departments and for the company as a whole.

Additional tools for the assessment of a company's intellectual capital are measurements by indicators defining the experience, knowledge and skills of the company's employees:

- Average assessment of the employees' experience in the job and in the corresponding area of activity (in years);
- Employee "turnover rate" for management positions;
- Average time the employees have been working at the company;
- The share of new employees in the overall personnel (i.e. the share of employees who have been working for less than 1 year).

An important asset of a company's human resources is not just creating opportunities for the employees to amass knowledge, but also for providing the conditions to keep information material which is easily transferred to new colleagues or disseminated among international colleagues. In this context, it is important to implement the concept of a "knowledge bank" – this is the tool that enables easy introduction of new employees to the way things are done. It is an important source of information for experienced employees as well.

In the framework of monitoring the structural capital, it is appropriate to take into account quantifiable indicators which characterise its different aspects:

- It is necessary to conduct the monitoring of the operating working capital index: maximally negative value of this indicator is a measure of success.
- It is necessary to make sure that the company is making rational investments in areas unrelated to production – in order to do that, one must calculate how marketing, distributive and administrative costs relate to the overall sales volume (the so-called SG & A ratio – sales, general and administrative costs ratio).
- Assessment of the efficiency of information systems' functioning;
- Taking into account the amount of incoming information;
- Analysing the level of added value of the original information;
- Researching how the data from information databases can be a foundation for management decision-making.

Therefore, not only the functionality of information systems is examined. The degree of their influence on the functioning of specific

components of the structural capital (process and innovation capital in particular) is also defined.

When analysing market capital, the following criteria are important:

- Consumer satisfaction with product quality. This criterion is determined based on consumer survey and taking into account the level of repeated product purchases;
- Correspondence of the information at consumers' disposal to actual facts. This criterion determines the quality of communication between the company and its consumers;
- Strength of company brands: it can be measured by assessing how much the existing brands help to successfully launch new products under the same brand.

Monitoring frequency rate is significantly impacted by the deadlines of financial accounting, which means that monitoring should be conducted quarterly (based on key indicators), expanded analytical assessment – twice a year. In exceptional cases monitoring may be conducted and management accounting can be prepared upon request from the management, off-schedule.

Second stage of monitoring a company's intellectual capital is carried out by the analytics department with direct participation of the human resources management department. It is also possible to create a working group with additional specialists in case there is off-schedule monitoring or if the monitoring objectives have been changed.

The HR department ensures the gathering of initial information, conducts surveys for the personnel and for experts on intangible asset management.

The analytics department is responsible for processing quantitative and qualitative indicators presented in financial, statistical and management accounting using all the modern methods of conducting economic research on micro-level.

Third stage means analysing the results and preparing analytical reports.

In the course of a company's operations, a large amount of information is accumulated, including information on intellectual resources. Given that, despite the enormous importance of having full information in order to conduct monitoring, only a small part of this information comes with clear norms and forms of presentation. Important factors influencing the credibility of monitoring results are: the complexity of the structure of a company's intellectual resources and intangible assets; the level of analysts' qualifications; whether models and methods used are adequate.

The analysis is performed taking into account all the contemporary economic methods. Indicators characterising human, structural and market capital are calculated based on the data from

financial, statistical and management accounting and the results of personnel surveys.

It is also appropriate to compare the average indicators of intangible assets management efficiency across the sector.

Fourth stage means drafting recommendations aimed at increasing the value of intellectual capital.

Depending on the monitoring results obtained, the analytics department, having processed the data with modern information systems, drafts recommendations which are aimed at increasing the value of intellectual capital on key aspects demanding management decisions.

After the corrective measures take place, in order to determine their efficiency the process of monitoring the development dynamic of a company's intellectual capital is repeated again, with a deeper assessment of the more problematic aspects.

On the fifth stage of monitoring a company's intellectual capital, management accounting is prepared.

In order to formalise the results of monitoring a company's intellectual capital, one of the following three types of reports is prepared:

- A report made of graphs and tables arranged in a logical order which reflects the factual material obtained during calculations as much as possible. This kind of report allows the manager to come to their own conclusions, however, it demands that the manager know the topic very well and be very attentive to details. The report can also be used in meetings and presentations.
- A descriptive report. Its quality almost entirely depends on the analyst's qualifications. The analyst's professionalism and standpoint determine the accents in the assessment. A large volume of secondary textual information usually presented in reports of this type can negatively impact the assessment of monitoring results. Descriptive reports can be appropriate to use when preparing information for management decision-making, for managers who are not very well familiar with the topic.
- A brief report with an outline of main facts and issues. This kind of report contains the key indicators, can be prepared using a default template, and is used for keeping the management up-to-date on the current state of intangible assets.

Therefore, choosing the type of report which is going to be prepared as a result of monitoring the development dynamic of a company's intellectual capital depends on the specific management decisions that the report is being prepared for. An important condition for the credibility of monitoring results is a high level of qualifications

of the analysts who conduct the monitoring and having clearly set strategic and tactical goals.

The presence of an efficient system of

monitoring the development dynamic of a company's intellectual capital is an important condition to increase the value of intangible assets.

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