

**E\*KNOW-NET Newsletter**  
**No. 1, November 2002**

The E\*KNOW-NET Newsletter is a free quarterly publication targeted to those interested in the field of knowledge and intangibles management and reporting, either from an academic or a professional perspective.

E\*KNOW-NET ("A European Research Arena on Intangibles") is a research network funded by the EU Commission under the STRATA program. It is being developed by researchers from nine European countries with the support of a wide range of institutions including private sector corporations, industrial associations, accounting standard-setting bodies, consulting firms and international organizations.

<http://www.eu-know.net>

Please visit our website for more information on E\*KNOW-NET. Among other things, the site provides detailed information on a wide range of research centers working on intangibles worldwide, and a knowledge library where you can download research papers and other documents.

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Use this email address to contact the Newsletter Editorial Coordinator for further information or to report on related events or publications.

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## EDITORIAL

### **The Transparent Enterprise. The Value of Intangibles** *A milestone of the E\*KNOW-NET Thematic Network*

The countries of the European Union are increasingly worried about their innovation capacity and about their potential to translate innovation into increased competitiveness and growth. Many of the discussions and decisions taken by European institutions during the current year 2002 have addressed these worries.

I will refer to just two examples. The first one took place during the Spanish EU presidency on the occasion of the Barcelona European Council in June where an important objective was established: Research and Technological development investment should reach 3% of GDP by 2010. This means, on average, to double the current R&D effort.

The second example is taking place at the moment, and was raised by the Danish Government during their EU presidential term. The Danish are encouraging discussions across Europe about the importance of fundamental and basic re-research. The underlying hypothesis is that the repeatedly mentioned "European paradox" does not exist, that Europe is also weak in basic research, vis-à-vis the USA.

It is quite likely that new institutions and new policies will be set in the coming years to address the above two issues. In other words, steps will be taken to increase the production, use and diffusion of knowledge in Europe, and this will affect both the private (companies, above all) and public sector (research institutions, mainly).

Moreover, those objectives will have to be accomplished during the downward trend of the present economic cycle, and within the context of a stable public budget target. This means that the efficiency and efficacy of the effort to

increase R&D has to be substantiated and produced under conditions of clear accountability.

The road to success on these objectives will be paved with more "knowledge on knowledge production, use and diffusion". The stones in this road call for harmonised procedures to identify, measure and manage intangibles, a field that is known to many scholars and practitioners as **intellectual capital analysis**.

This is what E\*KNOW-NET is all about. It is also what the Conference "The Transparent Enterprise. The Value of Intangibles" (Madrid, 25-26 November 2002) is addressing. We are looking for a common set of principles to identify, measure, manage and report on intangibles as a mean to increase innovation and, as a result, competitiveness and growth.

Fortunately, we are building on a large range of experiences among which the following ones are worth mentioning. First, the know-how developed by several European firms, in particular Swedish and Danish ones, that have been managing and reporting on Intellectual Capital for as much as two decades in some cases. Secondly, the results obtained by previous research projects such as MERITUM, which Guidelines for Managing and Reporting on Intangibles are a conceptual and operational tool undergoing field testing in various countries now. Thirdly, the different initiatives with similar objectives, initiated by companies, research institutions, and professional bodies across the world.

However, there is still a long way to go if the challenges of the above mentioned policy objectives are to be met. In this respect, our immediate goals are: 1) to *network*, that is to enhance and consolidate relationships between the different players, users and producers of knowledge on intellectual capital; 2) to *disseminate* the results of previous and ongoing research projects, making them available to a larger number of actors. And 3) to *forecast* research and training

needs on this issue in order to contribute to the development of a single European Research Area.

The Conference is designed to be a meeting place where users and producers of information and knowledge on intangibles and intellectual capital may talk and listen to each other. Private companies, policy makers, employers' associations, accounting standard setting bodies, financial analysts, and researchers world-wide will be explaining their results, interests and available capacities for such a knowledge endeavour.

The 6<sup>th</sup> Framework Programme of the European Union is already approved. The dream of this new R&D Programme is to strengthen European competitiveness while simultaneously solving major societal problems. We hope that the outcome of this Conference will help make this dream come true.

**By M. Paloma Sánchez. Professor of Applied Economics at the Autonomous University of Madrid. Conference Chairperson.**



<https://www.uam.es/meritum/conference>

## BEST-PRACTICES

### TELENOR *Capitalizing on Knowledge*

Telenor is a Norwegian telecommunications group with extensive and fast growing business operations in a number of countries in Europe and Southeast Asia. The company is the leading distributor of voice, information, knowledge and entertainment in the Norwegian residential and business markets. It is also Norway's largest supplier of fixed and mobile communication networks, both analogue and digital.

Telenor became an Oslo Stock Exchange-listed company in December 2000. At the beginning of 2002, it had in excess of 22,000 employees organized in four divisions – Mobile, Networks, Business Solutions, and Plus (distribution of communication and content services to the private market).

Revenues in 2001 were NOK 46 billion (1.2 billion EURO) while the 3d quarter results for 2002 showed a loss before taxes and minority interests of NOK 105 million (14.3 million EURO).

Telenor has an extensive international company portfolio. The largest operations are in mobile communication, via companies in 12 countries in Europe and Southeast Asia. The firm is the world's largest supplier of mobile satellite communication, and the leading satellite broadcaster in the Nordic region. It is also the world's third largest supplier of satellite services via the *Inmarsat* system and one of the leading TV distributors in the Nordic region.

While other telecom businesses segmented and focused on one single area, such as mobile or Internet, Telenor has held on to an integrated business structure. It was incorporated in 1994 and started the process of mobilizing and using its knowledge, in order to take a position outside Scandinavia. By 2001, Telenor had increased its minority interests to 80

companies in 25 countries, with 50 of these being located outside Scandinavia. These output measures indicate that the organization has connected knowledge and relations and that the connections have impacted value.

In order to create value from the knowledge distributed within the Telenor organization, an integrated business management model was developed. Its development took about 3 years and it integrates intangible (intellectual) capital forms and financial capital into a single holistic model.



This integrated business model goes beyond measurement and reporting, and strongly focuses on deploying and developing the strategic agenda throughout the organization. Based on a straightforward strategic planning cycle of strategizing, implementing and following up, it makes the organization aware of the diversity in value creation bases. It is not only money that counts, but also actions and information around customers, innovation, work processes and competence development.

The integrated business model of Telenor is not "more of the same", i.e., more measures. It also represents a deliberate move towards creating value from the accumulated experiences and insights of the organization. Unifying these into the ultimate financial results also requires substantial changes in managing the organization and improving existing management routines. For example, the

critical resource functions of HRM, Strategy and Finance found each other in developing this model. Also, employees working in (continuously changing) project teams and using the physical work place as vehicle for developing innovative and new revenue streams are equally part of this model.

Ever since its inception, Telenor's integrated business model has paid specific attention to value drivers; key leading indicators that are future-oriented and address the bases on which customer value is provided. Value drivers are reported in a Balanced Scorecard framework but linked to performance agreements, regular Business Reviews, and understandable communication of what matters most for Telenor.

The development of the integrated business model is continuous, and so are the businesses in which Telenor is involved. Making money from intellectual capital is not easy, but visualizing the value creation process into a business management model is an important step to improve value creation.

Mr. Gunnar Janssen, manager Corporate Development and one of the initiators of the model, will present Telenor's integrated business management model during the conference "The Transparent Enterprise. The Value of Intangibles" in Case Studies Session 2 on Monday, November 25, from 14:30-16:00. Jan Taug and Hanno Roberts will present the theoretical aspects during session 8 on Tuesday, November 26, from 14:30-16:00.

(Visit <https://www.telenor.com> for more information)

**By Hanno Roberts. Professor of Accounting at the Norwegian School of Management. Partner of E\*KNOW-NET.**

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## PROFILES

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### **Professor Ulf Johanson** *From HRCA to IC Analysis*

Ulf Johanson is a professor both at Sweden's oldest university, Uppsala University, and at one of the newest ones, Mälardalen University. He is also managing director of the Institute of Personnel and Corporate Development (IPF), owned by Uppsala University, and member of several company boards. IPF performs research, development and consulting tasks within the social sciences. The institute is an E\*KNOW-NET partner as well as a CRANET partner (The Cranfield Network on European Human Resource Management).

Johanson's research interest has been devoted to human resource costing and accounting (HRCA), intellectual capital (IC) and the measurement and management of intangible resources within the private and the public sector. His most recent Swedish research projects address the possibility of considering employee health in the management control process.

In different books Ulf Johanson suggests HRCA-models to be used as a decision making tool in organizations (1). However, in other articles he also addresses why HRCA is still not an established and accepted model for

increasing transparency regarding the contribution of human capital to value creation (2). Indeed, despite a promising outlook since decades ago, HRCA has not been fully integrated in the internal management control process. Some other of his articles deal with the implementation process of HRCA (3).

The need for increasing the understanding of the importance of not only human capital but also other intangibles became a subject of interest for Ulf in the mid 1990's as a result of his participation in different international conferences (arranged by e.g., OECD and EU) (4). As a part of the MERITUM work Ulf wrote a number of articles investigating, from different theoretical perspectives, how firms classify, measure, report and manage intangibles (5). Most recently, Ulf has written and is working on articles addressing the barriers for considering intangibles in capital markets (6) and the importance of considering cultural differences when trying to develop guidelines for IC reporting.

According to Johanson, the costs for sick leave and early retirements have raised to unacceptable proportions in Sweden during the last years. This is why he believes there is an obvious need to investigate further if and how health issues can be integrated into management control processes. One of Ulf's articles from the mid 1990's reports on the profitability of health investments in more than one hundred Swedish organizations (7). Presently, he is responsible for a number of ongoing qualitative and quantitative research projects related to health as one of many intangibles that are of significant importance in organizations' value creation.

Ulf Johanson is co-author of two papers that will be presented in the conference "The Transparent Enterprise. The Value of Intangibles". He will also present the approach followed by E\*KNOW-NET and MERITUM. Johanson was one of the initiators of the European research project MERITUM and is presently coordinating one of E\*KNOW-NET's activities. He has been involved in many

of the major global initiatives regarding HRCA as well as measuring and reporting on intangibles that have been taken from the mid 1990's by, among others, the OECD, the European Commission and the Brookings Institution.

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- (7) Johanson, U. (1997) The profitability of investments in work life oriented rehabilitation: A measurement of perceptions. *Personnel Review*, volume 26, issue 5, pp 395-415.

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## NEWS & EVENTS

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### **EU Commission releases Communication "More research for Europe – Towards 3% of GDP" (11/9/2002)**

In this ground-breaking communication the Commission recognizes that investment in knowledge creation is a pre-condition for Europe to achieve the goal set by the European Council at Lisbon of becoming "the most competitive knowledge based economy in the world". The communication looks at the ways to increase public and private R&D investment, as well as its productivity.

### **New version of Danish "Guideline for Intellectual Capital Statements"**

An improved version is to be published by the end of 2002, after a second stage of development in which it has been tested within 100 Danish companies. The Guideline is a valuable resource for any company wishing to begin IC reporting or to improve its current IC reporting practices. It was first published by the Danish Agency for Trade and Industry in 2001. It can be downloaded for free from <http://www.efs.dk/icaccounts>

### **First meeting of the High Level Task Force on Valuation and Capitalization of Intellectual Assets. United Nations Economic Commission for Europe. 18-19 November, 2002. Geneva, Switzerland.**

This Task Force will assess existing practices and methodologies for valuing intellectual capital, as well as regulations and policies that have had important impact on capitalization of intellectual assets and on the effective utilization of intellectual capital (<https://www.unece.org/operact/enterp/taskf.htm>)

### **European Investment Bank releases progress report on results of i2i Initiative (30/5/2002)**

The Innovation 2000 Initiative (i2i) was created as the Bank's contribution to the "Lisbon Strategy", endorsed by the European Council Summit in Lisbon on March 2000. This progress report takes

stock of developments as of end 2001 and draws some preliminary conclusions. <http://www.eib.org/news/>

### **White book for Accounting Reform in Spain. Ministry of Economy, Spain.**

The newly released White Book for Accounting Reform in Spain, developed by a group of experts nominated by the Ministry of Economy in 2002, clearly recognises the need to improve accounting practices related to intangibles. The report states that "financial statements are increasingly unable to adequately reflect the firms' financial situation" and calls for mechanisms to promote the production and dissemination of Intellectual Capital Reports among Spanish firms. In this respect, it mentions the MERITUM Guidelines as an example. Moreover, the White Book supports a revision of current accounting regulations related to intangibles, arguing that "the restrictions for their inclusion in the balance statement should be reduced".

### **Norwegian Society of Financial Analysts Conference "Non-financial disclosure: financial transparency and intellectual capital". Oslo, Norway, November 28, 2002.**

In this conference, a set of guidelines for the disclosure of non-financial information will be presented. These guidelines have been sponsored by the Norwegian Society of Financial Analysts. They are based on a simplified version of the MERITUM guidelines and are adapted to the specific needs and jargon of the financial community. For further info: [guri.angell-hansen@finansanalytiker.no](mailto:guri.angell-hansen@finansanalytiker.no)

### **McMaster World Congress. January 15-17, 2003. Hamilton, Ontario, Canada.**

This conference will hold two parallel streams, one on the management of e-business and the other one on the management of intellectual capital and innovation. (<http://worldcongress.mcmaster.ca/welcome.htm>)

**The Transparent Enterprise. The Value of Intangibles. November 25-26, 2002. Madrid, Spain.**

The objective of this conference is to act as an exchange platform for different practices and research initiatives with regard to intangibles management and reporting. Organized by E\*KNOW-NET. Under the auspices of the EU Commission, the Spanish Ministry of Economy, the Spanish Ministry of Science and Technology and the OECD  
<http://www.uam.es/meritum/conference>  
<http://www.eu-know.net>

**Braintrust International 2003. Utilizing Knowledge Management Practices, Tools and Techniques to Improve Business Performance and Drive Profits. February 9-12, 2003. San Francisco, California, USA.**

The program of this conference will be heavy on case studies from corporate practitioners, rather than theory, and emphasize people over technology.  
([http://www.worldbank.com/ks/braintrust\\_2003.pdf](http://www.worldbank.com/ks/braintrust_2003.pdf))

**26<sup>th</sup> Annual Congress, European Accounting Association. April 2-4, 2002. Seville, Spain.**

This congress will surely bring together those researchers interested on the accounting perspective of intangibles.  
(<http://www.eaa-online.org/annual/EAA2003/>)

**7<sup>th</sup> International Conference on Technology Policy and Innovation. Connecting People, Ideas, and Resources across Communities. June 10-13, 2003. Monterrey, Mexico.**

The main objective of this series of international conferences is to present and discuss current and future issues of critical importance for using science and technology to foster regional economic development and shared prosperity.  
(<http://egade.sistema.itesm.mx/monterrey2003>)

**Knowledge Management Europe. November 13-15 2002. Alexandra Palace, London.**

KM Europe 2002 focuses on how to align KM to business strategy and produce measurable returns. (<http://www.ark-group.com/events/Conferences.asp>)

**Knowledge Management in the 21<sup>st</sup> Century: Moving Forward, Sustaining the Momentum. November 16, 2002 - Philadelphia, PA, USA.**

Organized by the American Society for Information Science and Technology. The conference attempts to determine where Knowledge Management stands in today's organization by bringing together experts in the field. ([http://www.asis.org/conferences/AM02/km\\_summit.html](http://www.asis.org/conferences/AM02/km_summit.html))

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## PUBLICATIONS

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**'Invisible Advantage: How Intangibles Are Driving Business Performance', Jonathan Low & Pam Cohen Kalafut, 2002, Perseus Publishing.**

Low and Cohen argue that intangible assets are revolutionizing the ways in which business is conducted and redefining the dimensions of corporate value. The authors provide multiple real life examples and identify the key twelve intangibles that drive business performance today.

**'The Strategic Management of Intellectual Capital and Organizational Knowledge', Chun Wei Choo and Nick Bontis (Editors), 2002, Oxford University Press.**

This book contains a selection of readings which embrace the challenge of creating and supplying knowledge in order to sustain organizational performance. Some of the thirty readings which comprise this book have been selected from existing publications while others have been specifically written for it.

**'Guidelines for managing and reporting on intangibles (Intellectual Capital Report)', MERITUM Project, 2002. Vodafone Foundation.**

This book contains a set of guidelines addressed to practitioners regarding how to manage and report on intangibles. It is the main outcome of the MERITUM Project, funded by the TSER Program of the EU Commission and developed by a group of researchers from six different European countries. A free version of the Guidelines may be downloaded from E\*KNOW-NET website (<http://www.eu-know.net>).

**'Corporate Longitude: Discover Your True Position in the Knowledge Economy', Leif Edvinsson, 2002, Bookhouse Publishing.**

Using a navigation analogy, this book attempts to guide corporations in the route across the seas of today's

knowledge based economy. It argues that modern corporations are used to act only in a financial dimension. But this gives companies just one of the co-ordinates required for future success: Taking stake of the other co-ordinate requires developing tools for measuring and managing intellectual capital.

**'Intangibles: Management, Measurement, and Reporting', Baruch Lev, 2001, Brookings Institute.**

This book presents an in-depth study of the economic and managerial implications of intangibles. It stresses that traditional accounting is not able to capture, measure or report on intangible assets – forcing not only investors, but also managers, to act in the dark. The need to improve corporate disclosure of information on intangibles is highlighted as one of the most critical issues today regarding intangibles.

**'Intangible Management: Tools for Solving the Accounting and Management Crisis', Ken Stanfield, 2002, Academic Press.**

In this book Ken Stanfield explains the value of intangibles and how to measure and report on them through new financial reports, which are referred to as Intangible Corporate Reports. By using case studies and a set of accounting tools, the author demonstrates how a new value framework can protect investors while aiding companies to generate long-term growth.

**'The Future of Knowledge: Increasing Prosperity through Value Networks' Verna Allee, 2002, Butterworth-Heinemann.**

Verna Allee argues in this book that corporate success today is all about relationships. It proposes a "Value Network" management model, based on the idea that knowledge and intangibles build the critical business relationships and create the environment for success.

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**'Unseen wealth' M. Blair and S. Wallman (Editors), 2001, Brookings Institution**

In the late 1990s the Brookings Institution in Washington organized a task force on understanding intangible sources of value. The report titled "Unseen wealth" was published in 2001. The task force proposes that while business bears the primary responsibility for developing better metrics for measuring business and economic performance, at least within individual firms, government actions can contribute in at least three areas to facilitate or reduce barriers to private sector efforts to overcome these problems. The three identified areas for government action are data building, corporate disclosure and adjustments in the intellectual property laws.

**"Accounting, Organisation and Society" 2001, vol 26/7-8. Editor Michael Power.**

This special issue provides valuable insights into the research undertaken the last years in the IC area.

**"Managing, measuring and reporting intellectual capital for the new millennium." Special issue of "Accounting, Auditing and Accountability Journal" 2001 vol. 14, no 4. Editors: Petty, R., Johanson, U. and Guthrie, J.**

The articles contained in this special issue address different topics related to the measurement, management and disclosure of intellectual capital.

**"Management of Knowledge and Intellectual Capital". Special Issue of "Singapore Management Review" 2002, vol. 24, no 3.**

This publication, together with the two previously mentioned special issues, provide a good outlook of the present state of the art with respect to research on IC.

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**IMAGINE**

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The initiators of MERITUM and E\*KNOW-NET are proposing an Integrated Project under the EU's 6<sup>th</sup> framework Programme called IMAGINE (Intangibles as MAIn drivers of Growth and competItiveNEss), focusing on the knowledge production function – how do firms, institutions and nations (large and small) actually produce knowledge value? When the new production factors are intangible, and largely escape established measurement and management routines, but generate significant revenues and societal returns – how can we specify and build our national economies around this new production function?

The accumulated European experiences thus far are leading in the world. With the IMAGINE Integrated Project, we aim to consolidate Europe as the leading producer and user of relevant knowledge on main drivers of growth and competitiveness, with special attention to the role of intangibles, innovation and knowledge for value creation.

Imagination is built on our dispersed European experiences. And we need to travel this road together – a knowledge-based European economy requires bringing together many different parties in a collaborative learning process. It means integrating our experiences, positions, and visions, and to capitalize on European diversity including the new European entrants.

We welcome your ideas, participation, and insights, and invite you to become our fellow traveler. Please let us know when you are interested in joining this Integrated Project – we have so much to share, let's start with sharing the future.

**IMAGINE**

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