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IMPLEMENTING THE KPMG VALUE EXPLORER®

CRITICAL SUCCESS FACTORS FOR APPLYING IC MEASUREMENT TOOLS

Category:

Research paper

Key words:

Intellectual capital valuation; implementation; methodology; lessons learned; cases

Abstract

Purpose

This paper describes the result of an empirical study into the critical success factors for implementing an intellectual capital valuation method, the KPMG Value Explorer®.

Methodology/Approach

For this study the design approach was used as research methodology.

Findings

The research shows the strengths and weaknesses of the method and identifies four general critical success factors for the implementation of intellectual capital valuation and measurement tools.

Research limitations/implications

The research was based on six case studies. Application of the method with other companies may provide further grounding of the conclusions.

Practical implications

The research shows that practitioners who want to implement an IC valuation or measurement method must:

- Perform a proper diagnosis of the problem at hand.
- Have knowledge of the strengths and weaknesses of the method they want to use.
- Understand the application domain of the method: the class of problems and the class of contexts for which the method needs to provide a solution.
- Posses the necessary skills to implement the method.

Originality/value of paper

Successfully implementing a method for the valuation or measurement of intellectual capital is not an easy task. Practitioners yet receive little support from the intellectual capital research community. Little research has been done into the factors that influence the success of a method. This paper is a first attempt at systematically identifying some of the factors for the successful implementation of an intellectual capital valuation or measurement method.

Introduction

Over the last ten years many methods have been proposed for the measurement or valuation of intellectual capital (IC). (For overviews see: Bontis, 2001; Bontis et al., 1999; Luthy, 1998; Petty and Guthrie, 2000; Sveiby, 2002 and Andriessen, 2004a). Little empirical research has been done on how these types of methods are being implemented and what the critical success factors are for successful implementation.

As a result there is an abundance of information on how to measure or value IC, but there is little knowledge how to successfully apply these methods in practice. Implementing a new measurement method is an intervention into the daily operation of a company. How successful are these interventions? What are their effects? Implementation of these methods requires certain skills and conditions. What are some of those skills and conditions? What are some of the mistake to avoid? What are critical success factors?

The field of IC research has come to the phase where it needs to start evaluating the success and effects of its methods. In addition it needs to give practitioners tested guidelines on how to successfully implement and use these methods. In this paper I present an systematic analysis of the implementation and effectiveness of the KPMG Value Explorer®. The Value Explorer is a method for the identification and (financial) valuation of intangible resources developed by the Knowledge Advisory Services team of KMPG The Netherlands.

In 1997, KPMG The Netherlands founded an innovation unit focused at the impact of the knowledge economy on businesses. This Knowledge Advisory Services (KAS) unit developed new management approaches and assisted clients in three areas: developing knowledge-based strategies, improving knowledge sharing, and measuring and reporting intellectual capital.

In 1998 KAS participated in a pilot study initiated by the by the Dutch Ministry of Economic Affairs (Ministry of Economic Affairs, 1999) to develop a new approach for the measurement and reporting of intangibles. The purpose of the study was to give four accounting firms the opportunity to develop new approaches to intangibles reporting and try these with a number of their clients. KPMG developed the Value Explorer (Andriessen et al.,1999; Andriessen and Tissen, 2000; Andriessen, 2001). No competitive research was conducted prior to its development. Developing the tool was not a strategic decision but came out of the opportunity offered by the Ministry. The Value Explorer was used by the KAS unit in a number of client engagements, six of which are used as case studies in this paper. After the KAS unit was abolished in 2003 the tool was no longer used within KPMG. I still use it as a strategic tool.

First I describe the research methodology used for designing, implementing and testing the method. Then I provide a brief outline of the method itself. I continue by reporting the findings from six companies where the method was used. I conclude by summarizing the critical success factors for implementing an IC measurement method.

Methodology

The design approach

I used the design approach (Andriessen, 2004a,c; Van Aken, 2000; Weggeman, 1995) as my research methodology for this study. I used the reflective cycle to generate design knowledge about the method. Figure 1 shows an overview of the reflective cycle. The reflective cycle starts with a general diagnosis and description of the problem.

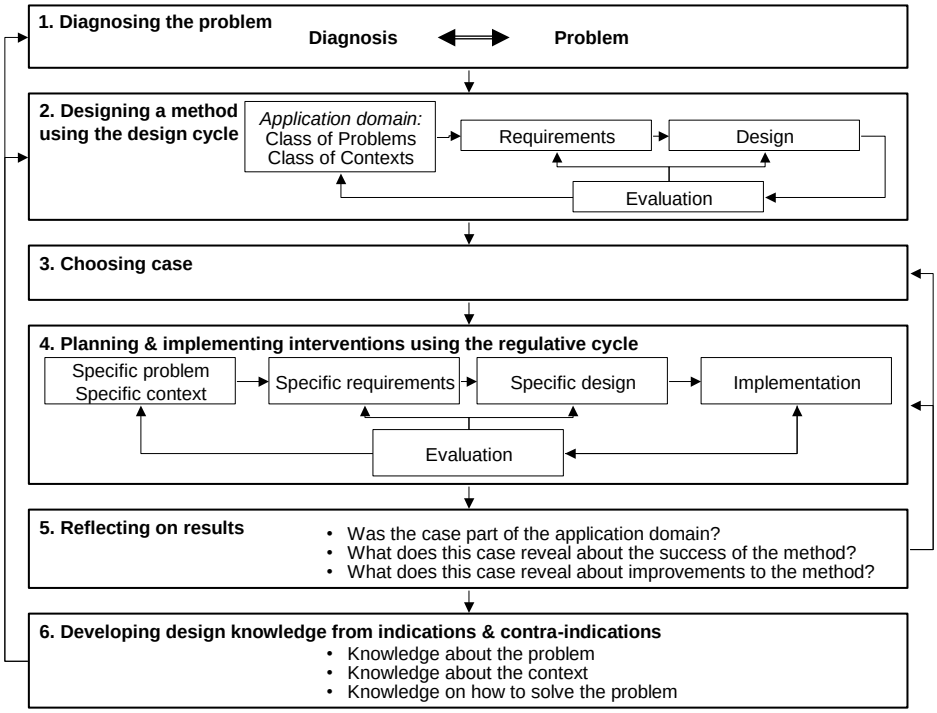

Figure 1 The reflective cycle.

The second step in the reflective cycle is designing a first draft of a method that helps solve the problem. For this the *design cycle* is used which consists of the following four activities. First, create a general diagnosis and description of the problem. This gives an impression of the application domain of the method. The application domain describes the class of problems the method needs to address and the class of contexts to which it needs to be applicable. Second, develop the requirements for the method based on the class of problems and the class of contexts, as well as demands from clients, from users, and from the environment. Third, draft a first version of the method based on these requirements and on available theory. Finally, check whether this design meets the requirements. This evaluation may lead to changes in the design, but also to changes in the problem definition and the requirements. According to Van Aken (1996), a researcher should continue this process until an adequate design is created.

The third step in the reflective cycle is the selection of a case to test the draft method. The fourth step in the reflective cycle is to use the method to solve the case-specific problem using the *regulative cycle*. The regulative cycle consists of five

activities. First, diagnose the specific situation to define the problem in its context. Second, develop specific requirements that supplement the general requirements. Third, make amendments to the method. Fourth, implement the method. And fifth, evaluate the outcome of the method. This evaluation often leads to further modifications of the design, but also to changes in the way the problem originally was perceived and sometimes to changes in the set of specific requirements.

The fifth step in the reflective cycle is to reflect on the results using three evaluation questions:

1. Was the case part of the application domain?
2. What did this case reveal about the success of the method?
3. What did this case reveal about improvements to the method?

As a sixth step in the reflective cycle, design knowledge is developed in three areas. First, knowledge about the class of problems for which the method was designed. This may lead to further refinement of the problem definition. Second, knowledge about the class of contexts for which the method is applicable. The so-called 'indications' and 'contraindications' demonstrated under what circumstances the method produces proper results. They are the conditions for success that need to be fulfilled. Third, insight into the means–end relationships that underlie the method and that produce its results.

Cases

The Value Explorer was implemented at six medium size companies (Table 1). The first three cases —Bank Ltd., Electro Ltd. and Automotive Ltd.— were part of a study funded by the Dutch Ministry of Economic Affairs that took place in 1998 and 1999. These companies were selected because they were medium-size knowledge-intensive businesses covering various industries. The fourth case was Logistic Services BU. The management of Logistic Services BU wanted to value its core competencies. The fifth case was Professional Services LLP. It wanted to report intellectual capital in its annual report. Lastly, Consulting Department was a small consulting unit within a larger financial institution. They wanted to determine their strengths and weaknesses as part of their decision process about becoming an independent consulting firm.

Table 1 Overview of Case Studies

Case Study	Industry	Type of Organization
Bank Ltd.	Banking	Subsidiary of listed company
Electro Ltd.	Engineering	Subsidiary of listed company
Automotive Ltd.	Automotive	Private company
Logistic Services BU	Logistics	Department of listed company
Professional Services LLP	Professional Services	Professional partnership
Consulting Department	Banking	Department of subsidiary of listed company

The method

Introduction

The Value Explorer is based on the concept of core competencies to identify the strategically important intellectual capital in an organization. In (Andriessen, 2004a) I published a revised and improved version of the method, named the Weightless Wealth Toolkit.

Steps

The Value Explorer offers a five-step approach:

1) Identify the intellectual capital by making a list of the core competencies of the organization.

2) Conduct a value assessment by using a checklist that assesses the added value, competitiveness, potential, sustainability and robustness of those core competencies.

3) Perform a financial valuation of the intellectual capital by allocating a portion of the expected normalized earnings of the organization to the identified core competencies.

4) Develop a management agenda based on the findings making recommendations to management on how to improve the value of the intellectual capital.

5) Create a report for management using a value dashboard.

I have reported the full do-it-yourself method in Andriessen (2004a). Let me describe these steps in a little more detail.

The first step is to identify the intellectual capital in the company. Of course, there are a large number of intangibles. And while many of these may exist in a company (in fact, the majority will exist in a company, whether you realize it or not), not all of them are equally important. What we need to do is track down those intangibles, which add value to the company. In the first step towards establishing the value of intellectual capital, we have to decide which intangibles are the most relevant to us. Not only to find out the economic value of a company but because those intangibles which add value to your company are the ones which are of strategic importance to your future success.

Such intangibles, however, should never be viewed in isolation. It is only when they combine that the economic synergy is created. All this brings us to the critical question: how do you decide which of the many intangibles within a company are of strategic importance? And the answer is to define core competencies of the company. A core competence is a skill cluster which lies at the centre of competitive success and which contributes to the long-term corporate prosperity. It is a bundle of various types of intellectual capital, including skills and tacit knowledge, values and norms, technology and explicit knowledge, processes and reputation. Listing a company's core competencies can identify this intellectual capital. For example, one of the core competencies of Electro Ltd. was its ability to design energy conversion systems, which was a combination of implicit and explicit knowledge, certain design processes and the company's reputation in this field.

The second step is to determine how today's core competencies - often built up over a long period and representing a considerable investment in time, money, people, and skills - equip a company for competitive success in a changing market. When discussing core competencies, traditional literature maintains that unless a suggested core competence meets all the criteria laid down for it, it should not be considered as such. While this is fine in theory, it does not always work in practice. In extreme cases, an analysis along "traditional" theoretical lines may show that a company has no core competencies at all. For many companies a company competence may qualify as a core competence, even if it does not meet all criteria laid down. In our view, the *strength* of each of the competencies is of far greater relevance than the name we give to them. Such strength is not consistent. It varies. A competence may be very strong in one area, but weaker in another. For managers, it is important to be able to assess the varying strengths of the competencies they have defined. And for this reason the Value Explorer contained a list of criteria, which will help to determine the practical strength of each competence.

The third step is to put a monetary value on the identified intellectual capital. There are three ways to do a financial valuation: the cost approach, the market approach and the income approach. The cost approach is based on the economic principles of substitution and price equilibrium. These principles assert that an investor will pay no more for an investment than the cost to obtain an investment of equal utility (Reilly and Schweihs, 1999). Thus, the price of a new resource is commensurate with the economic value of the service that that resource can provide during its life. The market approach is based on the economic principles of competition and equilibrium. These principles assert that in a free and unrestricted market, supply and demand factors will drive the price of any good to a point of equilibrium. In the market approach, an analysis is made of similar resources that have recently been sold or licensed. These market data are used to estimate a market value. The income approach is based on the economic principle of anticipation. The value of intangible resources is the value of the expected economic income generated by these resources.

Each approach has its strengths and weaknesses. The problem with the cost approach is that in many cases cost is not a good indication of value. Many of the most important factors that drive value are not reflected in this approach. In the market approach, an analysis is made of similar resources that have recently been sold or licensed. The market data are used to estimate a market value. The market approach can only be used if data are available on the transaction of intangible resources that are similar to the subject resources. When the subject resources are unique, which is often

the case, this approach is not appropriate. The income approach is based on a projection of economic income and thereby on somehow predicting the future. Therefore, it always contains a level of uncertainty and subjectivity. "All income approach analyses are based on the premise that the analyst can project economic income with a reasonable degree of certainty. The term reasonable degree of certainty is, by its very nature, subjective" (Reilly and Schweihs, 1999, p.182).

The Value Explorer uses an income approach. It analyses the expected earnings of a company. It then assesses the contribution of the identified intellectual capital to the creation of these earnings, taking into account other forms of capital (financial assets, tangible assets) that are used to produce these earnings. It uses a discount rate to calculate the present value of the intellectual capital earnings.

The fourth step is to analyse all data and draw a management agenda. The identification of the core competencies, the assessment of their strengths and weaknesses and the financial valuation will have given valuable insight into problems and challenges that management need to respond to. These are prioritised and written down in a management agenda.

Finally the management agenda is combined with a graphical representation of the outcome of the assessment and valuation (see figure 2 for an example for Bank Ltd.).

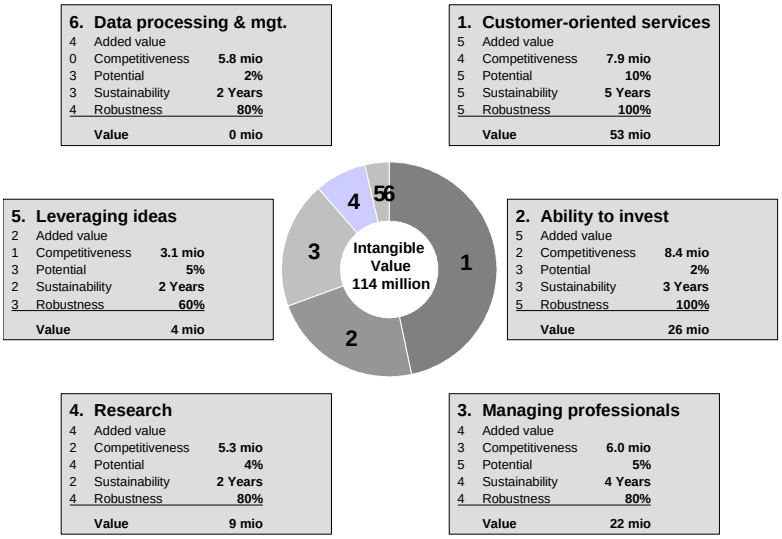

Figure 2 Value Dashboard of Bank Ltd.

Findings

Motives for using the Value Explorer

When KPMG went to market with the Value Explorer we found that clients had a variety of motives to use the method. These motives can be grouped into two categories (see also Andriessen, 2004b): improving internal management and improving external reporting. Companies that wanted to improve their operations were primarily interested

in the Value Explorer to support their strategy development process. These companies wanted to identify the hidden drivers of their success to better leverage them and to create an intellectual capital-based company strategy. Companies that wanted to improve their external reporting were intrigued by the possibility of providing evidence to their stakeholders on their unique competencies and hidden assets.

Success of the Value Explorer

In the six case studies the success of the method was limited (see table 2). In two cases the limited success was the result of poor implementation: At Bank Ltd. we stopped the implementation process before it was finished because the team ran out of budget. Although the process was never properly finished, the end report was used in the decision-making process about Bank Ltd.'s independence. However, according to the CEO, its contribution to the decision was limited. At Automotive Ltd. the manager/owner of the company stopped the process because of other priorities. We were not able to convince him otherwise.

When the implementation *was* successful, in only one case the problem was solved. Consulting Department became a successful, independent company. According to the manager, the method had been very important in facilitating the discussion about independence. It helped to make explicit important considerations for outsourcing. In three other cases, the problem was not solved. The general manager of Electro Ltd. had been very satisfied with the results at the time of the final presentation. However, circumstances beyond our control changed the situation completely and the company filed for bankruptcy. At Logistics Services BU, a similar thing happened. The method contributed to the decision to effect a management buyout. However, in the end, key players decided not to join the new company and the buyout was cancelled. According to two participants, the method contributed to the decision-making process. It created enthusiasm and energy within the group, and it helped to develop a proper business case because it created insight into the four core competencies and their strengths and weaknesses. At Professional Services LLP, all the necessary conditions for successful implementation were met. However, we discovered that the method did not produce results that could be reported easily externally. More on this result will follow below.

Table 2. Appraisal of the Success of the method in Six Case Studies

Problem Type	Case	Problem Definition	Successful Implementation?	Problem Solved?	Contribution of Method?
Internal management	Electro Ltd.	Develop a strategy based on available technologies and skills	Yes	Wrong problem	Not available
	Logistic Services BU	Create a future for Logistic Services Ltd.	Yes	No	Some
	Consulting Department	Create a future for Consulting Department	Yes	Yes	Big
	Automotive Ltd.	Improve strategy-making process	No	No	None
External reporting	Bank Ltd.	Remain independent within holding company	No	Yes	Limited
	Professional Services LLP	Report on intangibles	Yes	No	Not available

Necessary conditions for success

To explain these disappointing results we need to take a look at the reflective cycle again. The feedback arrows in Figure 1 indicate four errors that can be made when designing and implementing a method: (1) we did not diagnose the situation correctly and we have identified the wrong problem. (2) We used a poor method that was unsuccessful and we need to fix it. (3) The case did not match the application domain of the method. In other words, we selected the wrong tool for the job. (4) We implemented the method poorly. Figure 3 summarizes these errors, redefined as necessary conditions for a successful implementation of a method. Let us look at each of these necessary conditions in detail to see if they can explain the performance of the Value Explorer in the six cases.

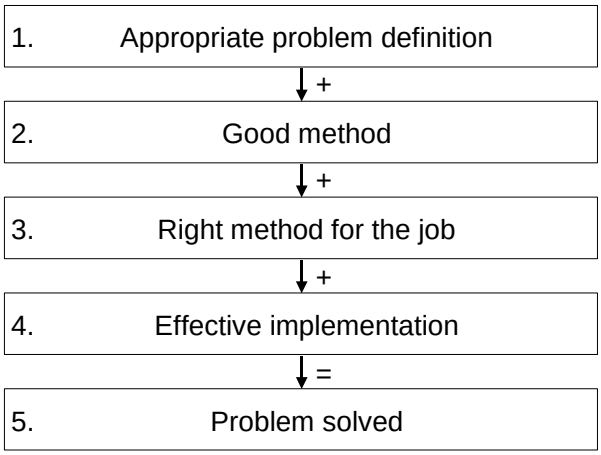

Figure 3 Necessary conditions for a successful implementation of a management method

Problem definitions

Each of the six companies had a different motive for applying the method. Four companies wanted to improve their internal management. Two wanted to use the method for external reporting purposes. However, the exact problem was not always immediately clear.

Internal management

Electro Ltd, was an organization in turmoil. In the previous seven years, this electric installation and engineering company had had five general managers, each one leaving within a year. The company was self-centred, product-oriented and lacked market-focus. For the previous two years, the number of contracts won had declined rapidly. The profits from national and international projects were under severe pressure. The newly appointed General Manager was working on a turnaround, improving the market-orientation and sales capability of the company and developing a strategy focused on specific product/market combinations. The General Manager wanted to use the method to develop the new strategy, set priorities and determine focus. However, it turned out Electro Ltd had a severe cash flow problem. This problem became urgent just after the

project was finished. The cash flow problem was never solved and the company went bankrupt. In a sense, the method was solving the wrong problem.

At Automotive Ltd. key players did not share the initial problem definition. The main contact was through the Financial Controller. He was working hard to formalize a number of processes within the company. When the company was small, it could run its operation in a rather informal way. Now, as it grew bigger, there was a need for more transparency and rules & regulations. One of the controller's ambitions was to improve the strategic decision-making process. Until then, the owner had made all strategic decisions based on limited market research and without an explicit corporate strategy. The Financial Controller hoped that a discussion on intellectual capital would help make the strategy process more explicit. Talking to the owner, the KPMG team did not sense this need, nor did the team notice that the owner was worried about any other specific problem. He was willing to co-operate, as long as it would not consume too much of his time or the time of his staff. When it did, he terminated the implementation of the method.

Both Logistic Services BU and Consulting Department were reconsidering their position. Management wanted to develop a new future for the company, based on the company's intangible strength. However, the management of these companies did not know what the strength of the company was and wanted to have insight into its future potential. In both cases the Value Explorer proved to be helpful.

External reporting

Bank Ltd was an independent private bank that was part of a worldwide financial institution. As a small private bank, it nurtured its independence and objectivity in serving clients. Management faced the challenge of convincing the Holding company that Bank Ltd's independent position within the Holding and the bank's distinct style and identity were vital for its future success. It wanted to use the Value Explorer to give the Holding company insight into the importance of the bank's intellectual capital, to promote a 'non-intervention' policy on behalf of the Holding company and to secure independence in the future. As the CEO phrased it: "What is the value of our independence?". The method proved to be useful, however, as we will see, we made some mistakes implementing it.

Professional Services LLP offered a wide range of consulting and auditing services to its clients. It was well aware of the transition in the global economy from an industrial to an economy based on intellectual capital. At the end of the millennium, it wanted to express this transition in its annual report. Professional Services LLP had the idea that this would be a nice theme for its annual report. The idea was to analyse the intellectual capital of the firm, assess its strengths & weaknesses and use this information to report externally, proving to the outside world that the company had prepared for the future. As we will see we found the Value Explorer was not the appropriate tool for this job.

Quality of the method

Strengths of the Value Explorer

At the four cases where the Value Explorer was implemented successfully, we found the method had a number of strengths. These can be grouped into the five steps. The first step of the method is the identification of intellectual capital with the help of core competencies. The Value Explorer searches for the combined power of intangible resources. It determines the way individual intangibles contribute to a company's uniqueness and cumulative capabilities. It determines which intangibles are important and how they contribute to company success. We found that the use of core competencies to identify intangible resources provides a new and positive view on a company, and a common language that can explain the company's success, install a sense of pride, boost the company's self-confidence, and identify new opportunities.

The second step of the method is the value assessment of the core competencies using five checklists. We found that the value assessment helps to create a realistic view on the capabilities of a company that are genuine core competencies. In addition, the assessment highlights strengths and weaknesses of core competencies. These weaknesses can be the starting point for improvement initiatives.

The third step is the financial valuation of the core competencies. The financial valuation highlights the *absolute* importance of intangibles. Both the CEO of Bank Ltd. and the manager of Consulting Department acknowledged the importance of the monetary value figure in conveying the significance of intangible resources to other stakeholders. The manager of Consulting Department phrased it as follows: "Within the financial services industry, people speak the language of money. If something has no monetary value attached to it, it is not considered important" (personal communication). The added value of the financial valuation of intangible resources lies in the fact that numbers attract management attention. This finding is in line with the view of Mouritsen et al. (2001) about the importance of indicators in intellectual capital statements. They state that these indicators are especially important because they demonstrate seriousness on the part of top management. In addition, the financial valuation shows the *relative* importance of the core competencies. The financial valuation uses money as a common denominator to compare the usefulness of the competencies. This can help when making decisions about investments in intellectual capital.

The fourth step of the method is the management agenda. The management agenda reflects the implications of the findings for management. It provides an action plan on how to strengthen the company's intellectual capital. We found that the management agenda can help to make the important step from valuation to action, making the method practical and meaningful.

The fifth step of the method is the end report, which contains the value dashboard. We found that the value dashboard of the method helps to communicate the findings in an effective and comprehensive way by providing insight into the strengths, weaknesses, and value drivers of core competencies in one comprehensive picture.

Weaknesses of the Value Explorer

We also found the Value Explorer has certain weaknesses. First, the version of the method that was used lacked a diagnosis phase. It did not include a step in which the analyst checks whether the problems of the company fit the class of problems for which the method was designed. We found the method "jumped to solutions" (Kerssens, 1999), did not prevent pigeonholing (Perrow, 1970), or, phrased differently, the method suffered from the "child-with-a-hammer-syndrome".[1]

Second, we found that the step from creating an inventory of intangibles and capabilities to defining core competencies is still a more or less creative and unguided step. The personal skills of the analyst play an important role. The existing guidelines for this step did leave room for personal preferences, diminishing the reliability of the outcome.

Third, we found that the results of the method are internally focused. The method describes important intellectual capital of a company without looking at the environment. Roos et al. (2001) distinguish between two approaches to strategy: external analysis and the resource-based view. They state that a strategy process should combine the best of both approaches. The method takes care of the resource-based view, identifying the valuable resources of the company. However, before a company can develop a new strategy, an external analysis of major environmental, competitive forces must be made.

Right method for the job

We found the Value Explorer has certain strengths, however, the question remains, under what circumstances is it the right tool for the job? There are two sides to this question. What class of problems is the method able to solve and under what circumstances can it be successful?

The findings from the case studies indicate that the Value Explorer is not an appropriate tool for the external reporting of intellectual capital. We found that the results of the method are not self-evident and must be accompanied by an extensive reading instruction. Interpretation of the results requires insight into the underlying method. Furthermore, clients are reluctant to publish the results. Professional Services LLP considered the reporting of financial valuations risky. In addition, supporting evidence for core competencies often includes data about competitors. Professional Services LLP was reluctant to report these data because it might provoke criticism. The method highlights a company's strengths but also its weaknesses. Professional Services LLP and Electro Ltd. were hesitant to report these weaknesses to the outside world. Finally, these companies considered data about their core competencies confidential information. As the CEO of Electro Ltd. put it: "I will not published this information for the next six years" (personal communication).

In three cases we found that the method *was* a useful tool to help improve the way a company is managed. We found that the method can help in solving problems of future orientation and strategy development, by helping to create resource-based strategies for companies that lack insight into or are insecure about the intangible resources that make these companies successful.

1 Give a child a hammer and, to the child, suddenly everything becomes a nail.

A second factor that influences the application domain of a management method is the class of contexts in which the method can be used. We found that the method worked well for knowledge-intensive, middle-size companies employing from 50 to 1,000 employees. The tests showed it also works with smaller units that are part of a bigger company (Logistics Services Ltd., Consulting Department). Tests also proved it can be used with bigger companies (Professional Services LLP), providing that the analyst focuses on the core competencies of the company that various departments have in common. The tests highlighted that the following conditions must be fulfilled to ensure a successful implementation. The company must have an issue about its future direction. If there is no clear issue, as in the case of Automotive Ltd., it is less likely that the method will produce useful results. In addition, management of the company must have a certain willingness to reflect on the organization and to review critically the organization's strengths and weaknesses. Management must have enough time to participate—at least to join in the interviews and visit the end presentation. At Automotive Ltd. these two conditions were not met, which in part explains the early termination of the project. Finally, management must have the willingness, as well as the mental ability, to look at the company from an intangible perspective. This, too, was lacking at Automotive Ltd.

Quality of the implementation

The last necessary condition for a successful implementation of an IC method is the quality of the implementation itself. One can have a company with an urgent problem and use a good method that is suitable for the case at hand and still be unsuccessful because the method is not implemented properly.

De Caluwé and Stoppelenburg (2003) identify six process criteria for successful implementation of methods by outside consultants (see table 3). We used these criteria to assess the quality of the implementation. We found that in two cases the quality of the way we implemented the method did not meet these criteria. At Bank Ltd. two of the conditions for a successful implementation were not fulfilled: We had not involved important players of the client system at crucial stages of the implementation, and there was lack of communication between our implementation team and the client system on the input and output of the valuation. The mistake we made was that at the meeting where we presented the results of the method, we told the management of Bank Ltd. that the draft report was the final result of the study. We would only correct major mistakes. If the bank wanted additional research, analyses, or calculations, it would have to pay us more. The management team was very surprised. To their expectation, this report was merely the feedback of the results of the second workshop. It was the first time that the management team had seen the results of the valuation. They had additional questions and suggestions for improvement, and were disappointed that we did not want to do any additional analysis. They thought the results of the analysis were interesting, but the project was not yet finished. This mistake had a big impact on the success of the method. When I asked the CEO of Bank Ltd. about the implementation two years after the project was finished, he showed not so much disappointment about the method and its potential results, but disappointment about the fact that the project was not finished properly.

Table 3 Criteria for the Effectiveness of Consultants
Adapted from De Caluwé and Stoppelenburg (2003), translated by D. Andriessen

Criterion
• Level of involvement of the consultant and the client system with the assignment
• Intensity of communication between the consultant and the client system
• Degree to which the approach is being developed along the way
• Extent to which the consultant provides concrete directions to the client system
• Level of equivalence between the consultant and the client system
• Extent to which a specific method was used

At Automotive Ltd. we found three of the conditions for successful implementation were not fulfilled. The level of involvement of the client system with the engagement was minimal. The communication between the implementation team and the client system was deliberately kept to a minimum in order not to take too much of the client's time. There was no equivalence between the client system and our implementation team. These factors explain part of the lack of success. The lack of a clear and urgent problem, and the very pragmatic mind-set of the owner were other important factors. As a consequence the owner was not convinced that the implementation was very useful and he terminated the project.

Conclusions

Based on the implementation of one particular method for the valuation of intellectual capital at six companies I draw the following conclusions about critical success factors for implementing an intellectual capital valuation method. I formulate my conclusions as hypotheses.

First there is the need for a proper diagnosis of the problem at hand. The valuation of intellectual capital can help to solve several types of company problems (Andriessen, 2004). We need to do a thorough diagnosis to determine the specified problem of the situation at hand. This is especially essential when our intention is to improve the internal management of your organization. There can be many reasons why a company is performing sub optimally or poorly. There can be many ways to optimise a company's performance. It is not sufficient merely to identify the problem at hand as an internal management problem. Instead, we should analyse the specific context of your organization and diagnose its unique situation. We may find that the intellectual capital perspective is an appropriate perspective to diagnose the problem. Using this perspective implies focusing on the intellectual capital of a company, the way it is managed, its strengths and weaknesses, and its potential. However, to avoid pigeonholing, we must be aware that other perspectives may be equally or more appropriate. Otherwise, there is a clear risk that an inappropriate or unimportant problem will be solved, as we saw in the case of Electro Ltd.

Second, we must understand the strengths and weaknesses of the method we intend to use. This includes the internal validity of the method. Many of the existing methods have internal validity weaknesses (Andriessen, 2004a). In addition we must have knowledge of the weaknesses of IC measurement methods in the way they work in practice. Unfortunately not much research has been done into the practical weaknesses of existing methods.

Third, we must clearly understand the application domain of the method: the class of problems and the class of contexts for which the method provides solutions. What problems can it solve and for what kind of problems is it not the appropriate tool? This question is crucial to avoid pigeonholing. In what circumstances and under what conditions can it be used? This includes critical conditions for success like for example the IC-intensiveness of the company, its size, the willingness of management to be involved and the presence of the appropriate skills set to make sense of and use the results.

Fourth, we must posses the necessary skills to implement the method. This is true whether one implements a method as a manager or as a consultant. As a consultant this skill-set includes basic consulting skills on communicating with and involving the client, diagnosing the situation, creating a tailor-made solution, providing concrete directions and creating a level of equivalence. However as a manager implementing an IC measurement method requires similar skills. Implementing such a method in your own company also requires for example buy-in from important stakeholders and a proper problem diagnosis.

Successfully implementing a method for the valuation or measurement of intellectual capital is not an easy task. Practitioners yet receive little support from the intellectual capital research community. Little research has been done into the factors that influence the success of a method. This paper is a first attempt at systematically identifying some of the factors for the successful implementation of an intellectual capital valuation or measurement tool. This paper focused on the KPMG Value Explorer. We need more of this kind of research about other available methods.

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Author details

Dr. Daniel Andriessen is Professor of Intellectual Capital at INHOLLAND University of professional education, The Netherlands, and director of the INHOLLAND Centre for research in Intellectual Capital Research, set up to study the impact of the intangible economy on people and organizations (www.inholland.com). Before joining INHOLLAND, Dr. Andriessen worked as a management consultant for KPMG for more than 12 years. He was founder of KPMG's Knowledge Advisory Services Group in 1997, together with Prof. Dr. René Tissen. Together they have grown this group from 2 to 30 people, servicing clients all over the world in the field of knowledge management and intellectual capital valuation.

Dr. Daniel G. Andriessen

Professor of Intellectual Capital

Director Centre for research in Intellectual Capital

INHOLLAND University of professional education

Amsterdam, The Netherlands

Wildenborch 6

1112 XB Diemen

Netherlands

P.O. Box 261

1110 AG Diemen

Netherlands

Tel: +31 (20) 4951873

Fax: +31 (20) 4951889

Email: daan.andriessen@inholland.nl

Website: www.weightlesswealth.com