



Measuring the Unmeasurable: 10 Steps (Part 2)

Our colleague, [Areopa](#), designed a 10-step process to measure the monetary value of knowledge assets or intellectual capital (IC), a critical capability in today's Knowledge Economy. The process is rigorous, consistent, disciplined and will achieve the desired results of "creating value from knowledge." While there are ad hoc and intuitive ways to manage and measure IC, the value of the Areopa 10-step process is that it provides a consistent and disciplined framework to make the approach both conscious, comprehensive, and visible as part of operations.

When integrated with a well thought out KM Strategy and KM Implementing Framework, the ability to measure the monetary value of your knowledge assets, or IC, the organization can truly gain an understanding of how to "[create value from knowledge](#)."

The 10 Step Areopa Process to "Measuring the Immeasurable"

Step 1: Identify your Intellectual Capital

Take the time to build an inventory of what your organisation already knows, its intellectual assets – both explicit and tacit, and classify it in a systematic way.

Some examples of explicit knowledge include:

- Training materials
- Documented Systems
- Models & Tools
- Trademarks

Some examples of tacit knowledge include:

- Knowledge about your customers
- Knowledge about your processes
- Knowledge about strategies and direction
- Knowledge about services and products

Desired Outcome of Step 1: A clear inventory that brings insight and understanding to management of the IC the organization holds and where it is located. In this model, as an example, an organization's IC could be classified according to whether it is Human, Structural, Customer or Strategic.

Step 2: IC Estimation

Take the IC inventory created in Step 1 and estimate the value of the organisation's IC – not only in the present, but develop an estimate for the future. Additionally, the step is focussed on working with the client to work on agree how the remaining steps 3 – 10 will be managed and delivered.

Desired Outcome of Step 2: (1) An estimated monetary value of the current IC assets held by the organisation and how their value changes or evolves into the future; (2) Understanding and buy-in from management for investment of time and resources in the remaining steps in the process.

Step 3: IC Safeguarding

Begin to formally treat the IC of the organisation as a true asset. Simply stated, an organisational asset must be managed proactively and professionally and there should be someone accountable for tracking and leveraging this asset.

Elements of this step include:

- Where appropriate, begin to turn tacit knowledge into explicit (e.g. sense making of captured experience and lessons learned)
- Identify key knowledge “brokers” or collaborators (individuals)
- Codifying the high level critical business and operational processes
- Ensuring that the organisation owns the knowledge (rights whether by acquisition or contract)

Desired Outcome of Step 3: (1) Proactive and professional management of the IC inventory; (2) Management recognition of the value of the organisation’s knowledge assets; (3) Ensuring that IC is being treated as an asset in the same manner as other capital or physical assets.

Step 4: IC Ownership

The organisation must be clear to whom IC ownership belongs or with whom it resides as a result of a range of circumstances or arrangements. It is quite often the case that organisations are vague in this area and it is critical that this be clear.

Such arrangements or circumstances can include, for example:

- Employer & Employee relationship
- Independent contractor
- Commissioned works

Desired Outcome: (1) Clear understanding across the organisation, vertically and horizontally, particularly within management, about the working relationship and how it drives ownership of IC that becomes an output; (2) These issues are discussed and planned in management meetings as part of routine work within the organisation.

Step 5: IC Protection

IC must be protected. Reasons for doing this can include protecting the rights of the IC creators, enabling commercial exploitation by the IC owner and identifying and driving future revenue streams. IC must be treated as an accountable asset in a formalised way so that can be leveraged internally, externally, or be bought, sold, leased or otherwise assigned in a systematic and accountable manner.

Various protections are available to achieve this including:

- Copyright
- Trademarks
- Patents
- Industrial Designs
- Trade Secrets

Desired Outcome: (1) The management of the organisation understands not only the importance of protecting IC, but also the various tools and mechanisms to do this; (2) The range of protections available is part of the familiar language of the organisation.

Step 6: IC Management

Determine how best to manage and leverage your IC in practice. What does this look like? How is it accomplished? How is success measured? Specifically, elements of IC Management itself can include:

- IC Strategy
- IC Creation
- Protection enforcement
- Developing a Business Model to deliver IC to the market

The value of any combination of tangible and intangible assets is specific for a given context and time frame. This means that an intangible asset needs to be managed not only to achieve one value stream, but also multiple simultaneous value streams; all value streams need to be separated and considered when managing and valuing IC.

The benefits of actively doing this are significant and can include, for example:

- 40% increasing Revenue Generation
- Greater management of Risk
- 10% increase in investors & customers
- Clarity on the Key Assets of the organisation

Practical aspects of IC Management can include overlaps with the following areas. Each requires focus, ownership, roles, processes and supporting technology for success.

- People Management
- Knowledge Management
- Contract Management
- Asset Management

Desired Outcome: Awareness of the roles, processes and enabling technology to manage the organisation's IC assets on a day to day basis as a part of the way work is accomplished.

Step 7: IC Governance

Be clear on close control of the organisation's IC. This is a critical thinking exercise about some key questions such as:

- Who will control the IC Process in-house? Who is the process owner?
- How will IC help to deliver the organisation's products and services? To continue to add value to accomplish the organization's mission and achieve targeted measures of success?
- Who will decide which IC assets to protect, trade, sell, invest in, or which to combine and which approach should be taken for exploitation?
- How will IC revenue be monitored?

Desired Outcome: Governance framework and permissions in place to control and leverage the IC on a day to day basis.

Step 8: Deriving Future Value

In many ways, steps 1-7 lay the foundations and prepare the organizational landscape for creating the value needed from the organization's IC. Step 8 defines practical steps with the objective of creating multiple simultaneous value streams. "Intangibles deliver from tangibles in many ways" that "change the rules of the game" (if not the game itself):

- Value in context
- Multiple simultaneous value streams
- Understand how technologies will evolve
- Understand how customer needs will evolve

- Develop world class products and services that meet customer needs

Three key questions need to be addressed to deliver this step's outcomes:

- How will we create value? (Focus on markets and technologies)
- How will we deliver value? (Focus on organisational capabilities)
- How will we capture value? (In the face of competition)

Each of these three key questions is supported by supplementary questions to bring more focus. The process is built on principles that:

- Align capabilities
- Identify sources and conversions of value
- Create and codify interaction of intangible and tangible assets to create earnings
- Convert ideas into cash (return on investment)

Desired Outcome: (1) Management understands how the IC will shape the organisation's future, both strategically and tactically to create value from the IC. (2) Management recognises that this is a different way of working from how they have in the past.

Steps 9 and Step 10: Calculating IC Value

Step 9 and Step 10 are linked and consist of two main parts:

- Identify the IC valuation outcome and its requirements
- Perform the valuation itself

For example, the purpose may be an intention to sell the organisation, raise financial capital, or merge with another organisation. The mechanics of the valuation meet with [IAS 38 standards](#) and can be presented in a balance sheet as required. (The IC balance sheet follows the same principles as a financial balance sheet). Both the current value, or book value, and the future potential of the IC assets are calculated and presented. Bringing these two together gives the total value of the IC asset.

Desired Outcome: (1) Management is clear about the purpose of the IC asset valuation; (2) Management has confidence in the credibility of the valuation due to the technical and process discipline underpinning it.

If, as you work through your KM Strategy and its implementation, including the valuation of your knowledge assets or IC, and you have questions about how to do this, please contact [Ludo Pyis](#) at [Areopa](#), or [Bill Kaplan](#) at [Working Knowledge^{CSP}](#).

Professor Ludo Pyis: Founder and President of the [AREOPA group](#). Areopa is a knowledge provider specialized in IC accounting. Ludo.pyis@areopa.com

William S. Kaplan is the Founder of [Working Knowledge^{CSP}](#). Working Knowledge^{CSP} is an independent knowledge management consulting company focused on helping organizations develop KM strategies and implementing frameworks to create value from their knowledge. bill@workingknowledge-csp.com