



Your Partner in Value Creation



MINISTARSTVO GOSPODARSTVA, RADA I PODUZETNIŠTVA
MINISTRY OF ECONOMY, LABOUR AND ENTREPRENEURSHIP

The Croatian "Program of Increasing Efficiency of National Intellectual Capital" (PIENIC)

In cooperation with the Ministry of Economy (providing financial support) and the Croatian Chamber of Economy (providing its infrastructure) the Croatian Intellectual Capital Center in Zagreb has started nationwide "The Program of Increasing Efficiency of National Intellectual Capital". Over 50 companies from different sectors, private and state owned companies, from all parts of Croatia as well as local administration of Croatian counties take part in the program. PIENIC started in 2005 and will last until End of 2007. In 2004 the pilot was done in the city of Rijeka, where it had been initiated by Town Administration Department of Entrepreneurship. (featured in the book: "Knowledge Cities" - "Rijeka: Increasing Efficiency of IC in City owned companies).

An international context for PIENIC is given by the **European Union**, where the **transition from traditional into the knowledge economy (KE) has top economic priority**. According to the **Lisbon Agenda**: *"The EU is confronted with a quantum shift resulting from globalization and the challenges of a new knowledge-driven economy. These changes are affecting every aspect of people's lives and require a radical transformation of the European economy ... The Union has set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world."*

As a future **EU member**, **Croatia** is in the process of aligning its strategic goals. Hence, according to **Croatian "National Strategy"**, the Lisbon Agenda is one of the key documents for Croatia's economic development, and, as such, it provides a framework for all **national activities**, which can be of help in achieving the goals set in that document.

In 2001, the **first IC project in Croatia has laid the grounds for PIENIC by** focusing on nationwide awareness creation and education on Intellectual Capital. It was spearheaded by Dr. Pulic, first president of the Croatian IC-association and author of VAIC™ - the Value Creation Efficiency Analysis - and realized by the Croatian Chamber of Economy and the Croatian IC-Center in Zagreb. (*This project is featured in the article "Value Creation Efficiency at National and Regional Levels: Croatia and the EU" in the book "Intellectual Capital for Communities, Nations, Regions and Cities"*).

PIENIC is the second Croatian national project with focus on KE and IC. It has been designed by the Croatian IC-Center and is a result of domestic and international expert knowledge sharing, year-long cooperation with managers, as well as profound insight into the Eastern European way of doing business and the needs of that business environment. **PIENIC offers a unique solution to an emerging need, which is not yet recognized as such by many companies, city officials, and government representatives.**

Initially, the program was planned **for state/city-owned companies**, which do not merely need modern machinery, but also modern ways of thinking and working in order to become and stay competitive. Instead of copying business models, these companies have to take new roads and find their own "knowledge recipes" in order to achieve their goal, competitiveness in the 21st century. This way state/city -owned companies could become positive examples for other national companies to follow.

Features and benefits of PIENIC are:

- a) **Cheap** - 50% financial support of Croatian Ministry of Economy
- b) **Fast** – one month, depending on dynamics of realization (perfect kick off start for activities aiming at continuous improvement of IC)
- c) **Simple** – no pre work, pre knowledge, complicated data collection
- d) **Explicit focus on value creation** – non material and material, expressed through value added and efficiency of value creation (in addition to cost control)
- e) **Treatment of Intellectual Capital/knowledge** as key factor of business, equal to financial capital
- f) **First time education** on knowledge economy and the role of knowledge and IC in this context, information on the international activities in the IC/KM field
- g) **Introduction of new management and measuring tools** - VAIC™ and PIKA™ - used in order to increase value creation ability of the companies and the efficiency of resources, in particular, intellectual capital (by effective management of knowledge/IC and measuring performance of IC)
- h) **Establishment of Intellectual Capital Teams as prime drivers** of corporate change, who could become a key force in the transition of Croatian economy into a knowledge based one

The following was a valuable argument in favor of launching PIENIC as a nationwide project.: If management (business and political) realized that business terms have changed radically and understood the role of knowledge and IC in this new business context, they would start dealing with knowledge economy issues and make it a priority.

Isn't this is the presupposition for successful transition into knowledge based economy and the realization of the Lisbon Agenda?

PIENIC – steps :

The first step is in establishing a **cross functional IC team in each company**. 3-6 experts from different departments (HR, finance, sales and marketing, other) join forces and become a nucleus of new insights and drivers of change. The IC team acts as an internal consulting body in charge of KE/IC matters, on the one hand for CEO/top management and on the other hand for other employees.

The second step is **awareness creation and education**. This is vital since Croatian management needs impetus to start dealing with new issues, in particular the ones, they have not yet realized as critical to business success. In the course of the project **basic knowledge** is provided by lectures. A simple "Handbook on Managing IC in Companies", (free download in English at www.vaic-on.net) is distributed free of charge as well as the latest IC - report „IC Efficiency at National, Regional and Company level“, which provides information on value creation efficiency of companies, sectors and regions. These reports also contain information on domestic and international trends with regard to KE/IC. The IC teams receive deeper insights through success stories and case studies from domestic companies .

The third step is **measuring**. The Value creation efficiency analysis - VAIC™ - is a tool developed by a Croatian expert and therefore it is used for measuring purposes in this project. VAIC™ enables monitoring of companies' ability to create value and informs of the performance of existing resources— physical and financial, but above all, intellectual capital (IC). Measurement is done at various levels of business: at company level but also inside companies – branch offices or within processes, projects or product/service lines. **The goal is in achieving an overview of areas where value is created successfully and where not and then in improving the areas performing below company average**. Teams benchmark their company with competitors, sector, regional or national value creation efficiency by data provided through the IC-reports. (From 2001 on, the reports “**IC-Efficiency at National, Regional and Company Level**” have been issued twice a year and distributed free of charge to companies and institutions - see www.vaic-on.net). Furthermore, teams discuss **possibilities of improvement in value creation ability and efficiency of the company and develop an action plan**. A VAIC™ software is installed in each company and all team members learn how to use it in the best manner with regard to company needs. In general it is preferred by accountants and financial analysts.

The forth step encompasses **visualization and assessment of company's IC**. The situation is scanned with help of 260 IC-related questions, which are part of the software tool PIKA™, authored by Karmen Jelcic, the CEO of the Croatian IC Center. Areas of interest are: **HC - professional competence, social competence, Intellectual agility, values, emotions, SC – organisational: innovation, processes, management/leadership, corporate culture, working environment, relationship with others, customers (information, relationships)**. First, the team members and top management are questioned (about 20 people) and later on other employees, whose opinion is valued. The questioning is anonymous so that participants can be totally honest.

After the results are received team members discuss them thoroughly. Red factors need improvement, green factors represent IC base and yellow factors are "shaky ground", with tendency to become red the harder the business conditions). It is important that teams establish a mental relationship between **non material factors** (e.g. knowledge/skills, vision, motivation, communication, relationships, values, innovation) and **financial business results** (shown by VAIC). Only if these factors **add to value creation they can be considered company's IC**. As with VAIC™, teams develop an action plan, which is based on the PIKA™ analysis, the priorities and goals of the company. All team members learn how to use the **PIKA™ software** and interpret the results. However, usually it is in the domain of the HR department and CRM.

The fifth step encourages **transformation into value-oriented business**, which basically means, thinking more about **how to create value** and less of how to cut costs, which is mainly done. If companies want to increase productivity that is the right way, especially when based on intellect, a resource that is not limited. Value oriented companies have a capable and motivated work force, which is geared at creating long term value for the company, themselves and all other stakeholders. Starting with PIENIC it should become a continuous process of improvement that benefits all parties.

The consultants from the IC Center, who work with IC teams and management during the realization of PIENIC provide new perspectives and possibilities in dealing with economic reality. However, decision making is entirely upon company management, who decides what to accept and what to skip, whether to continue or not. As soon as the program is finished (in 1-2 months) the IC teams are fully capable to work on their own. Depending on the outcome of the aforementioned VAIC™ and PIKA™ analysis they continue working on improvement of business performance with other consultants & experts (e.g. in improving education, communication skills, organization of processes, leadership capability, customer relationship management, human capital care etc.)

Some outcomes of PIENIC :

- awareness for the existence of KE and IC is created very successfully with teams and management
- education on that matter is received well and seen as important (this is the most popular part for management)
- visualization and assessment of companies' IC is perceived as very helpful and interesting (this is the most popular part of the teams, with fierce discussions and much introspection)
- insights into material value creation and IC efficiency is usually accepted very well and communicated to various parties if the results are favourable (however, managers who do not like to face reality feel threatened by insights provided by PIKA & VAIC analysis)
- ways for a 5-10 % increase of value creation efficiency could be found in all companies (however, continuous improvement of business efficiency seems not to be a priority in many companies and the required changes are not popular, therefore the chance for improvement is rarely used)
- most IC-teams are very motivated to continue working on managing IC and measuring its performance after the project is officially finished (however, team members are rarely stimulated or rewarded for their engagement in PIENIC, which influences longer term motivation and engagement)
- management has often a hard time coping with new economic reality and new tools, which is why they delegate participation in program to lower levels (M2)
- in general, networking and knowledge sharing of IC teams is not supported by mgmt.- since they are not easy to control due to the fact that they are not part of hierarchy/org. structure

- from the above said it is evident that the transition of CRO economy into a knowledge based one is going to be a year long process

PIENIC **sends a nationwide signal towards political and business management:** they must start dealing with the phenomena of knowledge economy (KE) and intellectual capital (IC), and start considering new approaches and tools in order to become a competitive player in the European/global market. Only if **adequate policies are issued and companies use new management and measurement tools to aid their efforts, the transformation into knowledge based economy will be possible.**

However, PIENIC is **also a signal for the international community:** Croatia is actively managing its future economic well being and it has the brain power and courage to contribute to the development of new managing and measuring tools suitable for knowledge economy.

Since PIENIC is affordable to any organization (due to financial support of CRO Ministry of Economy), **joining the program** depends mainly on the good will of business management. Joining in shows responsibility towards employees and other stakeholders or, in the case of political management, all the residents of a local community. Even more, the **experience of such projects, shared with others** in the world, represents **valuable contribution to the international quest** for management and measuring tools suitable to meet the needs of the 21st ct., knowledge based, economy.