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A sample from the **Skandia AFS** case study

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Case Study: Skandia AFS

We conclude this Chapter with a case study on Skandia AFS. Of all companies we encountered during this research, Skandia has done most to develop frameworks for measuring and reporting intellectual capital in a way that guides management to drive up overall corporate value. It is already influencing the debate on intellectual capital accounting and reporting. In addition, as noted elsewhere, Skandia has been pioneering intellectual capital measurement for several years, and its US Division offers a good illustration of following the Roos model.

Measuring Intellectual Capital

Skandia AFS, a financial services company based in Sweden, demonstrates leadership in the measurement of intellectual capital (IC) at the highest level. Through the enthusiasm and guidance of its one-time director of intellectual capital, Leif Edvinsson, the company has developed a business value model, its own IC tool, the Skandia Navigator, and has developed and experimented with other IC tools and methods.

Skandia operates in 25 countries with 7,500 employees and works with more than 20,000 brokers. Its current focus on intellectual capital started in earnest in 1991, with the appointment of Edvinsson as the world's first director of intellectual capital, with the mission:

“To identify and improve the visibility of intangible and non-material items; to capture and package these items and to transfer them to users; to cultivate and develop these items through training and knowledge networking; to capitalize and economize on these items through rapid recycling of knowledge and increased commercialization.”

An Evolving Agenda

Six stages can be traced in Skandia's focus on intellectual capital from its formal beginnings in 1991 (although the ideas had been floating around the company for several years earlier):

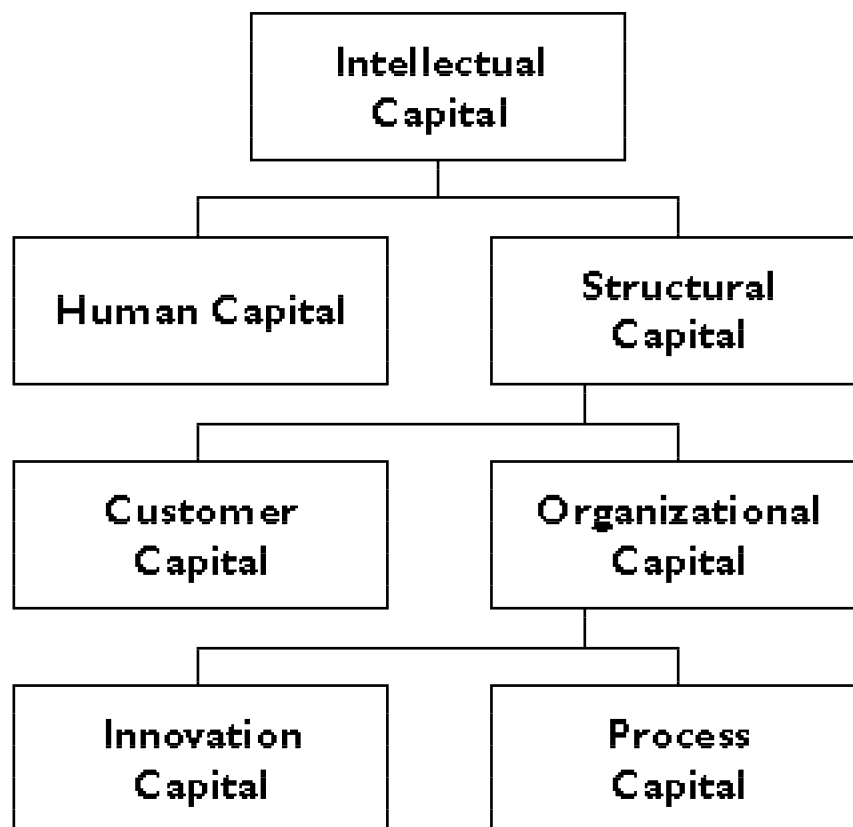
1. Missionary: sharing an understanding of the search for hidden values.
2. Measurement/metrics: development of the Navigator, publication of the first Intellectual Capital supplement.
3. Leadership: grasping the development of the different components of intellectual capital – human and structural.
4. Information technology: using information and communications technology effectively to identify and share knowledge.
5. Capitalizing: creating more financial value out of its capabilities and intangible assets.
6. Futurizing: creating the future and seeing the “future as an asset”.

A clear driver behind Skandia's focus on intellectual capital is renewal and development for the future, as is apparent in its company reports:

“Systematic management of intellectual capital creates growth in shareholder value. This is accomplished through, among other things, the continuous recycling and creative utilization of shared knowledge and experience.”

According to Edvinsson, financial measures do not help managers do this; “they are just measures you look at now and again. What you have to look for is the driving force of sustainability.” This led to his work in developing new intellectual capital measures that would also challenge managers. The result has been an evolution through three generations of IC models:

1. The Skandia Value Scheme and the Skandia Navigator. The Value Scheme was originally depicted as a hierarchy of components that drive value but more recently simply lists the main components at the same level. Edvinsson comments that the base of the Navigator was deliberately chosen as renewal and development, representing the foundations or roots of future success. This is the place to search for leading indicators, he adds.
2. Flow-based models. Skandia has developed a PC system called Dolphin that allows you to track the indicators of the Navigator over time. By linking streams of incoming data in the Navigator model, managers can assess movements on a daily basis. Other models help identify the flows and processes that convert from one form of intellectual capital into another. Thus human capital becomes structural capital through codification, while financial to human capital flows occur through investment in people and training.
3. The IC Index™. This gives a more precise measure of intellectual capital flows over time. It is now being piloted by American Skandia. By tracking the index over the previous three years it starts to give a visual indication of the sources and flows of intellectual capital. Within Skandia they see the IC Index™ performing two roles – internal guidance for management decisions and external reporting to industry analysts.



The Skandia Value Scheme

Customer Capital	Organizational Capital	Human Capital
Customer base Customer relationships Customer potential	Process Capital Culture Innovation Capital	Competence Relationships Values

Skandia Value Scheme components as described in 1998 IC Report.^{X271}

Innovation capital includes trademarks, patents, knowledge recipes and business secrets.

Development of the Navigator

The Navigator started with Skandia's focus on the drivers for growth and renewal, those 'hidden values' that were not traditionally recorded in the company's annual reports:

"We operate in ten countries. We looked at the hidden values that we had. We found we had trademarks, concessions, customer databases, distribution systems, fund management systems, IT systems, core competencies, key persons, alliances and structures. Actually we identified over 50 such hidden sources. None are found in traditional accounting systems."

These factors were grouped into the components of intellectual capital of the Skandia Value Scheme. This led to the development of a prototype IC report internally. The work came to fruition and visibility in a separately published supplement to Skandia's 1994 annual report. It introduced the measures behind the Navigator and gave examples from the business of new non-financial measures in four groups:

- customer focus
- process focus
- human focus
- renewal and development focus.

From then until 1998, annual and interim (half yearly) reports have had an ‘intellectual capital’ supplement covering each of the areas of the Navigator in turn and in more detail.^{X78}

<i>Date</i>	<i>Supplement and Contents</i>
1994	Visualizing Intellectual Capital at Skandia
1995 Interim	Renewal and Development
1995 Annual	Value Creating Processes – customer relationships, risk management, competency centres, learning processes, core competencies, organizational capital
1996 Interim	Power of Innovation – innovation for growth, creative processes, Skandia Future centres
1996 Annual	Customer Value – customer capital, competence perspective, rewarding relationships, customer base and potential, value-creating relationships
1997 Interim	Intelligent Enterprising – innovation explosion, identity, recipe for navigation, knowledge recipe, knowledge systems for customer service, knowledge exchange, virtual intelligence, the IC Index™, KenNet (an IT-based knowledge network)
1998 Annual	Human Capital in Transformation – “IC the future – innovative enterprising”, human capital, knowledge sharing, individual navigator, assessing fund competence, health and human capital, knowledge café, the intelligence revolution.

Each supplement also includes pages of Navigator results for key divisions. For example, the 1998 Intellectual Capital Supplement gives performance reports of the Navigator indicators for six Skandia companies: American Skandia, Dial, SkandiaBanken, SkandiaLink, Skandia Life UK Group and Skandia Real Estate. Below is an extract from the report of American Skandia.

Skandia Navigator Report – American Skandia

	1997	1996	1995
FINANCIAL FOCUS			
Return on capital employed %	21.9	27.1	28.7
Operating result (MSEK)	1,027	579	355
Value added/employee (SEK 000s)	2,616	2,206	1,904
CUSTOMER FOCUS			
Number of contracts	189,104	133,641	87,836
Surrender ratio	4.4%	4.4%	4.1%
Points of sale	45,881	33,287	18,012
HUMAN FOCUS			
Number of full time employees	599	418	300
Number of managers (total)	88	86	81
Number of women managers	50	27	28

Training expense/employee (SEK 000s)	2.5	15.4	2.5
PROCESS FOCUS			
Number of contracts/employee	316	320	293
Admin expense/gross premiums	3.5%	2.9%	3.3%
IT expense/admin expense	8.1%	12.5%	13.1%
RENEWAL AND DEVELOPMENT FOCUS			
Share of premiums from new launches	0.9%	23.7%	49.2%
Increase in net premiums written	31.9%	113.7%	29.9%
Development expenses/admin expense	9.5%	9.9%	10.1%
Share of staff < 40 years old	76%	78%	81%

Over time Skandia's IC reporting tools have evolved and it is always experimenting with new approaches, such as the IC Index™ (see below) and the use of an Individual Navigator focused on the knowledge, skills and capability of each individual.

Although intellectual capital supplements have not been published externally during the last few years, some key indicators, such as those for human capital are reported at a group level as part of its annual report. The company says that it remains committed to communication with investors and is taking a more holistic view of non-financial reporting. In 2001, it published its first Environment Report supplement, the culmination of two years work on developing a model to evaluate the impact of its investments from an environmental, ethical and social perspective. In his foreword, President and CEO Lars-Eric Patersson writes:

“A fair valuation of a company in today's knowledge-intensive business environment demands a detailed understanding of all its activities. This analysis must include more than just the financial value. A commitment to sustainable development, which includes aspects such as the environment, ethics and corporate social responsibility, must also be accounted for in order to present a more accurate picture of the company's future value.”

It reports on indicators such as car and air distances travelled by employees, electricity, paper and water consumption. As it move to sustainability reporting intellectual capital will be one of three headings under sustainability: the others are environment and social responsibility.

The Navigator as a Management Tool

However, the Navigator is not simply an external reporting device. Its full title is The Skandia Navigator Management and Reporting Model. Indeed its title derives from the notion that such reporting can help guide managers into the future. It is seen as way of visualizing critical success factors and making them visible. It is used to drive the business forward and provide a focus for management action. Skandia's literature makes an important point about its operation:

“In order for the Navigator to work, the indicators must be easy to define, measure, understand and communicate. They must be clear-cut, that is, they should measure what's important.”

It also helps to clarify the difference between human and structural capital, and achieve a sensible balance between the two.

Edvinsson stresses that a tool such as the Navigator takes several years to develop and apply in a given organization. In Skandia's case, the first stage was gaining the acceptance of the notion of measuring intellectual capital. The second stage was the development of appropriate metrics for the business unit selected for a pilot. The third, and most difficult stage, was gaining commitment from senior management to apply it throughout the whole organization. He says:

“The sheer time it takes to develop effective measures for intangible assets is a huge challenge. You need at least one accounting cycle to get the numbers, then another two cycles to get comparison data, then another cycle after that to get a complete picture of position, direction and speed. And by then you have realized that some of your measures need to be refined somewhat and new ones added, so it takes another six- year cycle to put those in place.”

Today, each business unit creates indicators or intellectual capital indices that are critical to the development business. By concentrating on intellectual capital indicators and grouping those from several businesses, top management are provided with a focus for managing development for the future. The following examples illustrate this in different facets of the business:

- Satisfied Customer Index and Customer Loyalty Measures. In one commercial division in Norway over 7000 customers were surveyed and their views on products and satisfaction obtained. This resulted in the initiation of a quality assurance project, with expected outcome of even more customer loyalty. Customer measures also included telephone accessibility and policies not surrounded.
- Quality in IT Systems. In Skandia information services unit, an important process measure is that of functions points per employee-month. The function point measure, developed by IBM, is an indicator of the complexity of a system. The measure therefore gives an indicator of programmer productivity. Human measures are number of training hours, and an employee's 'empowerment index'.
- Renewal through competence and market development. In SkandiaBanken Fonder, a company with only 15 employees, but one that manages 18 investment funds, renewal measures include competence development expense per employee and marketing expenditure per customer, as well as a satisfied employee index.

Each of these are examples of where an indicator helps managers to identify critical value-creating work processes. It is used as both a long-term and short-term development tool. An indication of Skandia's awareness of intangibles is that in several parts of the company many of the factors in the Navigator were already being monitored. Thus the savings unit of Skandia Norden, a company started in 1990, realized from the outset the need for systematization of processes so that it could grow and adapt fast without compromising quality. In 1992, they developed the 'F-LINK' index, that included factors considered to contribute most to market success – satisfied customers, satisfied salespersons, motivated and competent staff, quality assured and effective administration. The index was used to identify problem areas and to guide employee development and reward systems. It is also used during employee induction to highlight what the business views as critical success factors. F-LINK has now been incorporated as part of this division's Navigator.

Of the different components of intellectual capital, human capital is not usually the largest, but it is the most dynamic. Therefore Skandia put ten times the investment in growing structural capital. Within this, IT systems represents the largest proportion, and shows a healthy rate of return based on the new measures. One bridge between man and structural capital is IT literacy. Measuring this is not difficult – you can identify how many people use electronic mail, office presentation packages and so on.

A recent development is the use of the Navigator at individual level. For example in American Skandia the aim is “to encourage the growth of its (AMS) human capital through the knowledge, skills and capability of each individual”. The Insight Navigator, as it is called, is now an important tool for employees throughout the group and helps them define their own renewal and development plans. Their day-to-day activities are aligned with organizational goals. It has become a core method of doing performance appraisals and also helps communication, coaching, and identifies future development needs.

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