Our Experiences of Intellectual Assets Based Management and Its Future Development

Waseda Intellectual Capital Research Society
&
World Intellectual Capital/Assets Initiative

Senior Advisor

YASUHITO HANADO

September 18, 2014
Composite Index of Management Competence: Proactive Data of Future Development and Growth

EU MERITUM PRISM

IAbM: Intellectual Assets based Management

Dedication to Intellectual Property Nation: Revitalization of Japanese Economy through Value Creation Based on Intellectual Assets

WICI: World Intellectual Capital/Assets Initiative

IIRC: International Integrated Reporting Committee

From Financial Reporting to Business Reporting

EBRC: Enhanced Business Reporting Consortium

From Relevance Lost to Balanced Score Card

Lisbon Agenda

MESURING INTANGIBLES TO UNDERSTANDING AND IMPROVE INNOVATION MANAGEMENT

Policy Making, Reporting & Measuring, Intangibles, Skills Development Management

ISO 9000 & 26000 Series

Financial Data + ESG Data

Industrial Economy to Knowledge Economy

Overburden Issue of Business Disclosure

Interactive Communication based on XBRL

ICT Age (Web 2.0)

The UN Framework Convention on Climate Change

Compulsory Disclosure of Greenhouse Gas by EPA

UN: Creation, Recognition and Evaluation of IA

Forward-looking Information through MC

IFRS as the Global Accounting Standard

Sustainable Growth in Aging Society through IAbM

Treating Intellectual Assets as One of Elements of SNA

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### National

**Subcommittee on IAbM, Deliberation for Structure of Japanese Industry, METI**

- **Public Company**
  - 2005.8.12. *Interim Report on IAbM*
- **Small & Medium Enterprise**
  - 2006.3.14. *Interim Report on IAbM for SMEs*
  - 2006.12.10. *Manual for IABM Reporting of SMEs*
  - 2008.10.1. *Guideline of IAbM Practice for SMEs*
  - 2008.10.1. *Research Report on IAbM Finance*

### Trial Project on Disclosing IAbM Report of SMEs, Kinki Division of METI

- Two SMEs of Kansai Area Disclosed Their Tentative IAbM Reports, and One of Them Borrowed Bank Loan under the Relational Banking Loan Policy Based on IAbM

### International

**OECD Project on Intellectual Assets and Value Creation and Its Follow-up Project**

- 1st IAbM Week in Japan
- 2nd IAbM Week in Japan
- 3rd IAbM Week in Japan
- 4th IAbM Week in Japan
- 1st Japan-Germany IAbM Summit

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[Waseda Intellectual Capital Research Society](http://www.wicrs.waseda.jp)  
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【Background】
Drastic Change of Enterprise’s Value Creation Driver in the Knowledge Economy
⇒ Shifting from Tangible Assets to Intangible Resources
⇒ In Developed and Matured Country Like Japan, Intangibles Is the Key of Competitiveness

【Three Steps of IAbM】
1) Developing IAbM as New Japanese Business Model
   after Japanese Real-Estate Bubble Burst

2) Introducing the New Disclosure System for Open Innovation
   in the Age of Web 2.0

3) Sharing the World Intellectual Capital/Assets Initiative
   of Business Reporting Framework Based on XBRL Format
   with Every Business People and Stakeholders
Developing the New Scheme of Evaluating IAbM as Value Creation Driver

Intellectual Assets-based Management (IAbM):

The business management utilizing “Intellectual Assets”
as an source of its competitiveness

Intellectual Assets:

Such as:

Human Resources, Unique Technologies, Organizational Strength,
Networking with Customers and Other Stakeholders,
Brands and Intellectual Property Rights.

These invisible resources have become an indispensable source of
value creation and competitiveness of business enterprises.
Company is a value creation mechanism, which can be expressed as a metaphor of the mathematical function.

The part surrounded by dotted line is usually invisible.

\[ \text{Input: } x \ (x_1, x_2, \ldots, x_n) \]
\[ \text{Corporation} = f \]
\[ \text{Output: } y = f(x) \]

- **Tangible assets**
- **Intellectual assets**
- **Available assets outside the company**

Corporation = value creation machine
\( f = \text{function to convert inputs into values} \)

\( y = \text{value created} \)

Future profit or cash flow as discounted to the current one is the current corporate value.

Not only IA itself (\( x \)), but also the conversion mechanism (\( f \)) to create values are substantial, since \( f \) is the very management.

IA and \( f \) last longer than tangible financial assets, therefore they are more reliable grounds for future achievement.
WICI was formed in November 2007 and participants include organizations representing companies, analysts and investors, the accounting profession and academia.

The Promoting Parties of WICI are:
Enhanced Business Reporting Consortium (USA)
(American Institute of Certified Public Accountants (AICPA), Microsoft Corporation, PricewaterhouseCoopers and Grant Thornton)
European Federation of Financial Analysts Societies (EFFAS)
Japanese Ministry of Economy, Trade and Industry (METI)
Society for Knowledge Economics
University of Ferrara
Waseda University

The European Commission, the OECD, and the Brazilian Development Bank (BNDES) participate in WICI as Observers.
The Structure of WICI

General Assembly (Promoting Parties = EFFAS, METI, EBRC, Ferrara, Waseda)

Governance Group
US (EBRC/Mike Willis), Europe (EFFAS/Stefano Zambon), Japan (Waseda/Shigeru Nishiyama), Former Chairperson (METI/Takayuki Sumita) + WICI

Global Chairperson

Chairperson
Amy Pawlicki (AICPA)

Observers
European Commission, BNDES (Brazil), OECD

Secretariat

WICI Australia
WICI Europe + WICIs of European Countries (Italy; France; Germany)
WICI Japan
WICI USA (EBRC)
Our Vision and Goals

Our Vision

WICI, the world’s business reporting network, is a private/public sector collaboration aimed at improving capital allocation through better corporate reporting information.

Our Goals

- The first is to develop a voluntary new global framework for measuring and reporting corporate performance to shareholders and other stakeholders.
- The second is to develop guidelines for measuring and reporting on industry-specific key performance indicators (KPIs).
- The third is to facilitate the development of XBRL taxonomies for this content.

We believe that such better information will improve capital allocation decisions both within companies and between investors and companies. The result will be more value creation for a better world economy.
Conduct awareness building activities for many organizations and investors to understand and implement the concept of “Intellectual assets/capitals based management” appropriately.

Provide framework as a tool for appropriate communication tool between the organizations and its stakeholders about “Intellectual assets/capitals based management” and continue to improve the framework.

Provide sector-specific KPIs (Key Performance Indicators) in order for the organizations to realize the substance of “Intellectual assets/capitals based management”, as well as disseminate the idea that such sector-specific KPIs are NOT set of KPIs that the organization must disclose, rather the organizations can freely choose such KPIs to fit the substance of its own management.

Provide framework integrated with the technology such as XBRL from the beginning and continue to improve.

Participate the discussion about other global disclosure framework and input WICI concept into the globally accepted disclosure framework.

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**Our Reporting Framework**

<table>
<thead>
<tr>
<th>past</th>
<th>current</th>
<th>future</th>
</tr>
</thead>
</table>
| a. Business Landscape  
a-1. business landscape summary | d. performance  
d-1. performance summary (results of operation)  
d-2. GAAP based  
d-3. GAAP derived  
d-4. Industry based  
d-5. Company specific  
d-6. Capital market-based | A. Business Landscape  
A-1. business landscape summary  
A-2. economics  
A-3. industry analysis  
A-4. technology trends  
A-5. political  
A-6. legal  
A-7. environmental  
A-8. social |
| b. Strategies  
b-1. corporate strategy summary  
b-2. vision and mission  
b-3. strengths  
b-4. weakness  
b-7. goals and objectives  
b-8. corporate strategy  
b-9. business unit strategies  
b-10. business portfolio | | B. Strategies  
B-1. corporate strategy summary  
B-2. vision and mission  
B-5. opportunities  
B-6. threats  
B-7. goals and objectives  
B-8. corporate strategy  
B-9. business unit strategies  
B-10. business portfolio |
| c. Resources and Processes  
c-1. resources and processes summary  
c-2. resources forms  
c-3. key processes  
c-4. value drivers | | C. Resources and Processes  
(C-99.) Resources and processes summary especially with changes in resource forms, key performance and main process from that described in c-2 and c-3 |
| | | D. performance  
D-1. financial prospects (summary) |
Our Concept of KPI

Definition of WICI KPIs

KPIs are provided as numerical figures (metrics) related to critical factors of value creation, and they support the explanation of business strategy linking it to future financial or economic performance.

“Concept Paper on WICI KPI in Business Reporting ver. 1.0” (last updated on July 2010)

Some Attributes of WICI KPIs

- Both financial and non-financial information including KPIs shall be accompanied by an explanation of the company’s corporate value creation mechanism and strategy, as well their potential impact on current and future economic/financial performance

- According to their relevance, KPIs can be categorized into three classes: general KPIs, industry-specific KPIs, and company-specific KPIs. As a first step, WICI intends to develop and set up industry-specific KPIs, followed by a process of singling out common KPIs among these, based on the results of their application

According to our concept and attributes of WICI KPIs, we have, as our first step, been developing the industry-specific KPIs below.

Electronic components (WICI Japan); Pharmaceutical (WICI Japan); Automotive-automobile (WICI Japan); Telecommunications (Joint WICI Europe + EFFAS); High Technology (in XBRL) (WICI USA); Mining (in XBRL) (WICI USA + WICI Australia); Fashion & Luxury (Joint WICI Europe + EFFAS); Electricity (WICI Europe + WICI Italy); Oil & Gas (WICI Europe) (in course of elaboration)

※ All available for free download in the WICI website (www.wici-global.com)

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Our Proposition to Reform Today’s Business Reporting

Seven Points for Future Business Reporting

1. Identifying sources of differentiation of a company from others
2. Making it clear the value creation mechanism unique to the company which can last longer
3. Presenting an integrated picture of the company's activities, including financial data, financial performance and non-financial elements
4. Providing clues to stakeholders to predict future performance of the company
5. Allowing companies to freely choose the substance without requiring ‘tick the box’ type of disclosure
6. Explaining material issues for the company with a certain reliability and comparability of the disclosed information for users
7. Reducing the total cost of reporting for companies
WICI: PAST-PRESENT

2007 - WICI Started
2007 - WICI Taxonomy
2007 - Industry KPI Project: Automobile/Electronic Device/Pharmaceutical/Telecommunications/Fashion

2008 - WICI KPI Concept Paper
2008 - WICI Concept Paper (Framework)
2008 - MoU with IIRC as Collaborate Partners

2009 - WICI Japan Started
2009 - WICI Symposium
2009 - Nov 19th: "Value Creation Management and Interactive Data"
2009 - Nov 20th: "Business communication frontier"
2009 - Dec 2nd: "Challenge to Integrated business reporting~How we communicate"
2009 - Dec 1st: "Strategic corporate management in Integrated Reporting Era"
2009 - Oct 31st: "Towards Substantial disclosure beyond the form"
2009 - Nov 22nd: "Integrated Thinking is the key for Increasing Own Competitive Strength"

2010 - Global Discussion/Comment Submitted
2010 - Collaboration with IIRC

2011 - EC Transparency Direct
2011 - EC Internal Market
2011 - IIRC Discussion Paper
2011 - GRI G4
2011 - IASB Exposure Draft-MC
2011 - EC Workshop of ESG Disclosure

2012 - IIRC Discussion Paper
2012 - EC Transparency Direct
2012 - EC Internal Market
2012 - IIRC Discussion Paper
2012 - GRI G4
2012 - IASB Exposure Draft-MC
2012 - EC Workshop of ESG Disclosure

2013 - Industry KPI Project: Automobile/Electronic Device/Pharmaceutical/Telecommunications/Fashion
2013 - Nov 22nd: "Integrated Thinking is the key for Increasing Own Competitive Strength"
WICI Participation in the International Debate

WICI also participates in the international debate, sending its comments and suggestions on documents set by standard setters and institutions for public consultation. The most recent examples:

2. European Commission’s «Green Paper on Long-Term Financing of the European Economy» (June 2013)
3. GRI (Global Reporting Initiative) Report on «The Sustainability Content of Integrated Reports – A Survey of Pioneers» (June 2013)
5. «Alternative Performance Measures» by ESMA (European Supervisory Authority on Financial Markets) (May 2014)
“The essence of a business is to create value over the long, as well as the short and medium term, by utilizing its strengths supported by the range of capitals available to it. Therefore, the most important part of corporate reporting is for a business to tell its individual value creation story, providing evidence of how the organization has created value in the past and its plans for creating value in the future.”

“The collaboration between WICI and IIRC will help further the evolution of corporate reporting. Creating a new corporate reporting language will enable organizations to communicate their own value creation story more effectively with investors which will facilitate better decision making and, in turn, contribute to a more sustainable global economy.”

WICI took on the editorship of IIRC Background Paper for <IR> “CONNECTIVITY”
Connectivity of Information

Definition (FW 3B 3.6)

An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time.

Key Forms of Connectivity Information

- The Content Elements
- The past, present and future
- The capitals
- Financial information and other information
- Quantitative and qualitative information
- Management information, board information and information reported externally
- Information in the integrated report, information in the organization’s other communications, and information included in other sources.
Integrated Thinking and Integrated Reporting

INTEGRATED THINKING

Connecting strategy, governance, past performance and future prospects

Connecting functional departments

INTEGRATED REPORTING

what information is connected

how information is connected
Inquiring into Critical Value Creation Driver (CVCD) of each business entity

A Case Study of 3M Japan has been conducted by WICI Japan Study Group on Value Creation Driver

Connecting CVCD with accumulated data of IT Management System

Specifying KPIs explaining its own value creation process

Changeover of Information Processing

Isolated Information Gathering Approach of Financial/Non-financial Reports

Integrated Reporting Approach of Projecting its own value creation mechanism

Describing Reliably the Value Creation Process (Value Creation Story) of Each Business Entity with <IR>

Preparation for Assurance
WICI Panel on “Connectivity”
12th World Congress of Accounting Researchers and Educators
University of Florence, 13-15th of November 2014

WICI Symposium 2014
4th of December 2014
Otemachi Financial City Conference Center, Tokyo

http://www.wici-global.com/

Thank You for Your Attention