

# A new reporting model for integrating material intangibles into value and performance

8<sup>th</sup> EIASM Interdisciplinary workshop on  
'Intangibles, intellectual capital and extra-  
financial information'

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**WICI Chair**  
**September, 2012**

## 0 . WICI's activity

0 - 1 WICI Framework

0 - 2 Main Activities

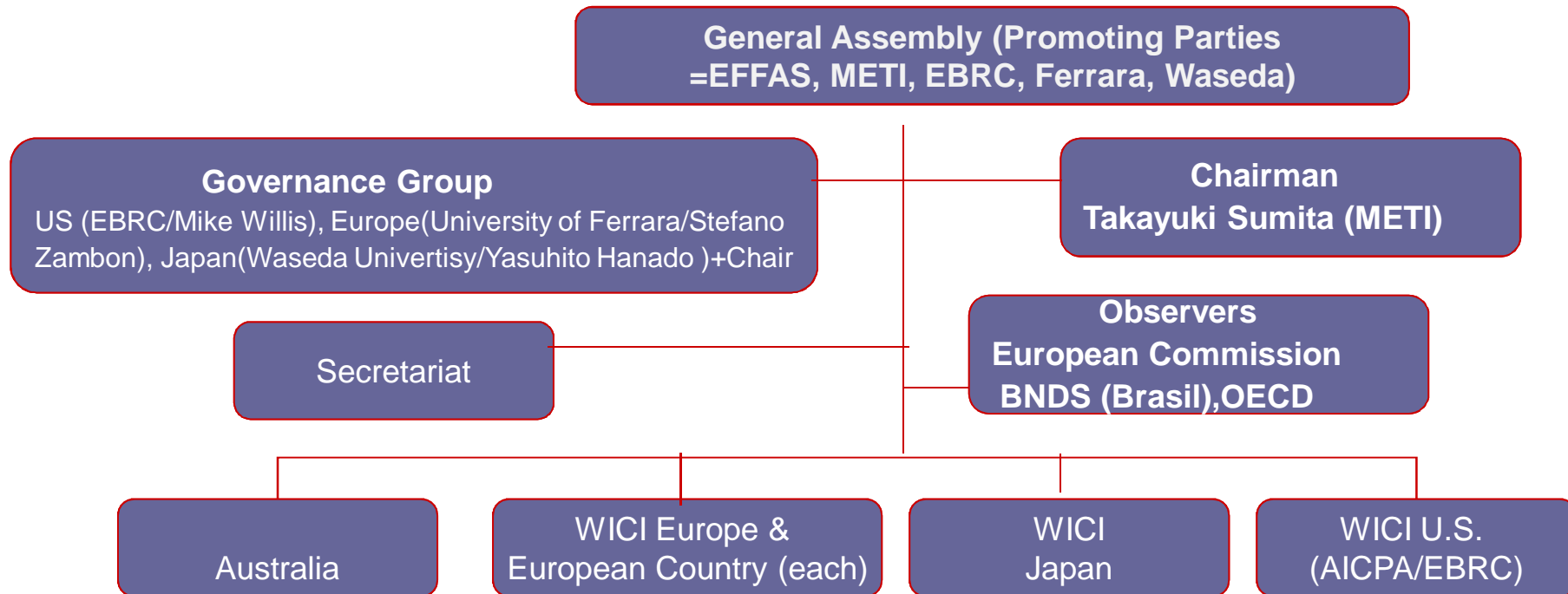
0 - 3 WICI Concept

0 - 4 WICI and IIRC

# 0-1 WICI Network

[www.wici-global.com](http://www.wici-global.com)

**WICI (World Intellectual Capital/ Assets Initiative) global network was established in 2007, aiming at setting up a new business reporting framework in the 21<sup>st</sup> century of knowledge era.**



## 0-2 Main Activities

- Ø In 2008, WICI issued a new **Business Reporting Framework** for integrating financial and non-financial information, based on METI Guideline and EBRC input.
- Ø At the same time, WICI developed its own **XBRL taxonomies** in line with the Framework.
- Ø WICI has published draft industry specific KPIs as examples **of frequently used KPIs** in industries such as Pharmaceutical, Electronic components, automobiles, fashion and textile industries.
- Ø WICI presented the **basic concept** in 2011 and **KPI concept** in 2010.  
WICI concept paper [http://www.wici-global.com/docs/wici\\_concept\\_rev.1\\_jan\\_2011.pdf](http://www.wici-global.com/docs/wici_concept_rev.1_jan_2011.pdf)  
WICI KPI concept [http://www.wici-global.com/publications/concept\\_paper\\_ver1\\_final\\_201006\\_E.pdf](http://www.wici-global.com/publications/concept_paper_ver1_final_201006_E.pdf)
- Ø WICI has Cooperated with international organization such as IASB, European Commission, OECD, IIRC, A4S, Eurosif etc. and academia.
- Ø As a collaborative organization to IIRC, WICI has made substantive **input to IIRC** activities since 2010.

# 0-3 WICI Concept

[http://www.wici-global.com/docs/wici\\_concept\\_rev.1\\_jan\\_2011.pdf](http://www.wici-global.com/docs/wici_concept_rev.1_jan_2011.pdf)

- Ø WICI sees a company as a value creation mechanism
- Ø Business reporting should focus on the core substance of the company by addressing 1) the company specific value creation mechanism, 2) specific resources including non-financial ones, 3) perspective on the future and 4) strategy. Then it can well connect a company and its stakeholders.
- Ø WICI proposes a new business reporting system which
  - ü Identify sources of differentiation and explain material issues, including non-financial elements
  - ü Make clear the mid and long term value creation mechanism of the company
  - ü Presenting an integrated picture of the company's activities
  - ü Providing clues for stakeholders to predict future performance
  - ü Allow companies to freely choose the substance without requiring tick the box response
  - ü Reduce the total cost of reporting through summarizing a comprehensive and integrated report
  - ü Support company's total sustainability including but going beyond environmental and social sustainability
- Ø To attain these goals, WICI
  - ü **Presents the skeleton of a narrative story of the value creation and strategy without regulating the substance of disclosure (see next slide)**
  - ü **Asks companies to include measurable KPIs to support the narrative story, as well as the concept paper of KPI to avoid misunderstanding on the nature of KPIs and to allow company to choose the most material KPIs by itself**
  - ü **Recommend companies to use XBRL format to improve comparability and making reports more easily utilized by stakeholders**

## 0-4 WICI and IIRC

- IIRC (International Integrated Reporting Council) was established in August 2010.
- IIRC aims at presenting a framework for realizing corporate reporting that integrates non-financial information with financial information. [www.theiirc.org](http://www.theiirc.org)
- As the first step it published a discussion paper toward integrated reporting in Sept. 2011.
- WICI and METI have contributed a lot to the paper and continue working with it.

### [Common approach in WICI & IIRC]

- 1) Focus on corporate strategy for sustainable Value Creation as well as how to recognize a company
- 2) Forward-looking with a special attention on future performance
- 3) Long-term perspective
- 4) Respect on non-financial capitals or resources, including intellectual capital, human capital and social capital, and interconnection between those and financial factors
- 5) Flexibility in choice of material elements by companies

### [Comparison between IIRC Guiding Principles/ Content Elements and WICI Framework]

#### Guiding Principles

Strategic focus  
Future orientation  
Connectivity of information  
Responsiveness and stakeholder inclusiveness  
Conciseness, reliability and materiality  
note; Common ideas are underlined

#### Content Elements

Organizational overview and business model  
Operating context, including risks and opportunities  
Strategic objectives and strategies to achieve those objectives  
Governance and remuneration  
Performance  
Future outlook  
note; Common elements are underlined

# 1 . Focus on **value creation** and business model

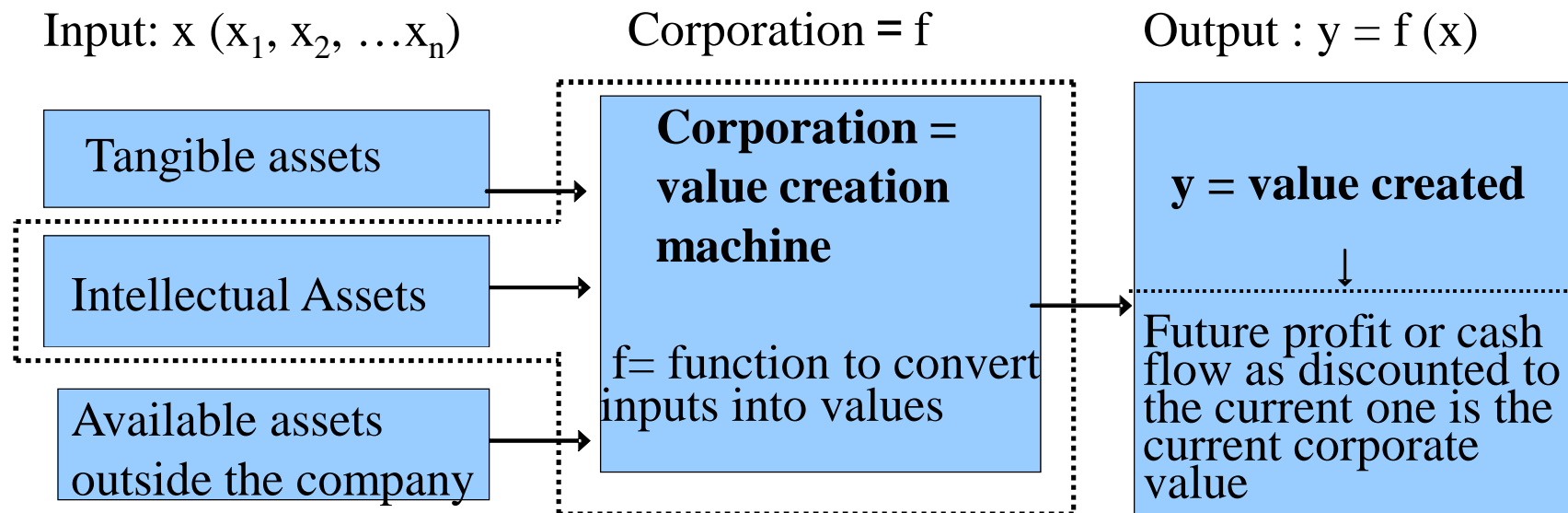
1 - 1 Company and Business Model

1 - 2 WICI Concept

1 - 3 6 Capitals Model in IIRC

# 1-1 Company and Business Model (2005, METI)

**Company is a value creation mechanism, which can be expressed in a metaphor of the mathematical function. The part surrounded by dotted line is usually invisible.**



Both IAs(x) and conversion mechanism or business model (f) are substantial.

Main categories of IAs

**Human assets (inc. their knowledge or technique, leadership...),**

**Organisational assets (inc. teamwork, loyalty, accumulation of technology) Relational**

**assets (inc. reputation, network with business partners ...)**



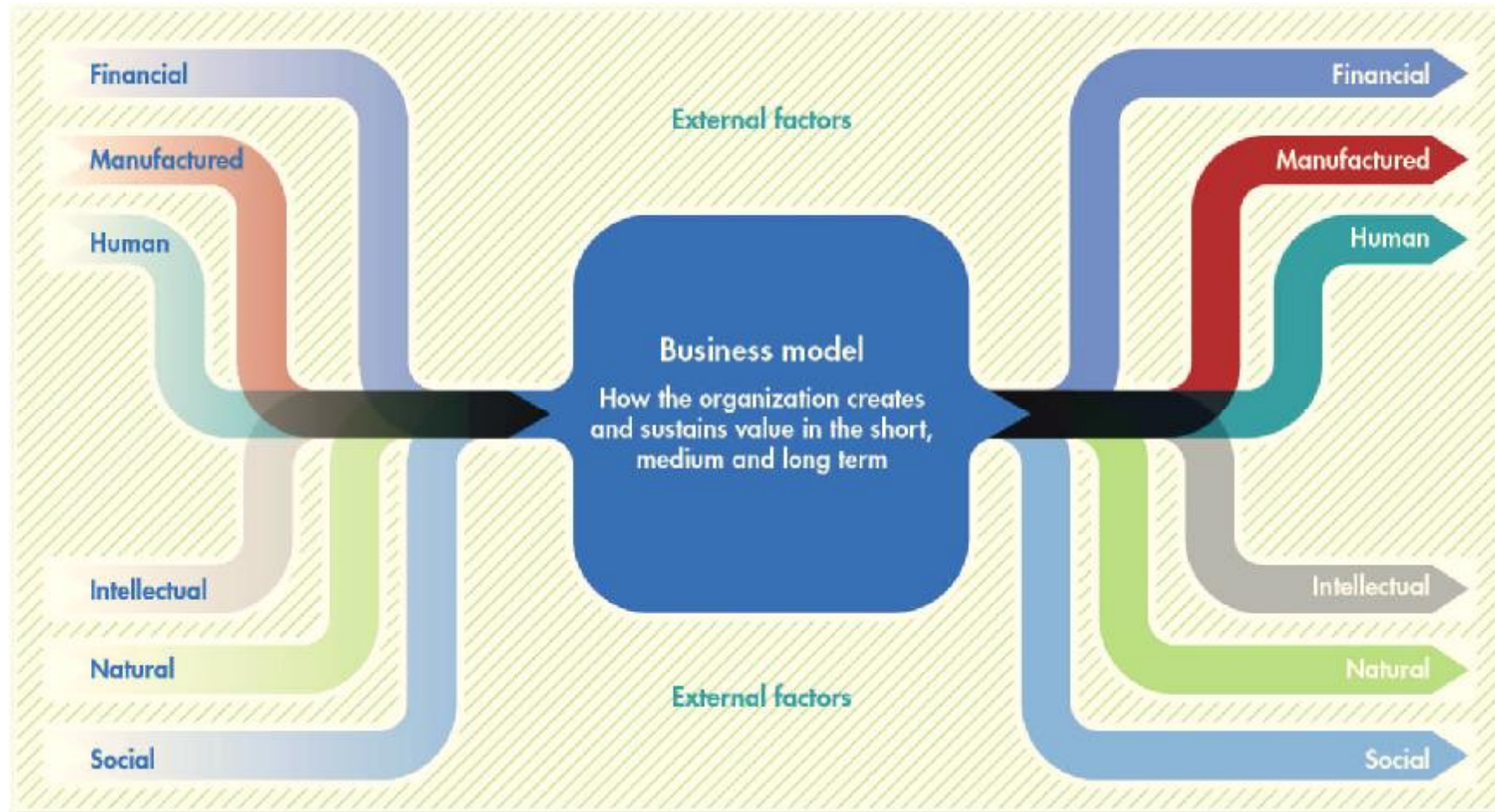
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# 1-3 6 Capitals Model in IIRC

Central themes –business model and value creation



## 2 . Big picture in a Story

2 - 1 Image of Big Picture

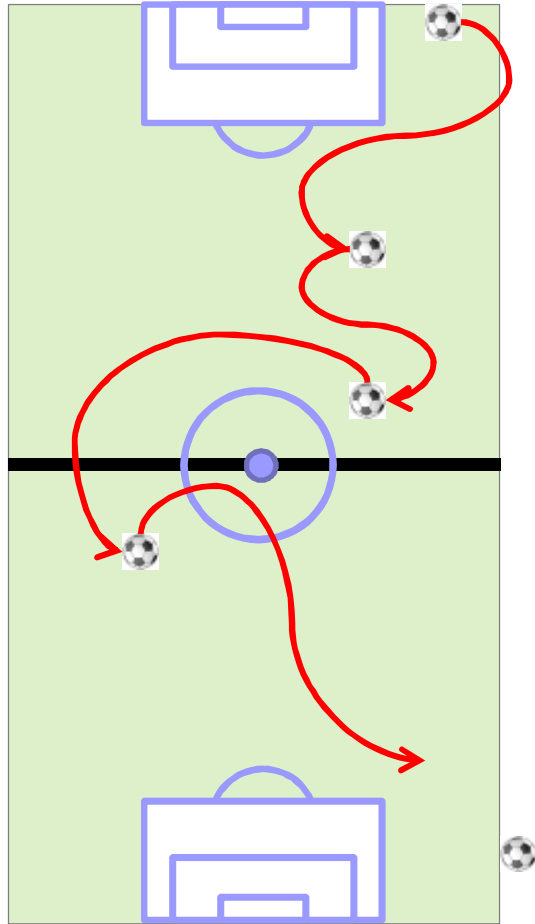
2 - 2 Outline of IAbM story  
Recommended

2 - 3 Integrated Value Creation Story

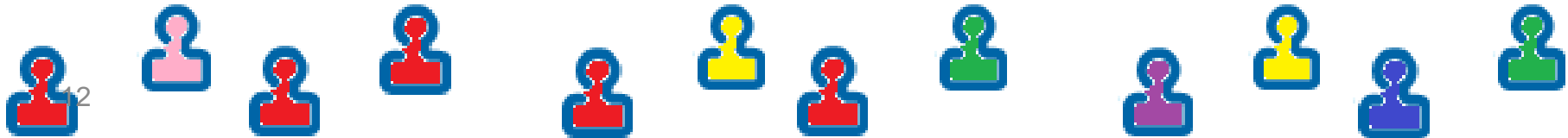
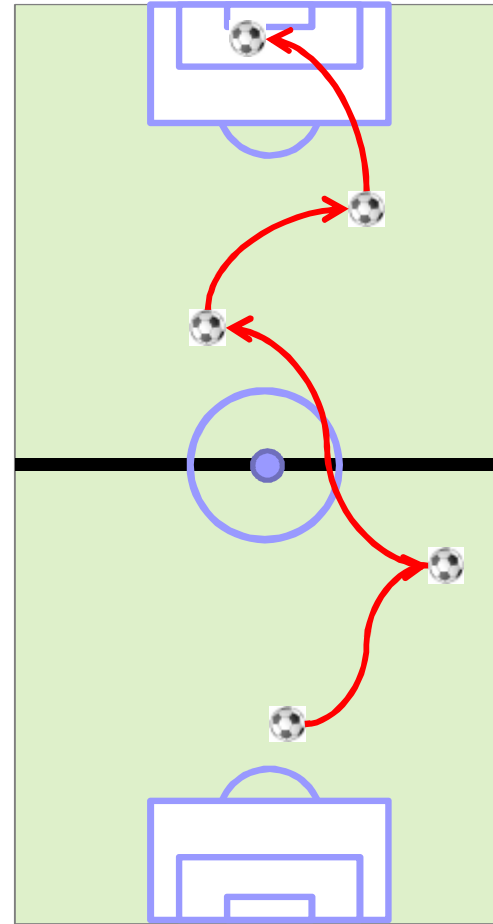


# 2-1 Image of Big Picture

First Half  
(Past-Present)



Second Half  
(Present-Future)





## 2-2 Outline of IAbM story recommended in Oct. 2005

**(General)** (0) Basic management philosophy  
(a) Outline of business characteristics

**(From Past to Present)**

- (b) Management policy in the past
- (b)(c) Investment based on management policy (figures included)
- (b)(c) Unique intellectual assets accumulated in the company, strengths based on them, and value creation method (based on the above) (supporting indicators included)
- (d) Actual performance in the past, such as profits (as a result of value creation) (figures included)

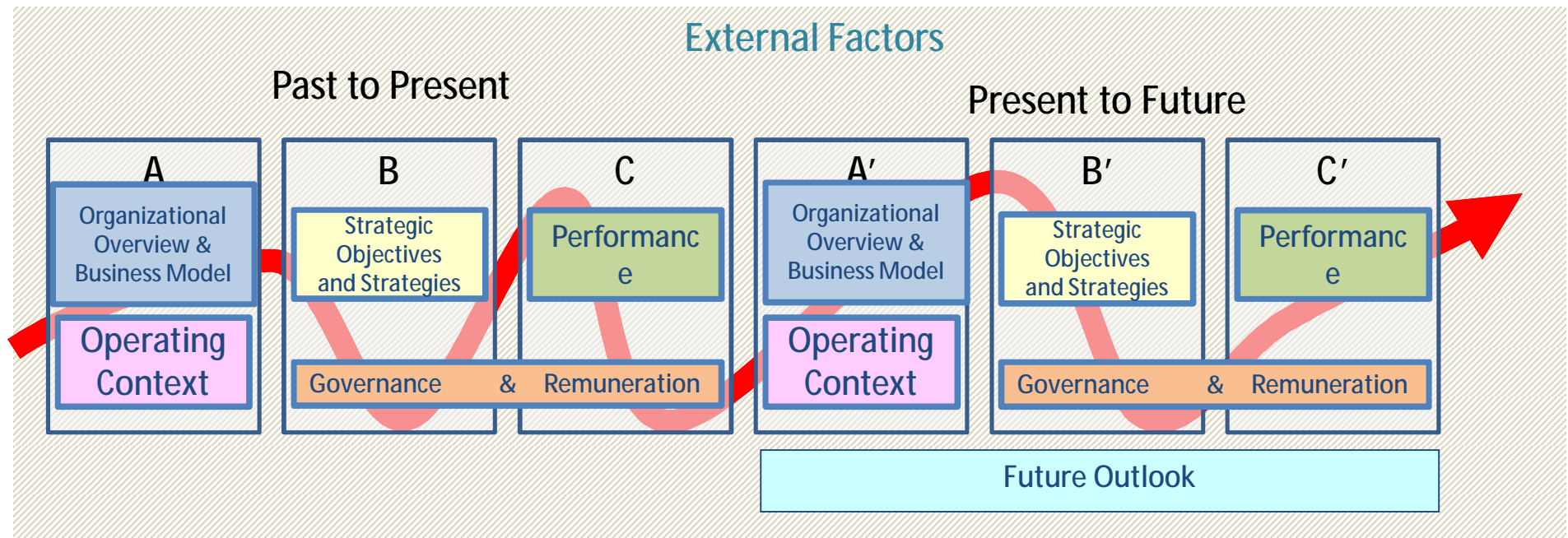
**(From Present to Future)**

- A: Identification of future uncertainty/risks, how to deal with them, and the future management policy including those elements
- BC: (Based on (b)(c) and the assessment of the past to the present) Intellectual assets that rooted in the company and will be effective in the future, and future value creation method based on them (supporting indicators included)
- BC: New/Additional investment for maintenance and development of intellectual assets needed (in line with the management policy A) (figures included)
- D: Expected future profits or target, etc. (based on the above)

**a-d and A-D reflects those in WICI framework**

**IAbM represents Intellectual Assets based Management**

# 2-3 Integrated Value Creation Story in IIRC



Reporting Perspective

## 3 . Future oriented in **two cycles**

3 - 1 Disadvantage of existing reports

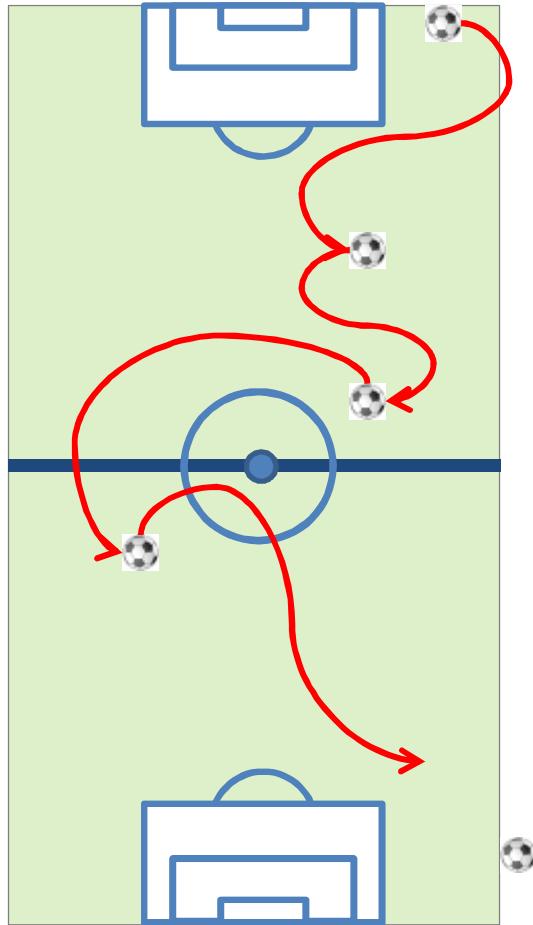
3 - 2 2 Cycles in METI's  
Recommendation

3 - 3 WICI Reporting Framework

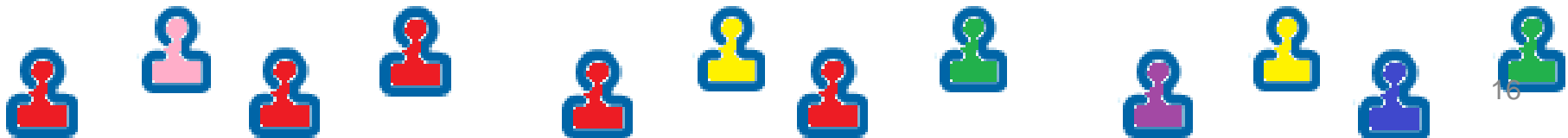
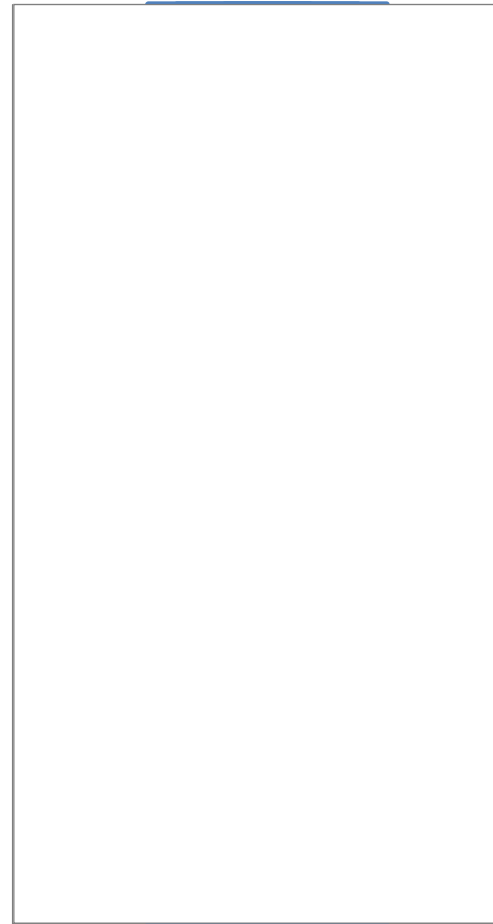
3 - 4 6 capital model into 2 cycles

# 3-1 Disadvantage of Existing report

First Half  
(Past-Present)



Second Half  
(Present-Future)







## 3-2 2 Cycles in METI's recommendation

**(General)** (0) Basic management philosophy  
(a) Outline of business characteristics

**(From Past to Present)**

- (b) Management policy in the past
- (b)(c) Investment based on management policy (figures included)
- (b)(c) Unique intellectual assets accumulated in the company, strengths based on them, and value creation method (based on the above) (supporting indicators included)
- (d) Actual performance in the past, such as profits (as a result of value creation) (figures included)

**(From Present to Future)**

- A: Identification of future uncertainty/risks, how to deal with them, and the future management policy including those elements
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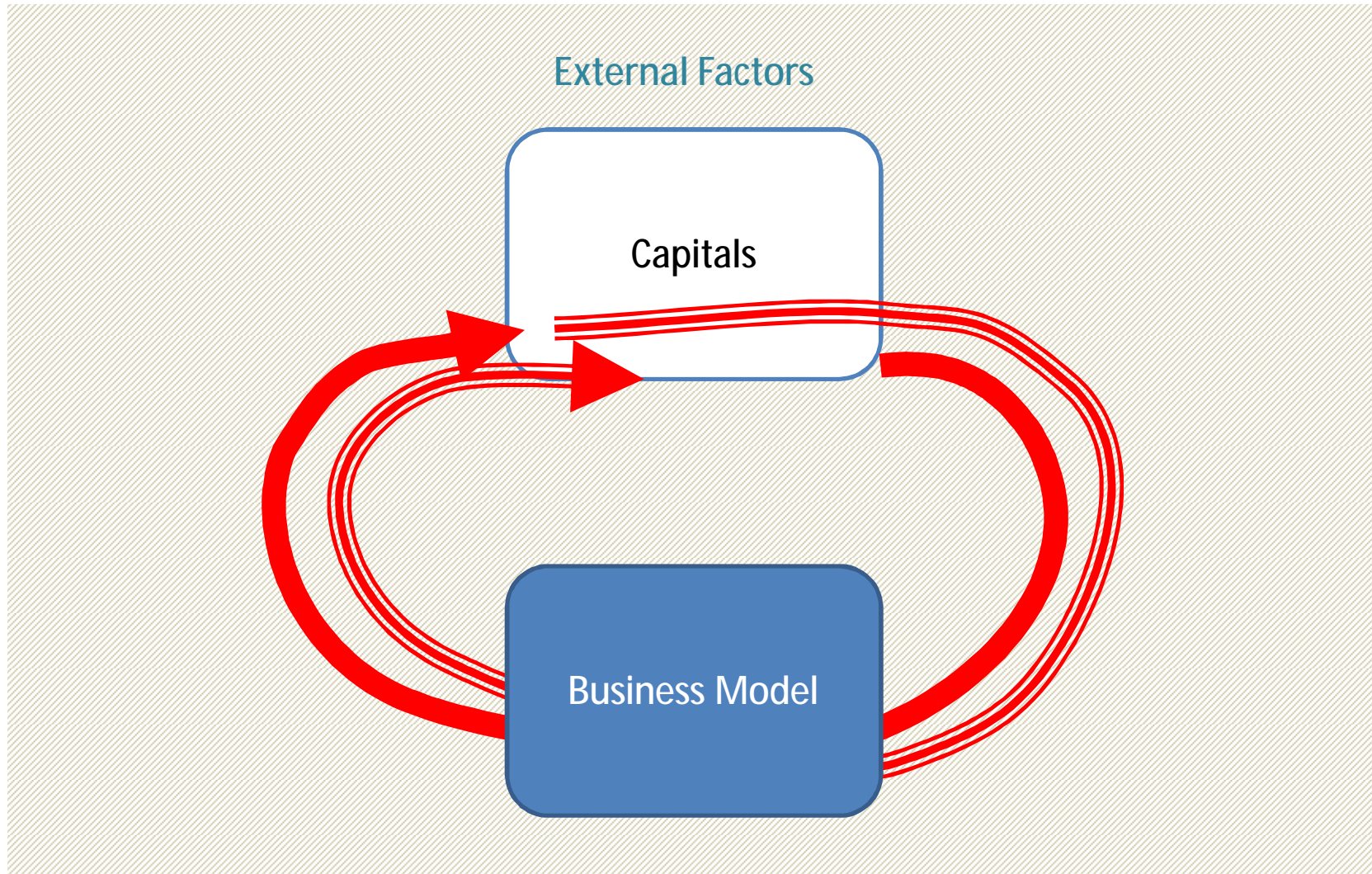
**a-d and A-D reflects those in WICI framework**

**IAbM represents Intellectual Assets based Management**

# 3-3 WICI Reporting Framework

0. Corporate Profile & Business Attributes		
0-1. industry overview		
0-2. duration and results per business unit		
0-3. business cycle per business unit		
0-4. competitive analysis		
past	current	future
<b>a. Business Landscape</b> a-1. business landscape summary	<b>d. performance</b> 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	<b>A. Business Landscape</b> 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>b. Strategies</b> 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>B. Strategies</b> 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
<b>c. Resources and Processes</b> c-1. resources and processes summary c-2. resources forms c-3. key processes c-4. value drivers		<b>C. Resources and Processes</b> C-1. resources and processes summary (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 <b>D. performance</b> D-1. financial prospects (summary)

# 3-4 6 capitals model into 2 cycles



## 4 . Clear **Connectivity** of elements

4 - 1 Connectivity Project

4 - 2 Connectivity as a whole

4 - 3 Connectivity in Zoom in Pictures

3 - 3 Collaboration in IA week 8

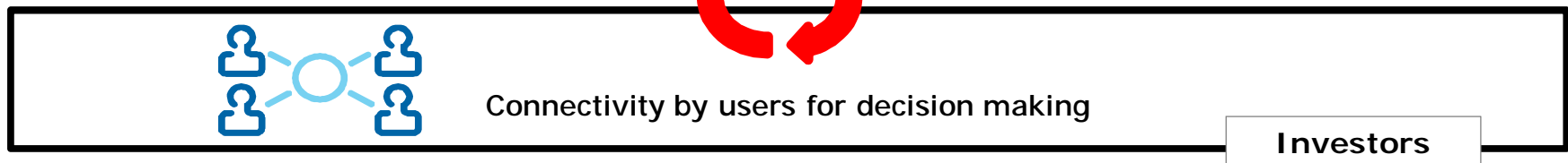
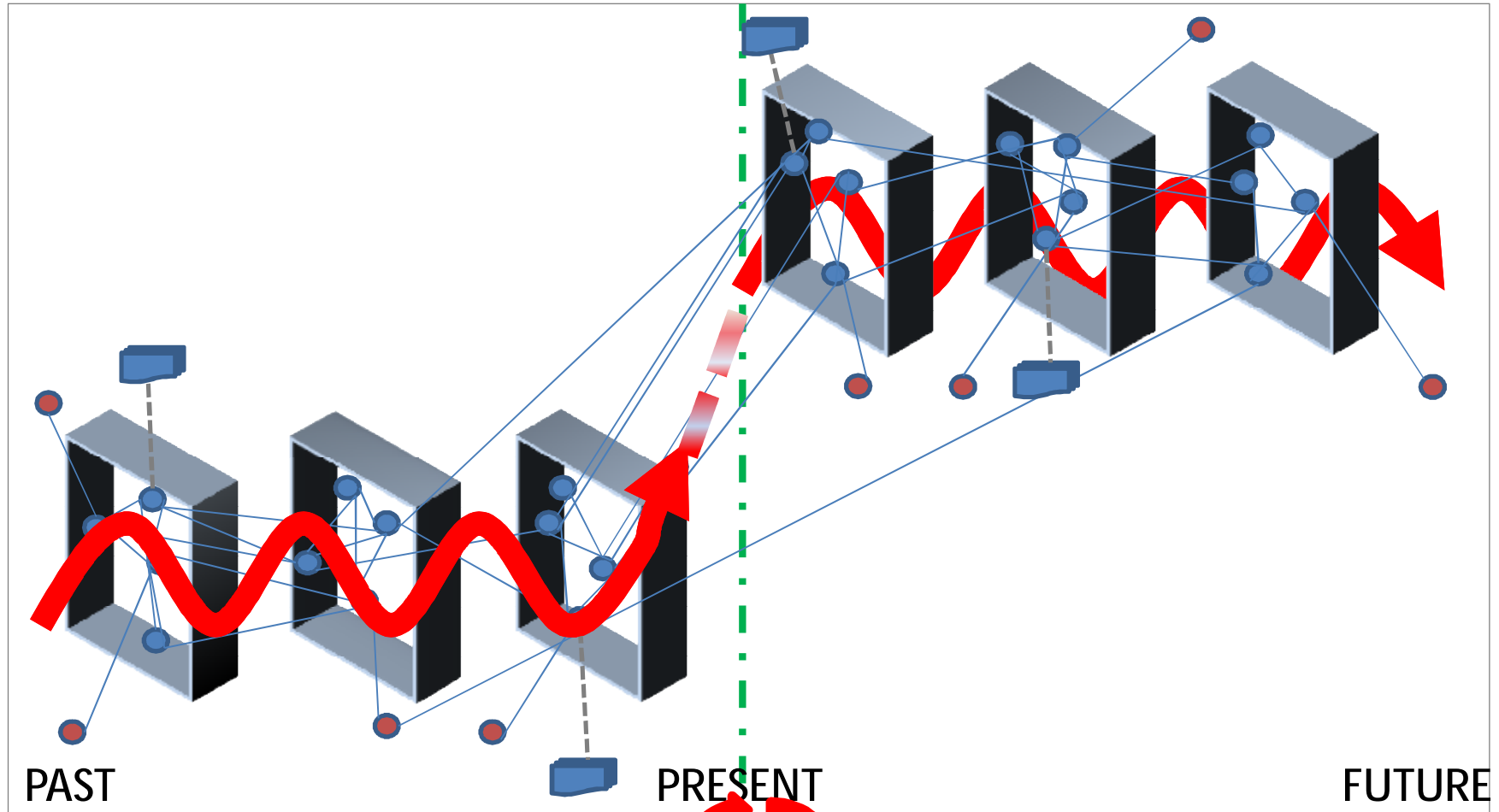
# 4-1 Connectivity Project

- Among several issues, IIRC chose 5 main issues to be more elaborated, value, business model, capitals, materiality and connectivity.
- As to 'connectivity' which is one of the most important issues in integrated reporting, WICI was selected as a collaborative organization to input the substance.
- The gist of the work will be inserted to IIRC position paper to be issued in several month







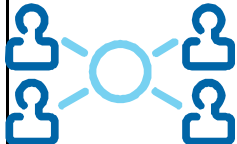
## Essence of Connectivity

- Connectivity is the core part of integrated reporting, which describe a company's value creation story
- Main issues in connectivity
  - two cycles (past to present, present to future)
  - big picture of value creation story, rather than silo type analysis
- Connect
  - material elements into a value creation story as well as in close-up pictures
  - financial information with non financial one
  - narrative story and numerical indicators
  - intension of a company with understanding by users
  - each elements with established definition

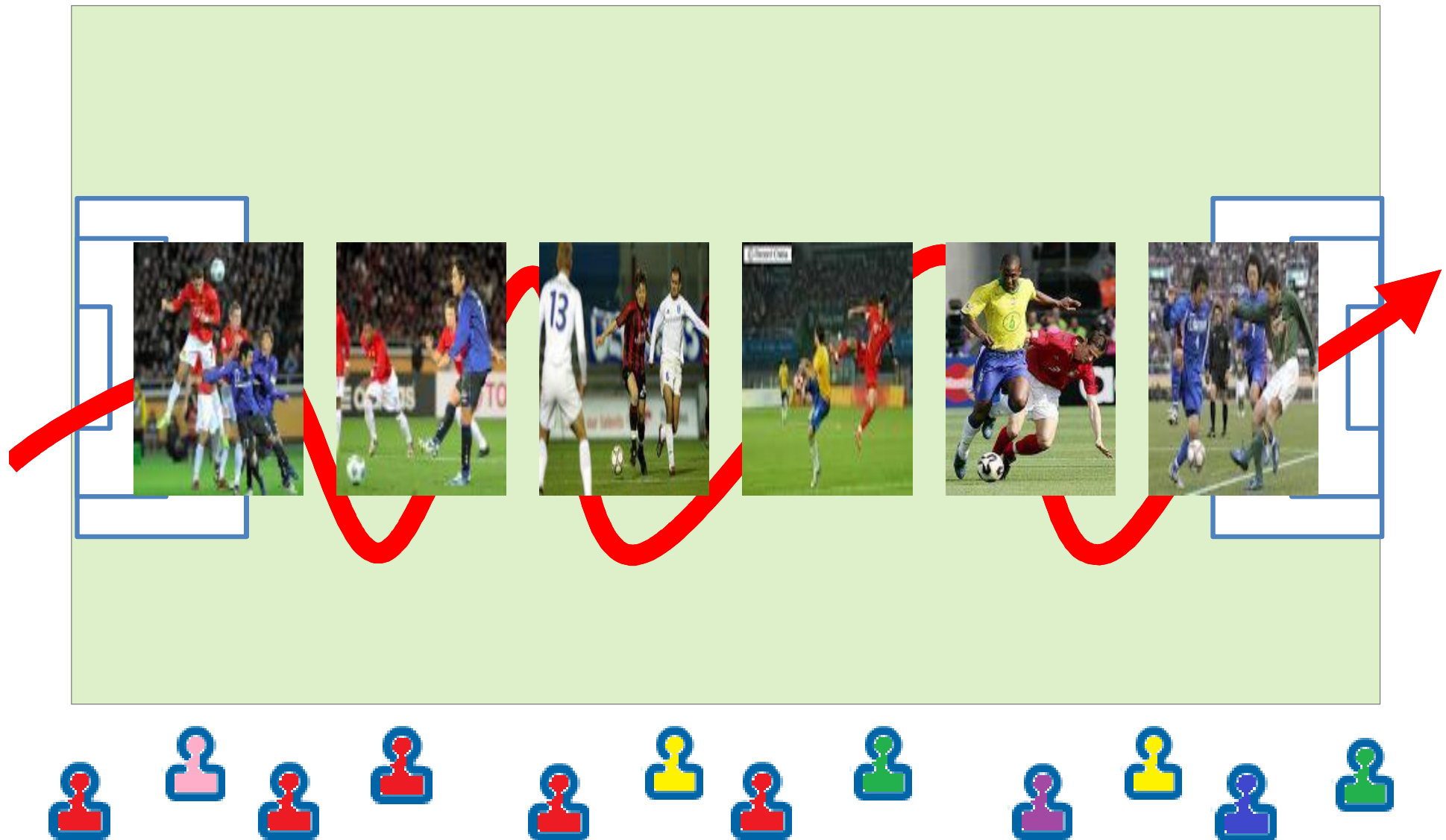
# 4-2 Connectivity as a whole



# Reference; ICONS

						
<p>Coherent Value Creation Story =Big Picture</p>	<p>Business Process such as Input, Production and Output.</p>	<p>Elements such as Business landscape, Opportunities and Risks, Capitals, Business Processes, and etc.</p>	<p>External Factors</p>	<p>Documents such as definition and calculation including Data, Records and Forecasts attached with elements. =Taxonomy</p>	<p>Feedback loop</p>	<p>Connectivity by its stakeholder to gain the understanding of organization's coherent value creation story.</p>

# 4-3 Connectivity in Zoom-in Pictures



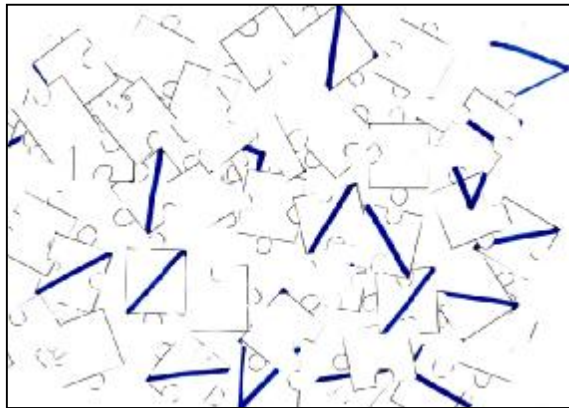


# 4-4 Necessity of a big picture

Volume of information is the same

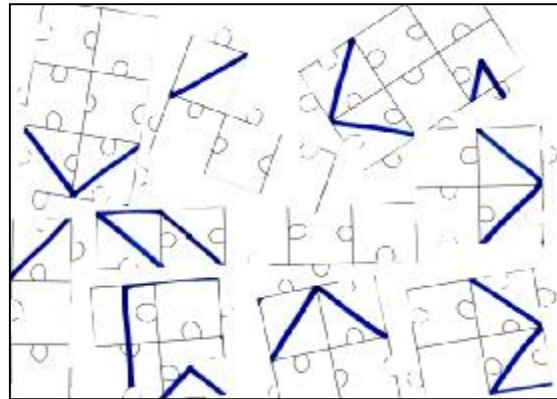
But the value of information is different with or without connectivity

Pieces of information  
without connectivity



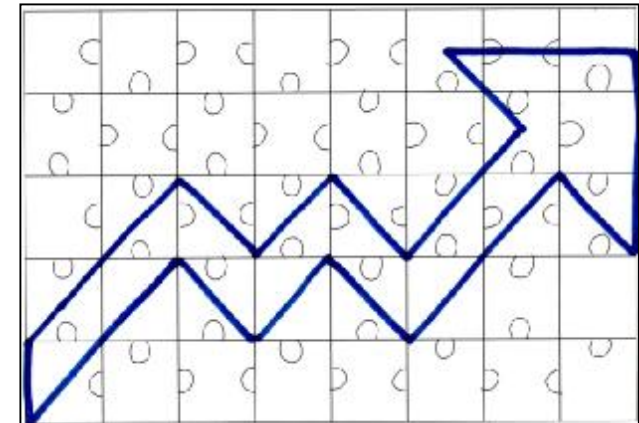
Number of pieces=40

Close-up pictures  
(partial connectivity)  
without big picture



Number of pieces=40

Big Picture



Number of pieces=40

## 5 . References

5 - 1 WICI KPI Concept

5 - 2 8 th IA week in  
2012

5 - 3 IA week in Japan

# 5-1 WICI KPI concept

[http://www.wici-global.com/publications/concept\\_paper\\_ver1\\_final\\_201006\\_E.pdf](http://www.wici-global.com/publications/concept_paper_ver1_final_201006_E.pdf)

- Ø Definition of WICI-KPIs
  - ü Numerical figures related to critical factors of value creation
  - ü Different attributes from indicators required for a specific purpose by a certain civil society
  - ü A informative set of indicators frequently used
  
- Ø Expected attributes of KPIs
  - ü Reinforce the narrative description of a company's value creation mechanism
  - ü Make visible the value creation story in a given timeline of past-present-future
  - ü Numerical figures, including those quantified through rating methods
  - ü Subset of internal decision making process
  - ü Each KPI can't be applicable to all companies in general nor in a specific industry
  - ü No intention to define a set of KPIs to be disclosed on a mandatory basis
  - ü Company can choose or add their own indicators
  - ü Company should disclose the same KPIs consistently or change them with explanation
  - ü WICI-KPIs will be reviewed based on change in industry, society and economy

WICI has already published draft examples of several industry specific KPIs including those in pharmaceutical, fashion and luxury and electronic component industry.

## 5-2 8<sup>th</sup> IA Week in 2012

### Main Events in IA Week 2012 (Tentative)

- Oct. 31<sup>st</sup> WICI Symposium, facilitated by IIRC
- Nov. 1<sup>st</sup> IIRC Round Table, IIRC Forum, supported by WICI
- Nov. 2<sup>nd</sup> IIRC Council Meeting
- Nov. 5<sup>th</sup> Academic Workshop on Integrated Reporting in Waseda
- Nov. 6<sup>th</sup> Collaborative event with Knowledge Management Society
- Nov. 6<sup>th</sup> XBRL International Conference ( - Nov. 8<sup>th</sup> )
- Nov. 5<sup>th</sup> -10<sup>th</sup>

SME events on IAbM

Patent Attorneys association's event on IA b M

Administrative Attorney's association's event on Ia b M

Osaka area events on Ia b M etc.

## 5-3 IA Week in JAPAN

- ∅ In Intellectual Assets week (one week in November/ December in every year since 2005), various organizations have held the seminars, symposiums or workshops related to intellectual assets management under the support of METI.
- ∅ 1,000 people or more in all event total participate in 2010 and 2011
- ∅ More than 10 events will be held in IA week(the 8<sup>th</sup>) 2012

### < Industry >

The Industrial of Professional  
Engineers  
Intellectual Asset Management  
Center

### < Business Support Organization >

Japan Patent Attorneys Association  
Japan Federation of Gyosei-shoshi Lawyers  
Associations  
The SME Management Consultants Association  
XBRL Japan

### < Research Organization >

Waseda University Intellectual  
Capital Research Society  
Intellectual Capital Management  
Consortium

IA Week 2012 Executive  
Organization

### < Press >

Nikkei Inc.

### < Public Organization >

Organization for SME and  
Regional Innovation  
WICI-J  
Ministry of Economy, Trade  
and Industry (METI)