



# Creating Value from Intellectual Assets

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*OECD Ministers noted the growing importance of intellectual assets and welcomed proposed follow-up study in this area.*

Short report on Intellectual Assets and Value Creation was submitted to the Ministerial Council Meeting in May 2006.  
(The full report shall be finalised in fall 2006.)

***“Minister noted the growing importance of intellectual assets ... and welcomed ... the follow-up study on ... intellectual assets as a driving force for innovation and value creation.”***

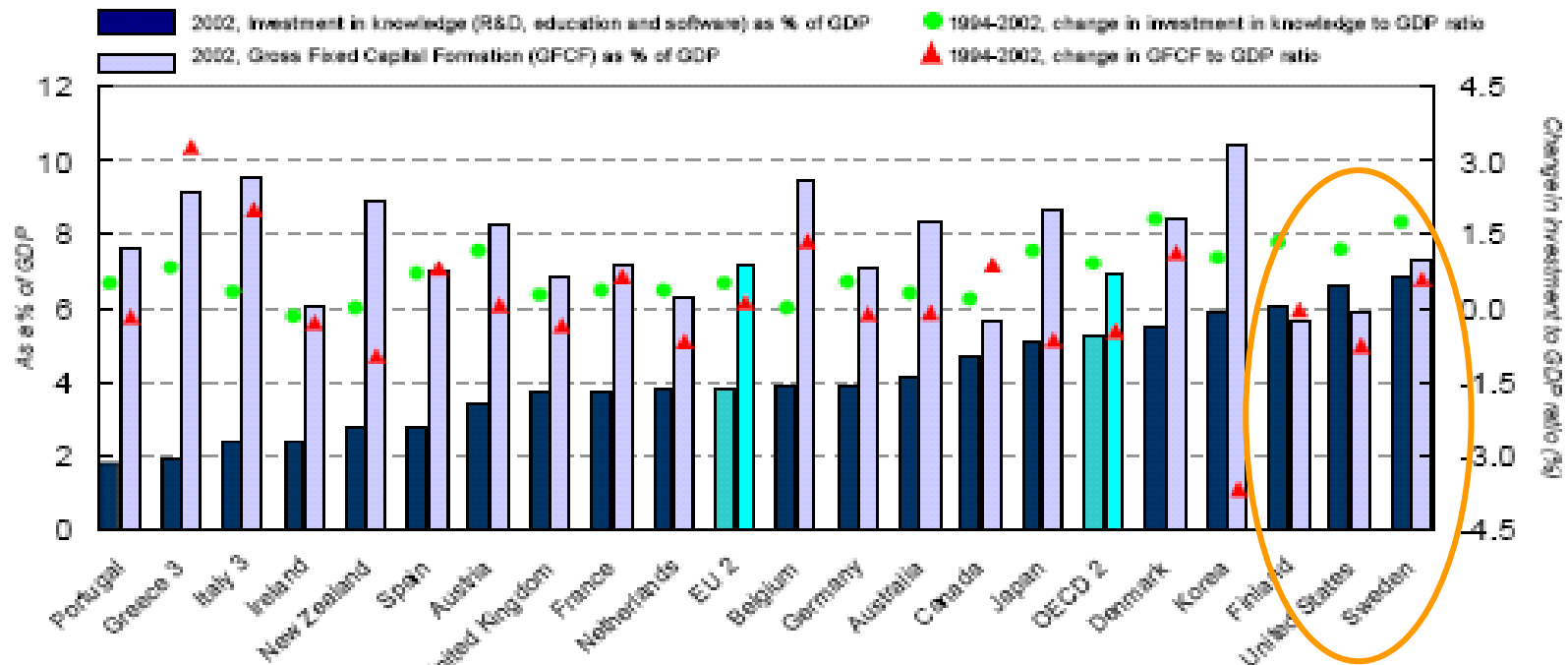
The OECD is now preparing for the follow-up studies.

## *Major Findings of the IA-VC Project*

1. Intellectual Assets play substantial and growing role in economic growth. IAs works in combination.
  2. Good management is indispensable for earning economic returns from IAs. Incentive mechanism matters.
  3. Financial market and corporate governance depends on disclosure, internal control and risk management of IAs.
- ➔ IAs are effective tools for policy makers as well as managers in knowledge-based and globalised economy.

# Investment in knowledge is catching up for that in tangible capital.

## Investment in knowledge versus investment in gross fixed capital formation



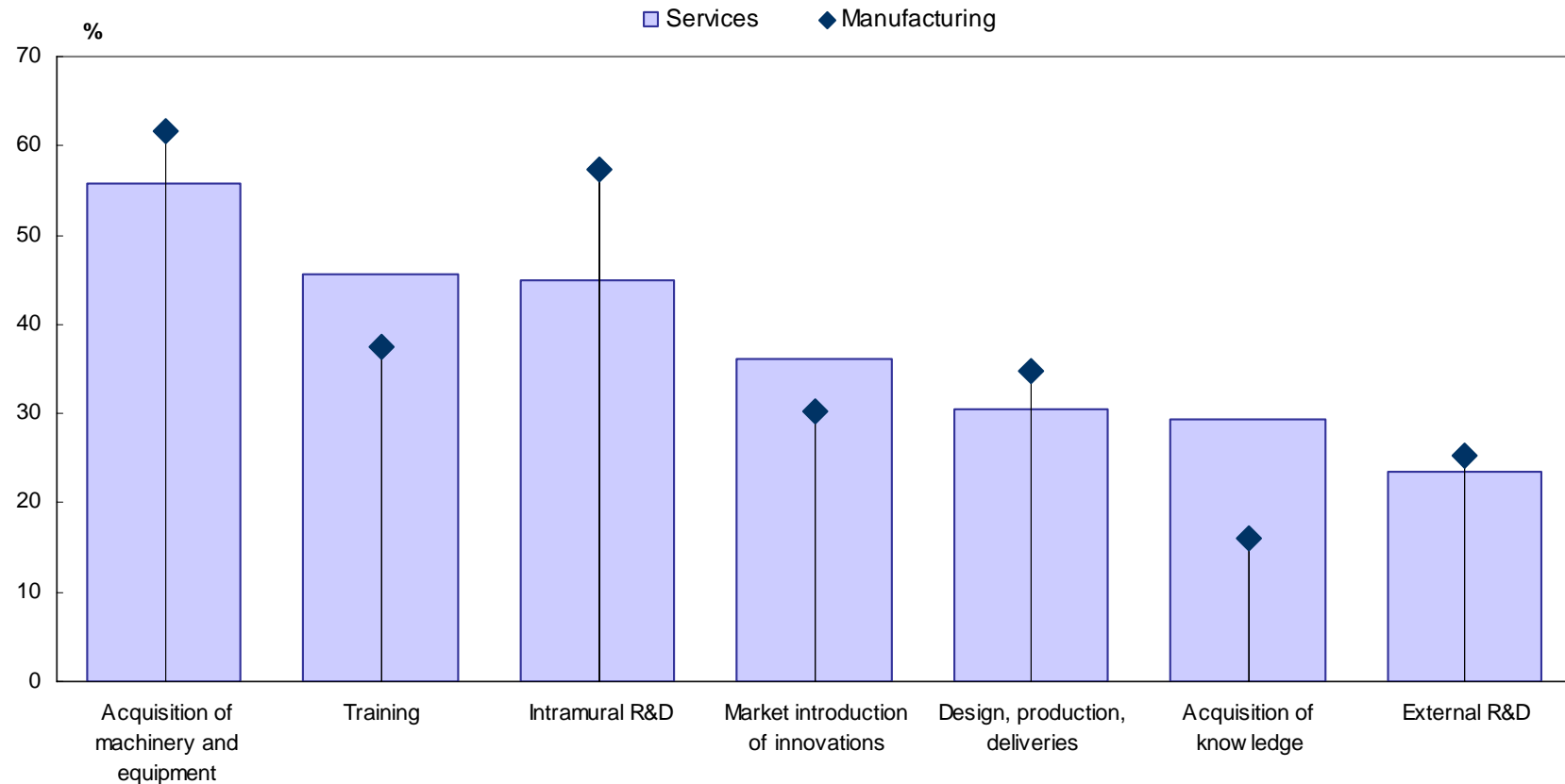
**Knowledge Investment > GFCF**

1. 1994-2001 for Greece and Italy. 1995-2002 for Korea. EU figure excludes Belgium, Greece and Italy. OECD figure excludes Belgium, Greece, Italy and New Zealand.
2. Excludes Greece and Italy.
3. 2001 data.

Source: OECD 2005 Science, Technology and Industry Scoreboard (OECD, 2005a).

*... so do non-R&D investments in other intellectual assets.*

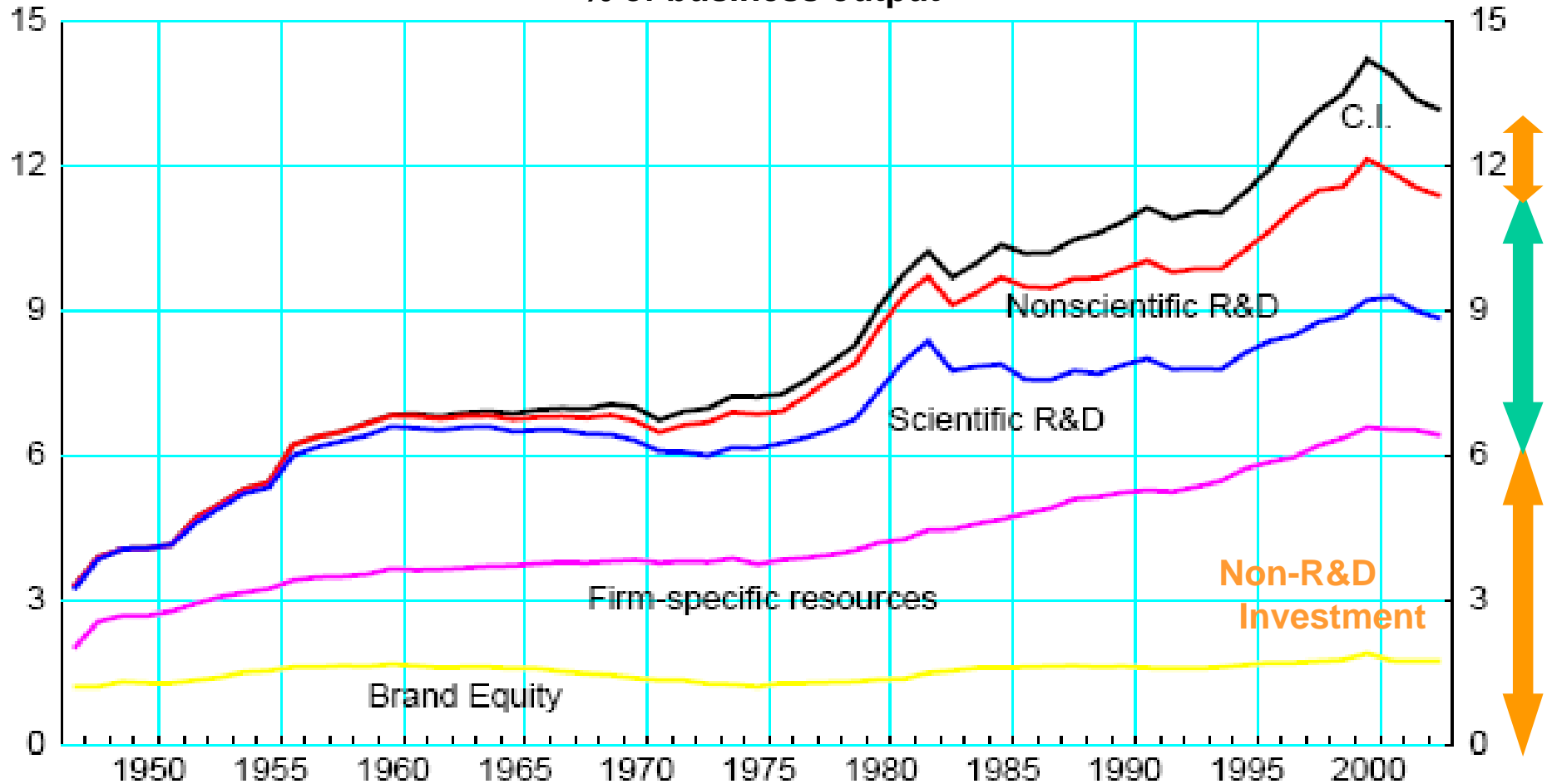
**Share of innovative firms engaged in different innovation activities, 2000 (%)**



*Note:* Figures are merely indicative (simple average of available country shares) and should be considered as such.

*Source:* Figure 4.13 in “Promoting Innovation in Services”, Chapter 4, in *OECD Science, Technology and Industry Outlook 2004*, based on Eurostat, CIS3 survey 2004 (OECD, 2004b).

## Investment in Intellectual Assets in the United States, % of business output

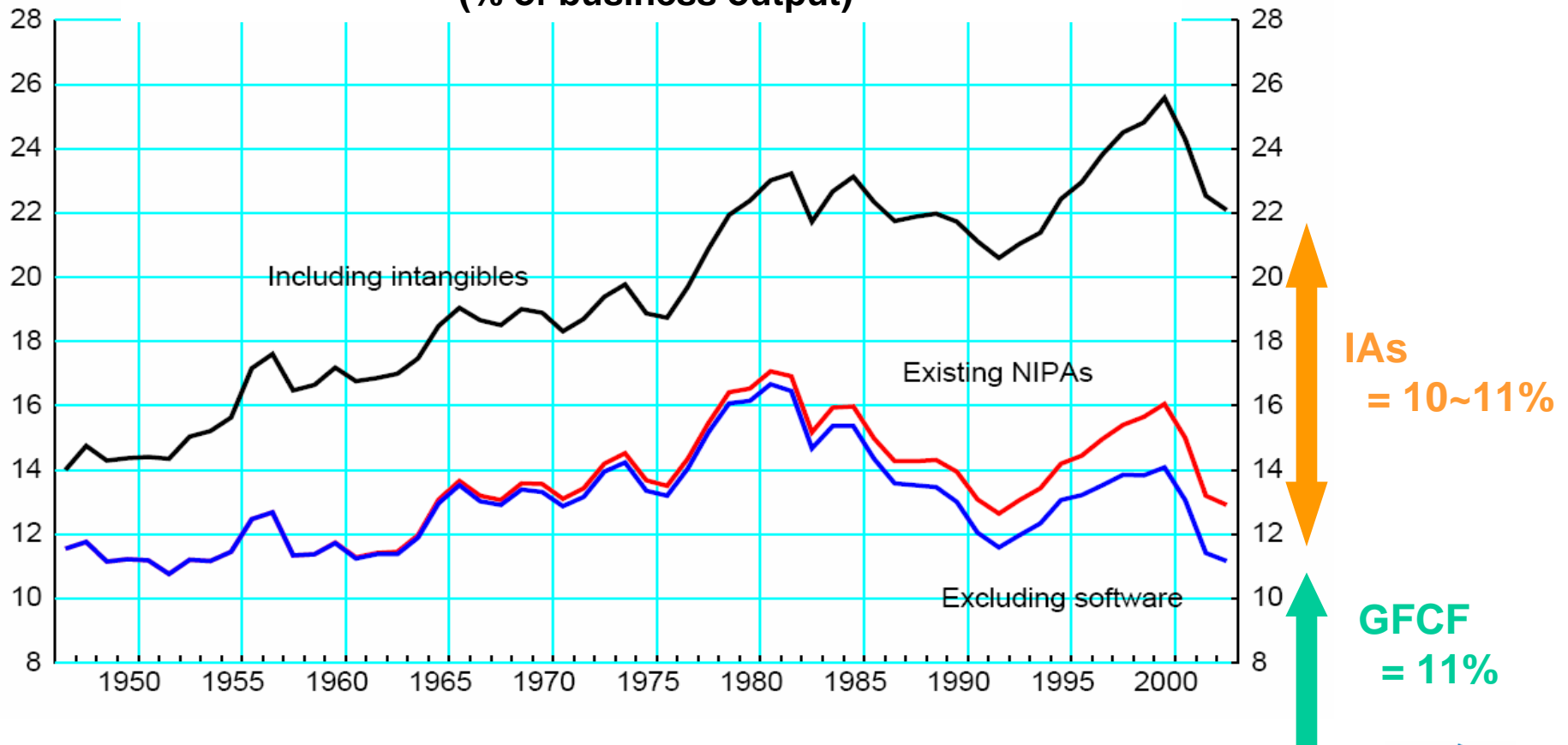


Note: C.I. = Computerized information

Source: Corrado, C., Hulten, C., and D. Sichel (2006), "The Contribution of Intangible Investments to US Economic Growth: A Sources-of-growth Analysis", NBER Working Paper 11948.

*In some countries intangible assets match fixed capital stock...*

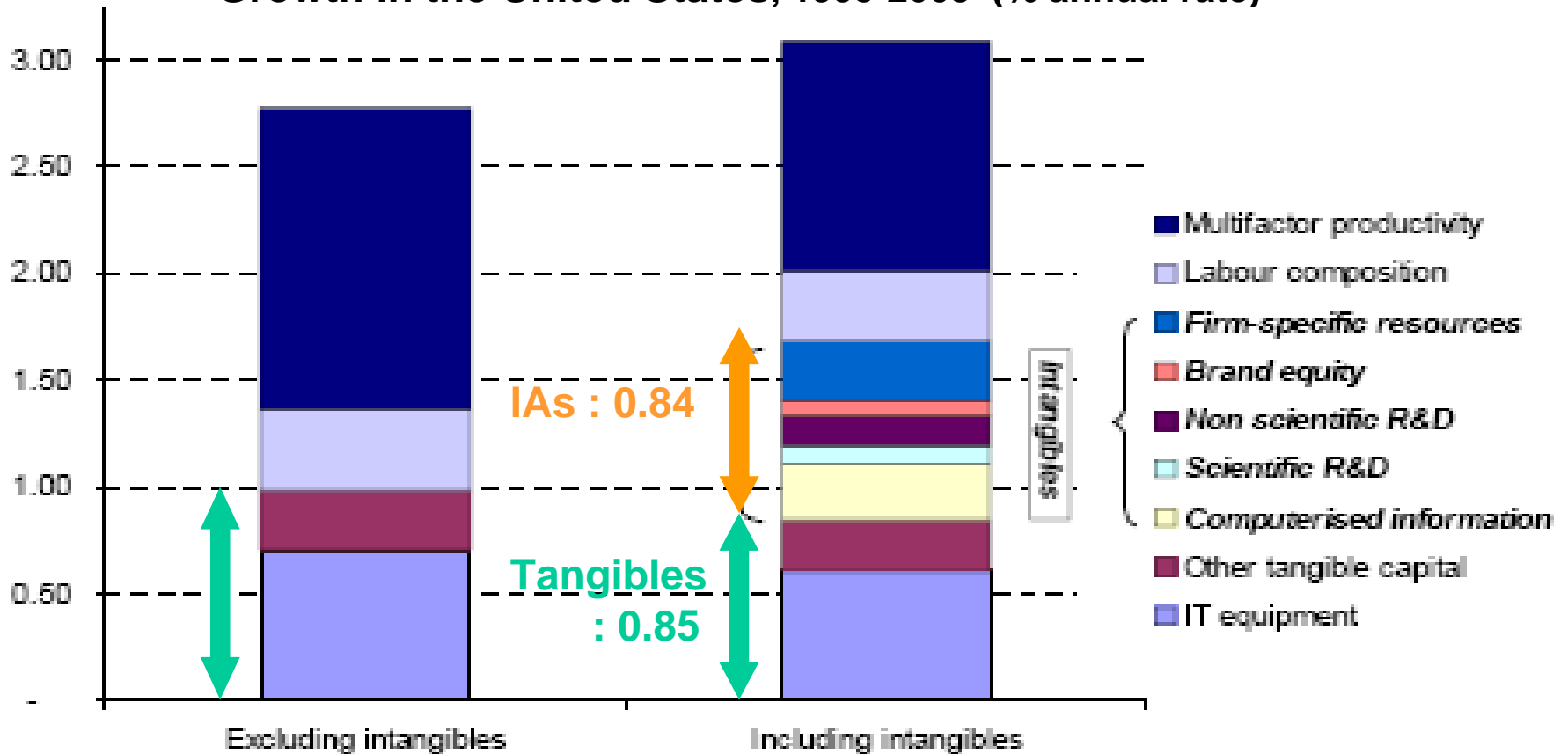
### Intangible Capital Accumulation in the United States (% of business output)



Source: Corrado, C., Hulten, C., and D. Sichel (2006), "The Contribution of Intangible Investments to US Economic Growth: A Sources-of-growth Analysis", NBER Working Paper 11948.

... in their contribution to labour productivity growth.

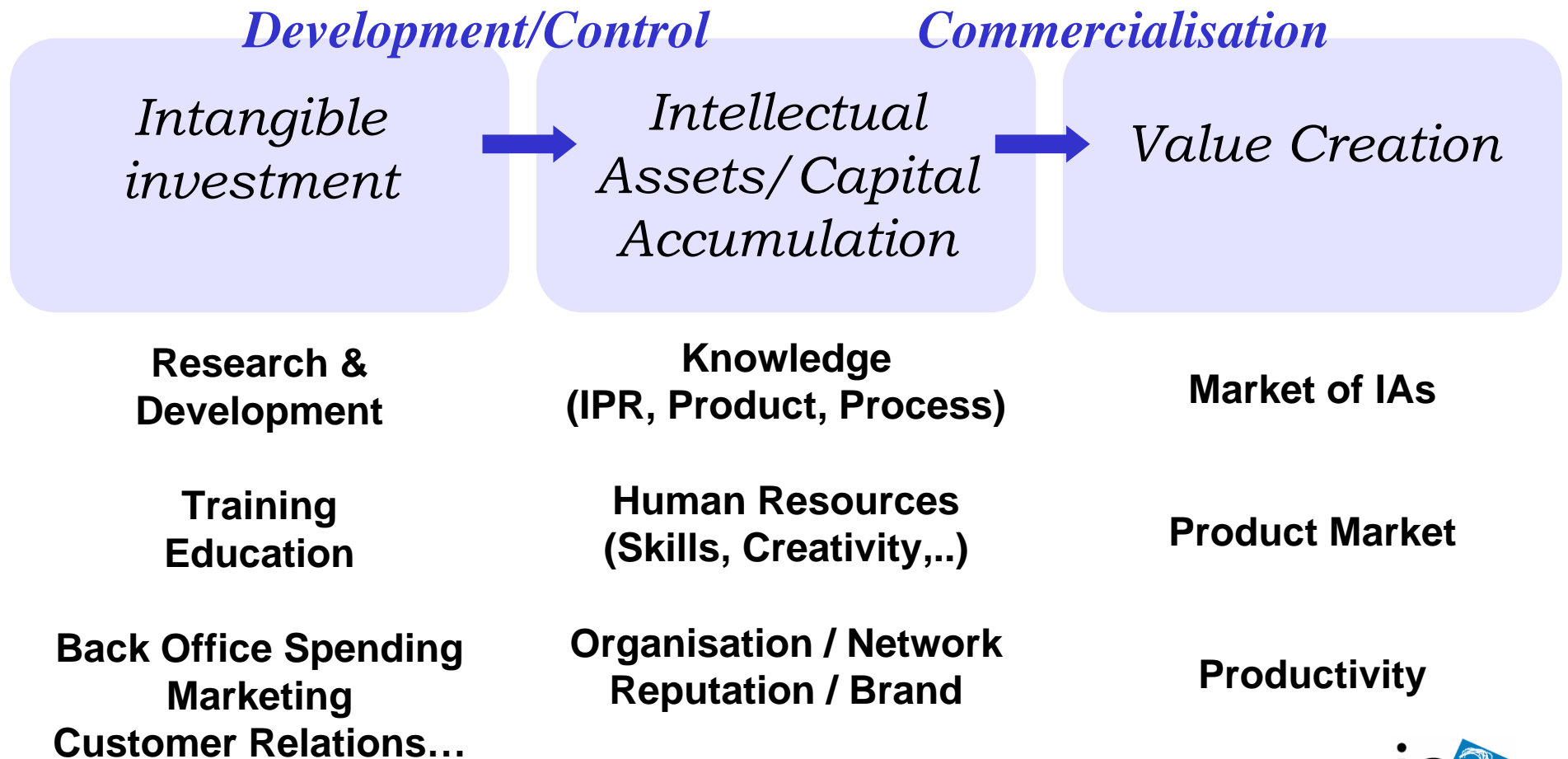
### Contribution of Intellectual Assets to Labour Productivity Growth in the United States, 1995-2003 (% annual rate)



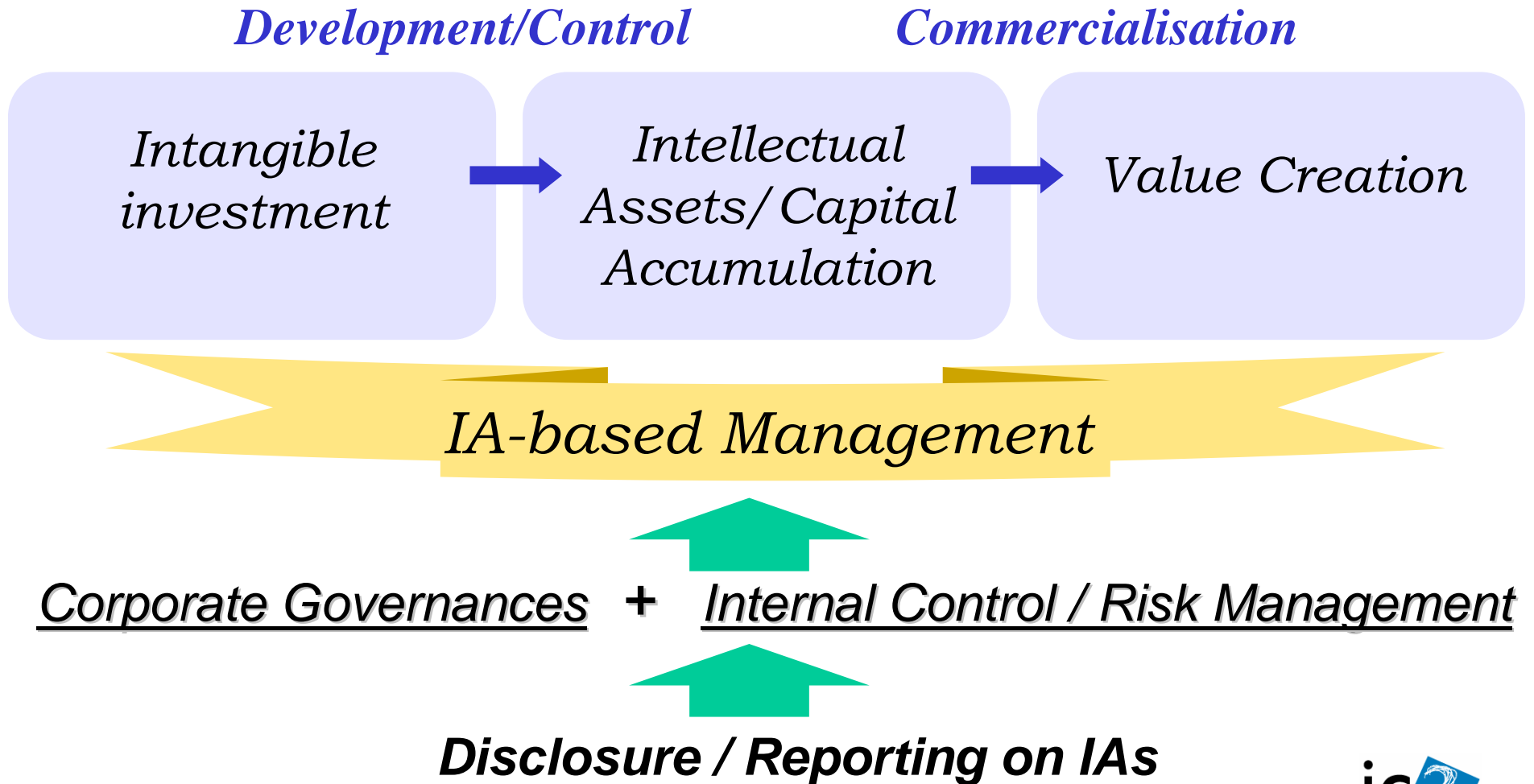
Source: Corrado, C., Hulten, C., and D. Sichel (2006), "The Contribution of Intangible Investments to US Economic Growth: A Sources-of-growth Analysis", NBER Working Paper 11948.



*Intellectual Assets should be developed, retained, and commercialised for value creation by firms.*



*The ability to create economic value from IAs is contingent on the firm's management capabilities.*



## *Additional public disclosure on intellectual assets would enhance financial market efficiency.*

Studies provide evidence that valuation in financial markets are influenced by disclosure on intellectual assets.

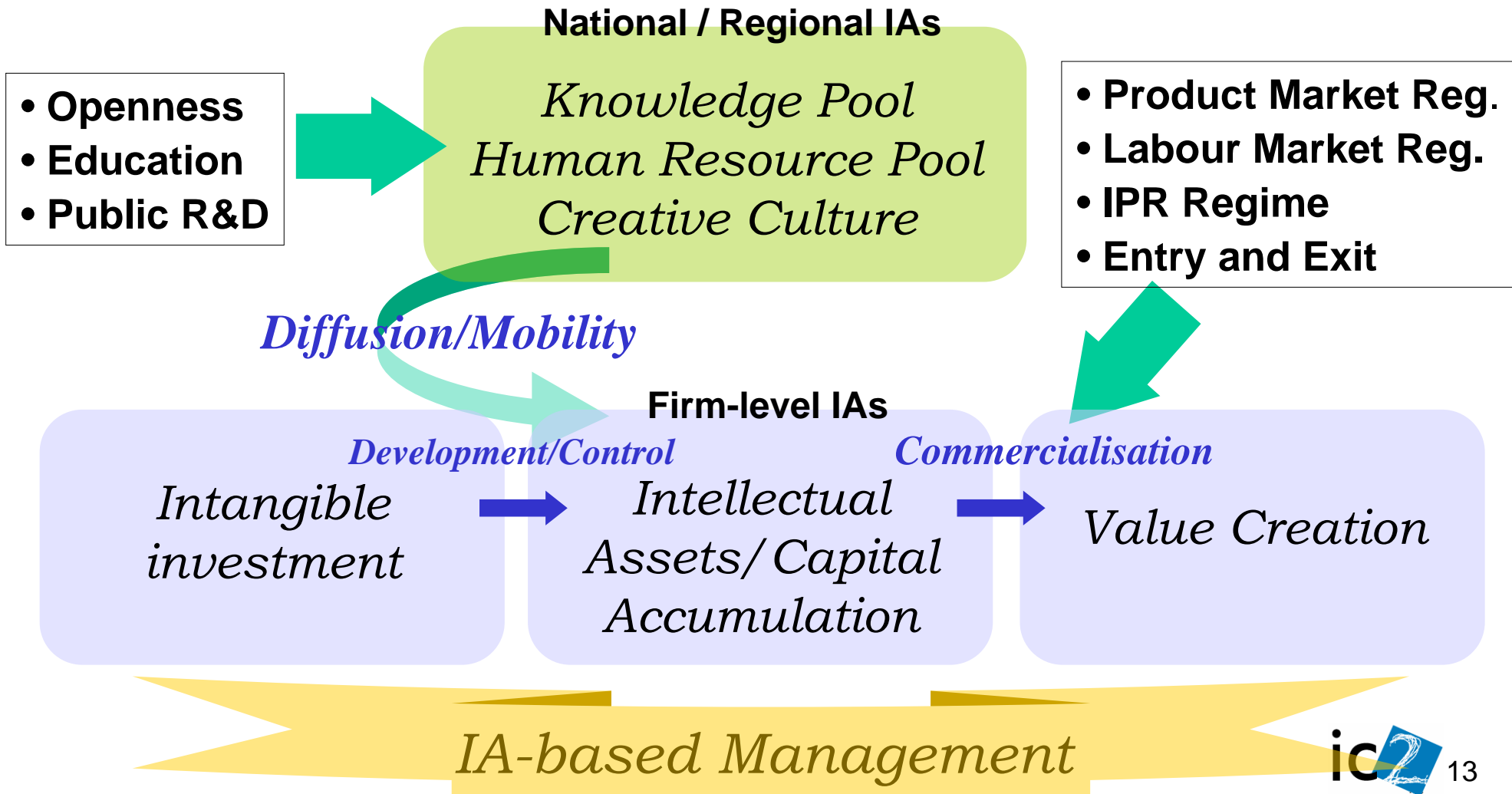
- A unit increase in R&D leads comparable increase in market valuation, greater than that for tangible investment.
- Stock price increase with FDA's approvals was doubled to 1% with qualitative info, and quadrupled with quantitative info.
- Companies with better general reporting in line with PWC's benchmark enjoyed a lower cost of capital.
- The link between corporate transparency and stock price volatility is stronger for smaller companies.

# *Growing number of initiatives address to disclosure of intellectual assets.*

## **Selected Frameworks and Guidelines of reporting on IAs**

Institution/Country	Scope	Year	Reference
<b>Narrative/non-financial reporting</b>			
<b>European Union</b>	All companies	2003	Modernisation Directive (4 <sup>th</sup> and 7 <sup>th</sup> Directives)
	Listed companies	2004	Transparency Directive
<b>Australia</b>	Listed companies	2003	ASX Listing Rule, Australian Stock Exchange
<b>Canada</b>	Listed companies	2003	Continuous Disclosure Obligations, Sec. Admin.
<b>Germany</b>	All companies	2004	GAS 15 Management Reporting, DRSC
<b>United Kingdom</b>	Quoted companies	2005	Operating and Financial Review, DTI
<b>United States</b>	Listed companies	2003	Management Discussion and Analysis, SEC
<b>Specific reporting about intellectual assets</b>			
<b>European Union</b>	All companies	2002	Guidelines on Intangibles, MERITUM Project
<b>Australia</b>	All companies	2002	Guiding Principles on Extended Performance Management
<b>Austria</b>	Public universities	2002	Austrian Universities Act
<b>Denmark</b>	All companies	2003	Intellectual Capital Statements, MSTI
<b>Germany</b>	SME	2004	Intellectual Capital Statement, BMWA
<b>Japan</b>	All companies	2005	Guidelines for Disclosure of IA-based Management, METI

*Ability to create economic returns from intellectual assets also depends upon economy-wide business environments (→ IAs for Nation / Region / Cities).*



## *Policy Implications from Major Findings*

- Intellectual Assets play substantial and growing role in economic growth. They work in combination.
  - *Treat IAs as benchmarks of performance, not as targets of direct policy manipulation.*
- Good management is indispensable for earning economic returns from IAs. Incentive mechanism matters.
  - *Nurture business environment for IA-based management*  
*(Human Resource, IPR regime, Disclosure & Corporate Governance...)*
- Comparable data and micro-data analyses are necessary to gauge impact of IAs.
  - *Co-ordinate data gathering on IAs.*  
*Harmonised analyses on micro-data of NSOs.*

*Further OECD works are in preparation on intellectual assets and value creation, such as...*

1. Business environment and corporate governance mechanism to improve IA-based management
2. IAs for nation, region, economic clusters
3. Intellectual property rights and other institutional design to balance diffusion of knowledge and control of IAs



Thank you

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