

# Progress toward Establishing the Intellectual Assets Based Management & Reporting

2005.6.2

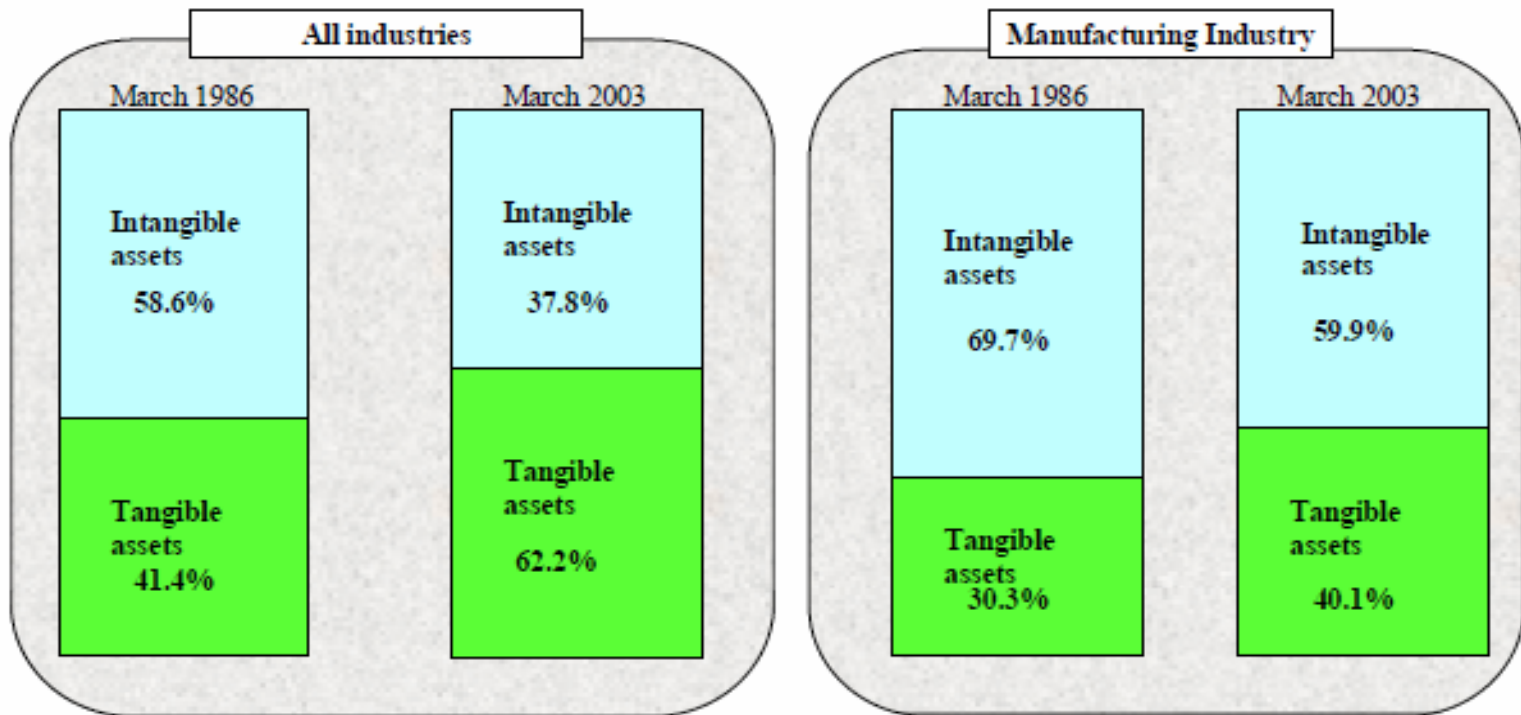
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# Intellectual Assets as a Source of Competitiveness ①

Figure 2.1.2 Changes in the ratio of intangible assets to total assets (Japan)



Note: Intangible assets are calculated as the portion remaining when tangible fixed assets are subtracted from total share value, corporate bonds, convertible bonds, and long-term loans. The "all industries" classification includes 169 Japanese companies, and the "manufacturing industry" classification includes 104 companies.

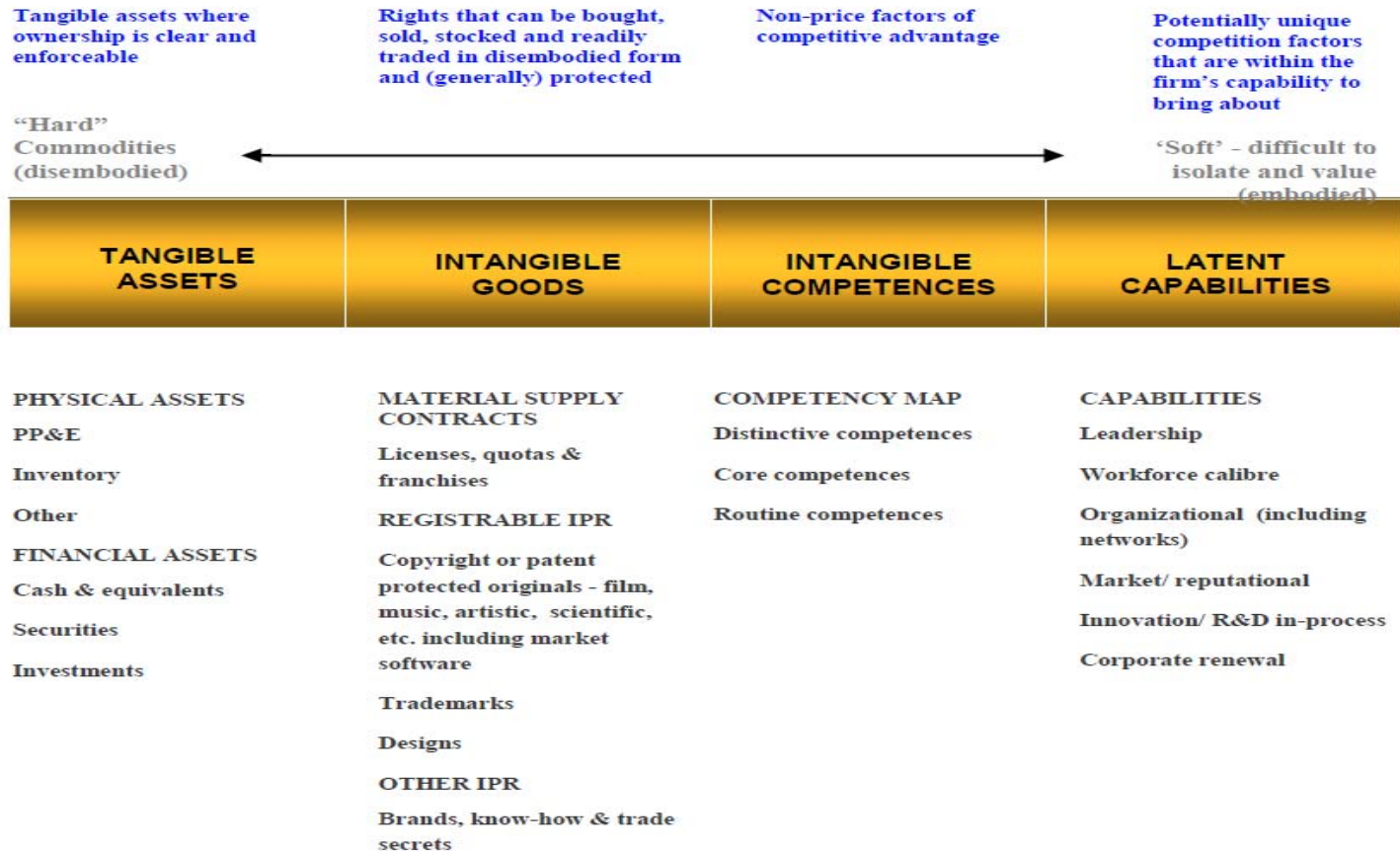
Source: Nikkei NEEDS.

## Intellectual Assets as a Source of Competitiveness ②

Industry type	Company name	R&D expenses (%)	Advertising expenses (%)	Intangible asset-related investments (%)	Capital investment (tangible asset-related investments) (%)	Total amount of investments (billion yen)
Pharmaceutical	Takeda Pharmaceutical Co.	70.1	16.1	86.2	13.8	113.3
	Eisai Co.	75.9	12.4	88.3	11.7	61.3
Communications and games	NTT Corp.	80.7	1.3	81.9	18.1	255.7
	Square Co.	74.3	11.8	86.2	13.8	19.6
Electrical	Toshiba Corp.	64.0	4.2	68.2	31.8	436.8
	Fujitsu Ltd.	67.3	4.8	72.1	27.9	488.6
Automotive	Toyota Motor Corp.	55.8	12.4	68.2	31.8	767.3
	Mazda Motor Corp.	49.9	15.8	65.7	34.3	137.4
Average of each company		67.3	9.9	77.1	22.9	285.0

# The View Point of Knowledge Economy

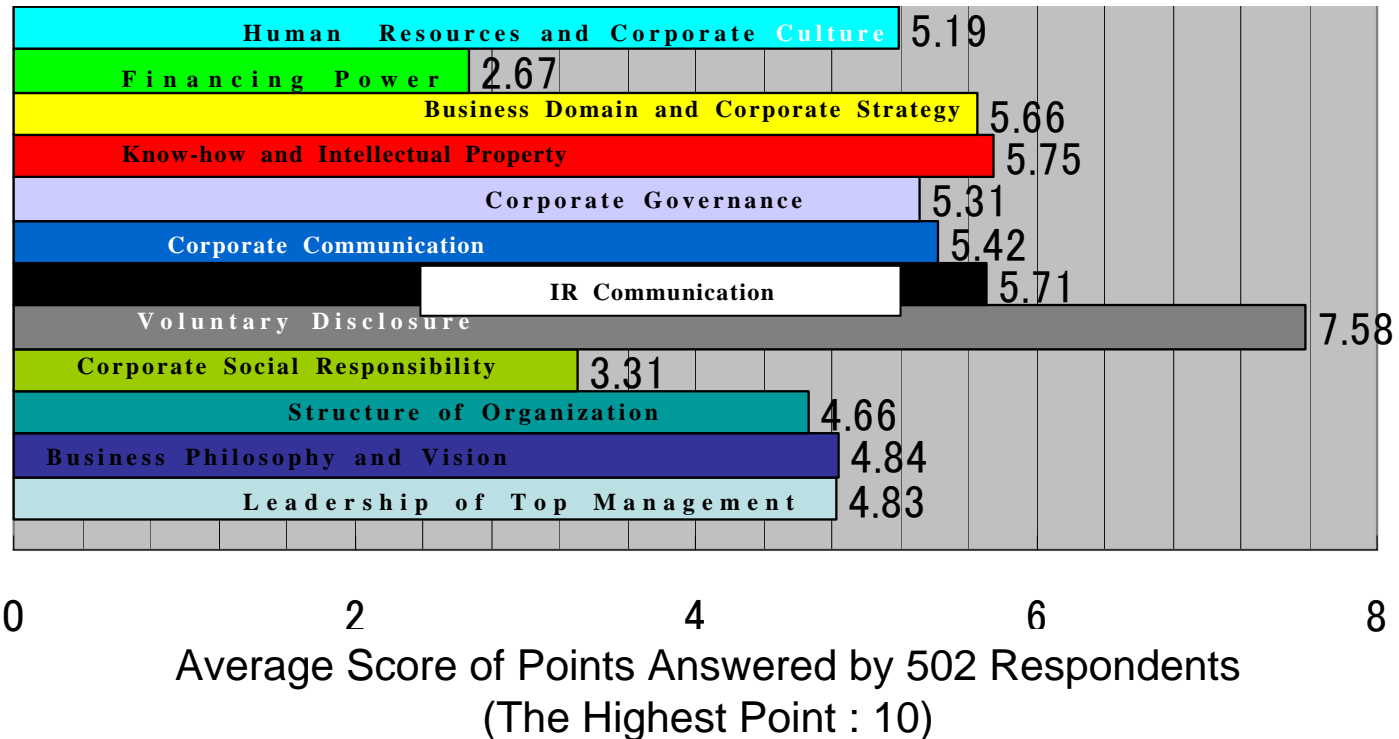
## The resource base of the 21<sup>st</sup> century enterprise



Source: Eustace & Youngman in WPI.7 "The shifting corporate asset base"

# 12 Interest Points of Fund Managers in Japan

Japanese Academic Society of Investor Relations, 2003



- |                 |               |
|-----------------|---------------|
| □ 経営トップのリーダーシップ | ■ 企業理念        |
| ■ コーポレート・ガバナンス  | ■ 社会的責任       |
| ■ 情報開示          | ■ IRコミュニケーション |
| ■ 企業コミュニケーション   | □ 組織          |
| ■ 技術・知的財産       | ■ 戦略・ドメインの選択  |
| ■ 資金調達          | ■ 人材と企業文化     |

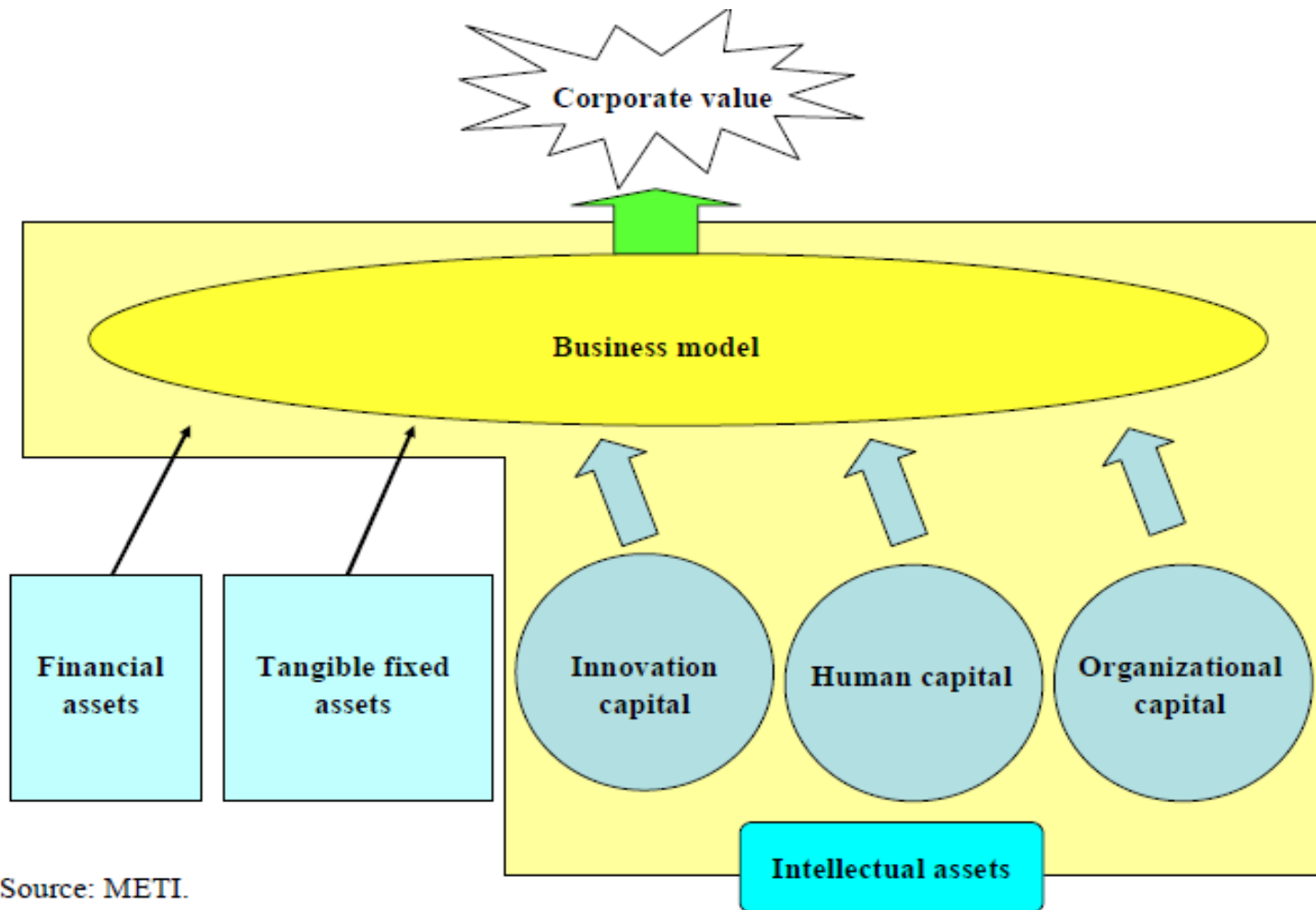
# Intellectual Assets and the Value Creation Capacity of Companies

## Components of Intellectual Assets

1. Business structure reform capacity
Changes in the turnover ratio of total capital (the latest term ~ -2 terms)
Changes in the ratio of operating profit to sales (the latest term ~ -2 terms)
2. Business efficiency
Inventory turnover ratio (sales / inventory assets)
Turnover ratio of tangible fixed assets (sales / tangible fixed assets)
3. Technological capacity
Cumulative R&D expenses from 3 latest terms
Sales from 3 latest terms / cumulative R&D expenses (-3 ~ -5 terms)
4. Marketing capacity
Credibility (trade payables / trade receivables)
Sales share (sales / total sales of companies with two-digit US-SIC codes)
5. Organizational capacity
Employee productivity (sales / number of employees)
Changes in the number of employees (Number of employees <the latest term + -1 term> / number of employees <-1 term + -2 term>)

Source: Intellectual Assets Study Group.

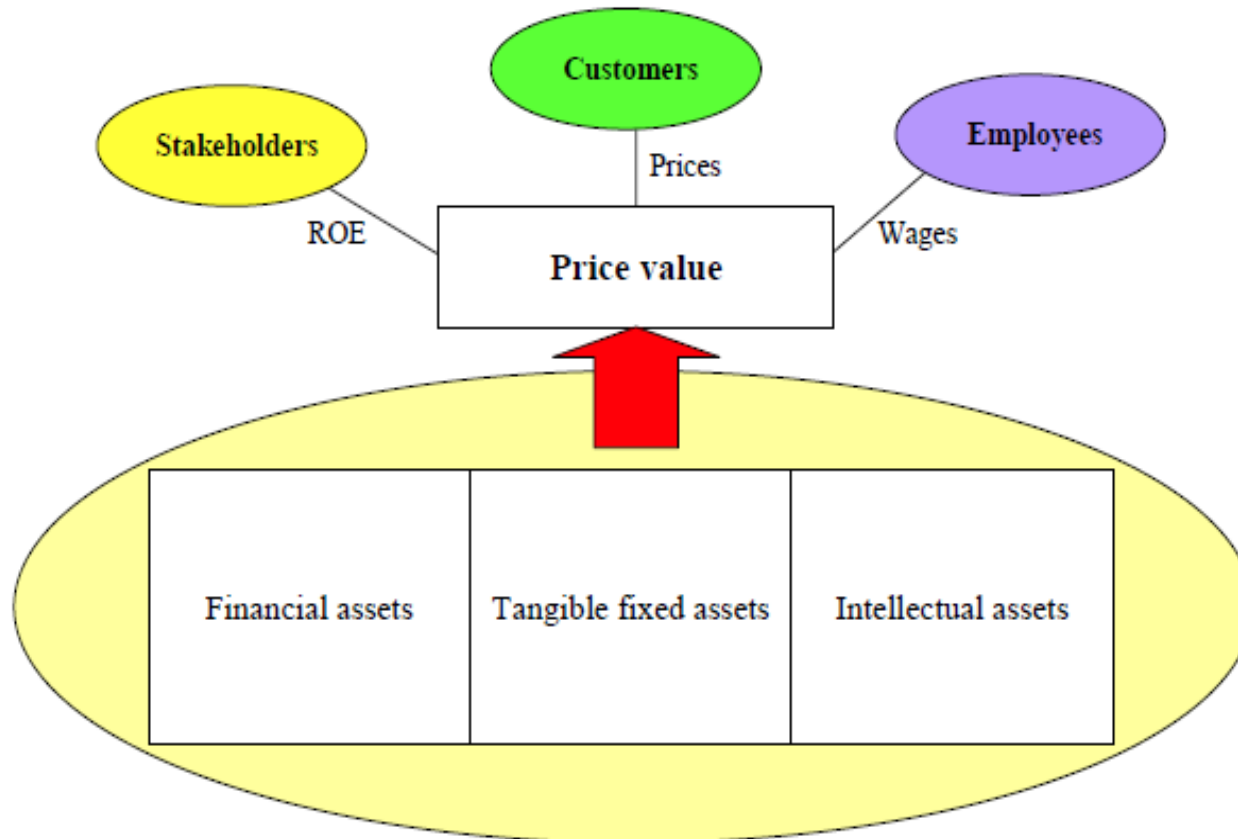
# Relationship between Intellectual Assets, Business Model and Corporate Value (Figure 1)



Source: METI.

# Scenario When Stakeholders Do Not Participate in Value Creation

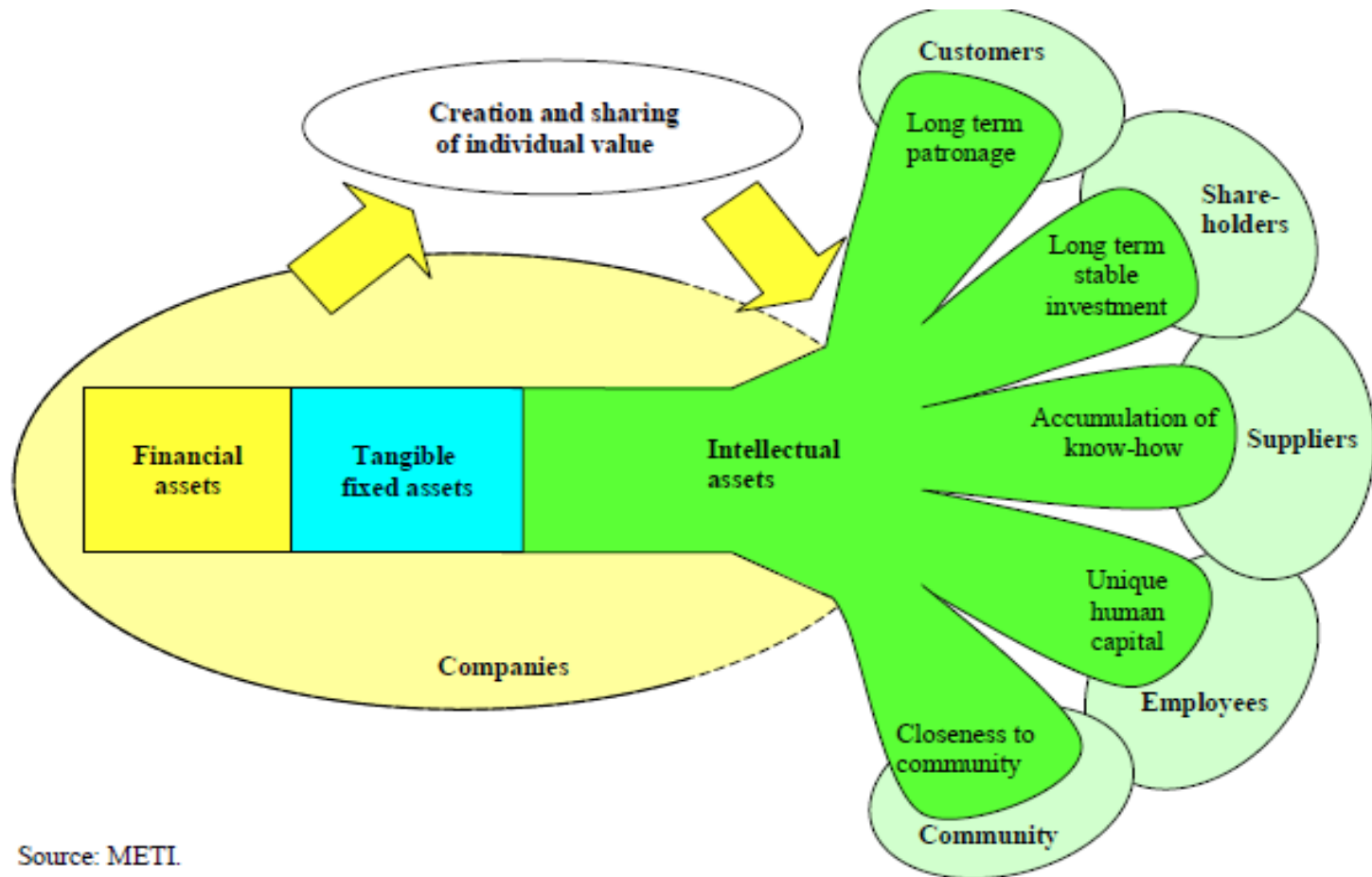
(Figure 1)



Source: METI.



# The Case of Stakeholder Participation in Value Creation (Figure 2)



# Subcommittee on Management & Intellectual Assets, Industrial Structure Council, METI - Launched in Feb., 2005

## - Members & Observers

### Industries

AEON  
Fuji Xerox  
Hitachi  
Nissan Motors  
NTT Communications  
Okaya Electric  
Shiseido  
TAKEDA Pharmaceutical  
Toppan Printing

### Financial Sector, Consultants, etc.

Actcell Corporation  
Development Bank of Japan  
Fidelity Investments Japan  
IR Japan, Inc.  
Morgan Stanley  
Pension Fund Association  
SHODANREN (Consumers Japan)  
Tokyo Stock Exchange

### Academics

Asia Univ.  
Meiji Univ.  
Senshu Univ.  
Tokyo Univ.  
Waseda Univ.  
Yokohama Nat'l Univ.

### Accounting Firms

Azusa (KPMG)  
Chuo Aoyama (PwC)  
Shin Nihon & Co. (E&Y)

### Observers

Financial Services Agency  
Nippon Keidanren  
Japan Machinery Center for Trade and Investment  
Japanese Standards Association  
Japan Research Institute  
RENGO (Japanese Trade Union Confederation)

- Now under the process of Public Comment on "Interim Report" (draft) & "IA based management disclosure guideline" (draft) until Jul., 2005
- Publication of "Interim Report" & "IA based management disclosure guideline" in summer, 2005
- Study on Internal control and audit of IA based management from autumn, 2005

# Objective of Promoting IA based Management

Enhance Intellectual Assets based Management to create more Values

Corporate Value ↗

Efficiency in utilizing of Resources ↗

Vitality of Economy ↗

## Definition of Intellectual Assets (IA) based Management

Corporate Management to generate sustained profits \*

through

Recognize  
Internally control  
Utilize

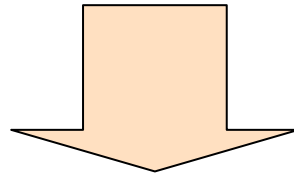
Its own unique IA and value chain thereof

\* Corporate value is generally recognized based on future profits. Therefore, companies as well as stakeholders have specific attention to them, especially to the sustainability of them.

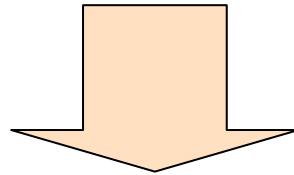
Intellectual Assets do not generate any value by themselves. Management for utilizing them alone can generate value.

## Necessity of IA based Management Disclosure

No matter how important IA based management is, Corporate can not continue its IA based management without stakeholders' understanding and appreciation, concerning the contents of its IA based management.



Shared views on its IA based management with stakeholders are essential to sustain the IA based management.



Adequate disclosure for stakeholders on IA based management is inevitable.



# Elements and Indicators of IA based Management

## Key Elements of Corporate Value

## Examples of Indicators

(1) Corporate Philosophy & Leadership

•Frequency and ways of top manager's addresses to stakeholders

(2) Selection & Concentration

•Degree of R&D Concentration  
•Average Market Share of Main Products

(3) Advantageous status vis-à-vis trading partners

•Degree of Customer Satisfaction  
•Elasticity of Product (output) Price compared to material (input) price

(4) Knowledge Creation (Capability, Speed & Efficiency)

•Number of Citation of Patent and other achievements  
•Expenditure to training per employee

(5) 'All for one' and 'One for all' Organization

•Degree of Employees' Satisfaction  
•Number of proposed in-house process innovation

(6) Risk Management

•Transparency of negative information  
•Portfolios (trading partners, products,.....)

(7) Social Acceptance and Reputation

•Counts of Website Access  
•Number of adoption by SRI funds