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Community Research



Intellectual Capital for Communities
in the Knowledge Economy

RICARDIS

Reporting Intellectual Capital to Augment Research, Development and Innovation in SME's

Intellectual Capital for Communities
in the Knowledge Economy
Nations, Regions, Cities and Emerging Communities
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WORLD BANK INSTITUTE
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world*



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Political context

- **Action Plan Investing in Research:** “Encourage corporate measuring and reporting on research and other forms of intellectual capital, both internally and externally, making use of existing international guidelines.”
(*Implementation: business sector*)

—————→ **voluntary basis**



What is intellectual capital reporting?

- Creating a story that shows how an enterprise creates value for its customers by using its Intellectual capital (R&D, Human Capital, IPR & Organisational Routines) = future earning potential;
- Intellectual Capital statement combines indicators with narratives and visualisations to:
 - complement financial statement (external function)
 - complement management information (internal function)



Rationale

- Underinvestment in R&D due to market failure;
- Under-recognition of intellectual capital can lead to a bias in financial markets towards traditional rather than research-intensive businesses and in the allocation of resources within companies.
- Although several methods have been developed, take-up in companies in Europe is still low.
- Use should be further promoted, while improving the consistency of definitions and methods across Europe.
- Research intensive SME's have less means to convince investors about the value of their intellectual capital;



Previous initiatives

EC:

- Meritum/E*Know-net (Research project leading to guidelines - DG Research – STRATA Programme, 1998-2003)
- PRISM (multi-disciplinary European initiative aimed at gaining a deeper understanding of the management and measurement of intangibles – DG INFSO –IST Programme, 2001 -2003)
- Ferrara Study (overview of academic literature & policy recommendations DG ENTR, 2004)

Member States:

- National guidelines: Austria, Denmark, France, Germany, Iceland , Spain and Sweden



RICARDIS - report

- Expert group, 14 members from 12 different Member States; chaired by Tim Hoad (UK);
 - Work started in December 2004; final report will be published in June. 2006;
- target groups:*
- policy makers – *rationale and policy recommendations*
 - companies and investors – *business motives; practical guidance for implementation illustrated by case studies*



Main deliverables:

- Guidance/toolbox for companies on how to highlight the business case for R&D investments by reporting on their intellectual capital
- Recommendations for investors how to value intellectual capital statements and how to encourage companies to report
- Recommendations for policy makers how to stimulate companies to report on their ICR



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Guidance/toolbox for Companies

Basic principle:

- not another model – no further proliferation– use national initiatives

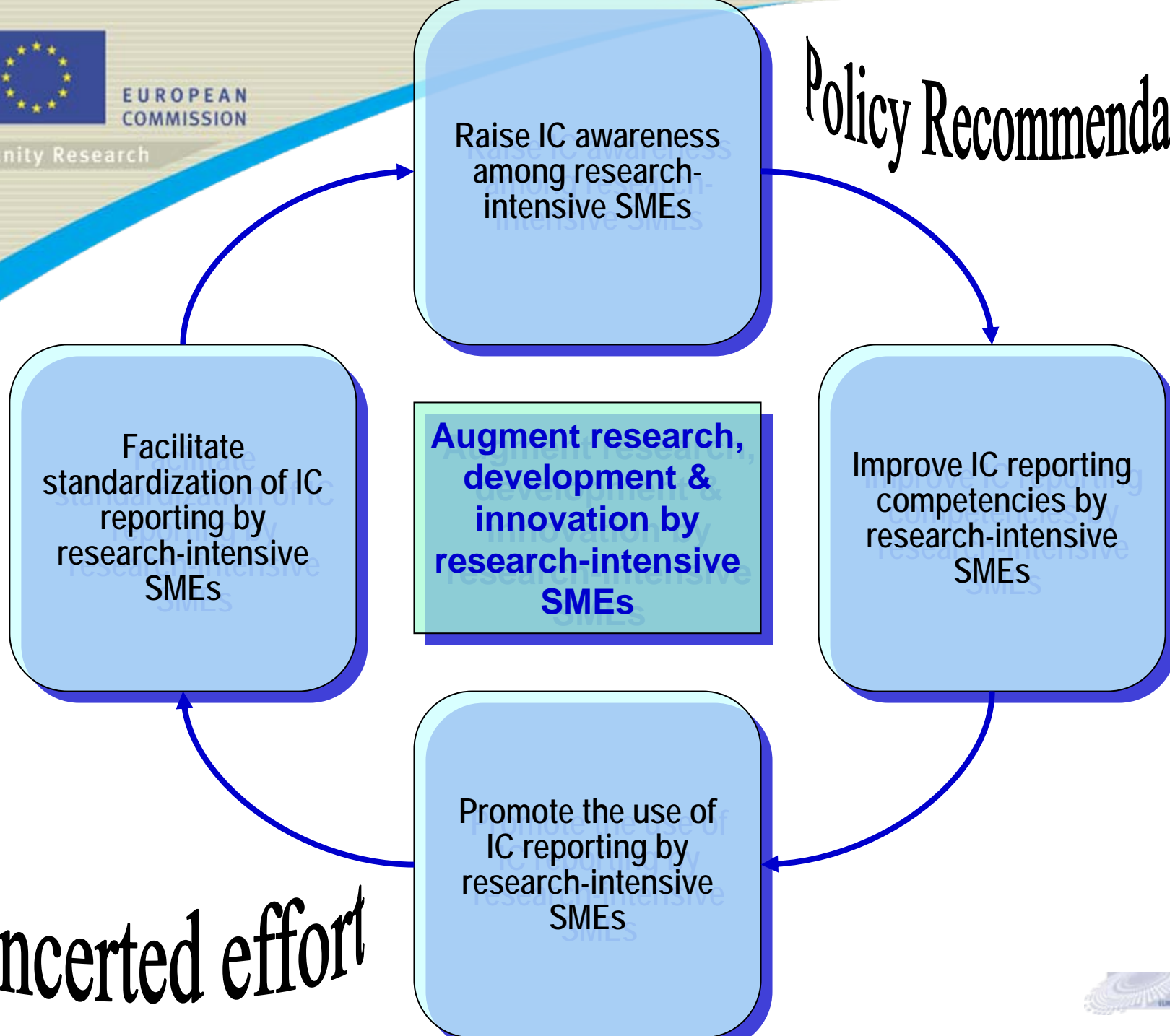
Guidance along 5 dimensions:

- Taking Stock of IC within Company
- Planning Investments in IC
- Internal Communication of IC
- Internal Management using IC
- External Reporting of IC



Policy Recommendations

Concerted effort





Recommendations for policy makers

Establish a **European Task Force** to:

- Promote Existing Guidelines and increase awareness;
- Develop an IC Portal;
- Create an IC Reporting award for countries, regions enterprises and persons;
- Motivate specific industries that involve a lot of research intensive SMEs;
- Act as a catalyst in the development and inclusion of IC management and reporting in business schools curricula;
- Support “IC guides initiatives” that help enterprises use ICR;
- Establish prototyping activities in EU countries;
- Increase the role of Banks, investors and infomediaries through networking activities.



Recommendations for policy makers (cont'd)

- Produce further practical guidance on ICR : What Tools exist & How best to use them
- Use ICR as an important criterion for public support
- Apply IC reporting as a tool for government agencies
- Set up an international Standardisation Steering Group
- Encourage Banks and Investors to develop new forms of finance for research based SMEs
- Further Research, e.g. on new business models' dynamics and the importance of intellectual capital



Recommendations for finance and investment

- Create urgency of attracting external finance
- Sources of finance for investing in R&D and innovation (bank loans, venture capital, business angels, corporate venturing)
- Influencing investment readiness of investors



Future, related work by the Commission

- Creative societies in smart territories
- Introduction Risk Sharing Finance Facility in Cooperation with EIB http://ec.europa.eu/invest-in-research/funding/funding02_en.htm
- Communication "Towards a more effective use on tax incentives in favour of R&D" (End of 2006)
- Communication on "Financing Growth, the European Way"
http://ec.europa.eu/enterprise/entrepreneurship/financing/index_en.htm
- Workshop "How can intangibles based SMEs get access to finance?" Nov. 2006 DG ENTR