

Intellectual Assets & Management Reporting

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Study on IA based management in the past

Achievements in the past (examples)

- Itami, H., & Roehl, T. W., *Mobilizing invisible assets*, Harvard University Press(1987).
→ Describing intangible assets as source of competitive advantage.
- Nonaka, I., & Takeuchi, H., *The knowledge-creating company*. Oxford University Press(1995).
→ A SECI Spiral, interactive transformation between subconscious knowledge and recognized knowledge, as a model of the organizational process of knowledge creation.
- Japan Quality Award (1995)
→ Modified version of Malcom Baldrige Award with unique elements in the Japanese management system.

Studies in METI

1974-2000 Committee on Corporate Management Capabilities

2002 Comprehensive Management Indicator - attempts for quantitative evaluation of qualitative factors in manufacturing business and retail business -

The report of the committee on Brand Creation

Final Report on Intellectual Capital Study Group

2003 Study Report on *NEW MANAGEMENT INDICATOR 'Intellectual Capital'*

2004 Reference Guideline for Intellectual Property Information Disclosure (see next 2 slides)

Study Report on Intellectual Assets creation and utilization (by Japan Industrial Policy Research Institute)

Elements of Intellectual Property Report

Elements of Intellectual Property Information Disclosure proposed in the Guideline
(January 2004)

1. Core Technologies and Business Models
2. R&D Segment and Business Strategy Orientation
3. R&D Segment and Intellectual Property Overview
4. Analysis of Marketability and Market Advantages of Technologies
5. Organization of R&D and Intellectual Property, R&D Alliances
6. Intellectual Property Acquisition and Management, Trade Secret Management, Policies on Technology Drain Prevention
7. Significance of the Licensing Activities to the Company's Business
8. Significance of the Patent Portfolio to the Company's Business
9. Policies on Intellectual Property Portfolio
10. Information on Risk Management

Actual Achievements of Intellectual Property Report

Companies which disclosed Intellectual Property Information

<Intellectual Property Report>

Olympus
Kabu. com
HITACHI
Asahi KASEI
Hitachi Chemical
Bridgestone
KONICA MINOLTA
AJINOMOTO
ISEKI
TOKYO ELECTRON
MITSUI ENGINEERING & SHIPBUILDING
Anges MG

<Annual Report etc.>

Asahi KASEI
NEC
TOKYO ELECTRON
MITSUBISHI ELECTRIC
Japan Synthetic Rubber (JSR)
TAKEDA Pharmaceutical company
FUJITSU

(May.2005)

Response

Company

- Companies which already disclosed are not satisfied with the limited response from the market.
- More companies are expected to disclose information.
- Companies felt difficulty in explaining corporate management as a whole only from IPR perspective.

Market

- Hesitate to assess/compare disclosed information
- Once assessment start, we will see many responses.
- Need more information

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.

Virtuous cycle created thanks to IA based management

Recognize, internally control and utilize IA
= IA based management

Proper and strategic disclosure / internal control on corporate strength or IA based management

Consumer's confidence ↗

Enhanced disclosure and internal control

Appreciation by stakeholders including investors ↗

IAs ↗
Strengthen the value chain and management

Financing cost ↘
Corporate value ↗
Investment incentive for IA ↗

Competitiveness of companies ↗

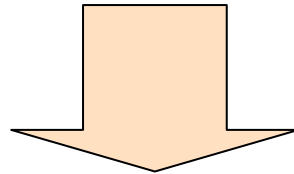
Added value ↗

→ Economic vitalization ↗

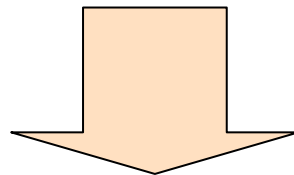
→ Contribution to international economic prosperity

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.

A Schema of IA based management reports

<Principal Part>

Story on value creation with critical indicators

Corporate Philosophy

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Past to Present

- past investment & management
 - accumulated unique intellectual assets
 - unique value chain constructed
 - financial output (corporate profit)
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Present to Future

- how to use the value chain and intellectual assets
 - how to maintain, improve and utilize them in creating values in the future, while dealing with uncertain environments in the future
 - expected mid-term corporate profit
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<Appendix>

Common IA Indicators

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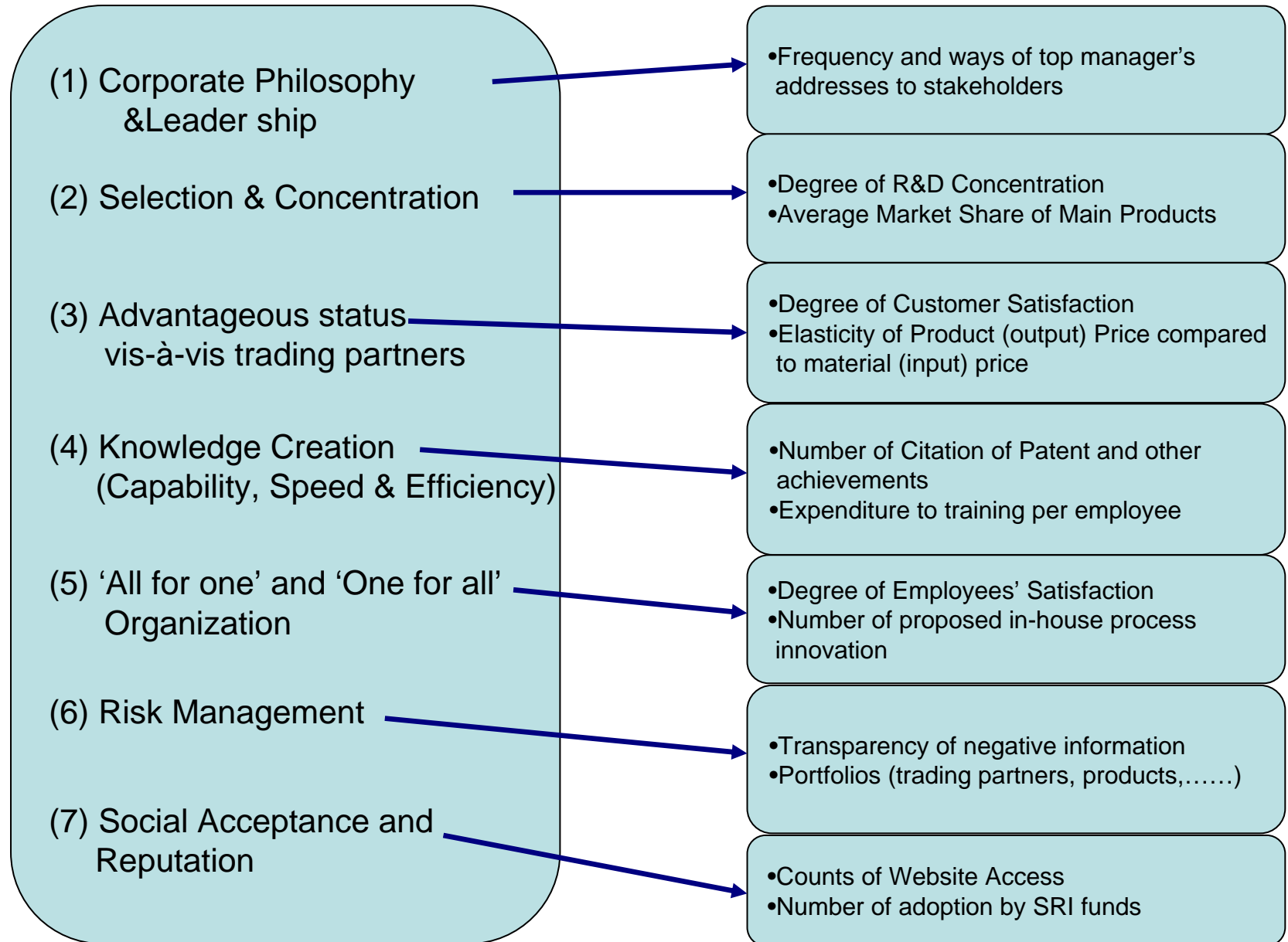
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See Next Slide

Elements and Indicators of IA based management

Key Elements of Corporate Value

Examples of Indicators



Mechanism of IA based management disclosure

Basic principles

- comparability to some extent
- confidentiality on specific information
- uniqueness of each story
- accountability and reliability necessary
- flexibility / wide range of options for companies

A corporate story on value creation differs from company to company.

Some important indicators should be quoted in the story (in the principle part). All indicators including these important indicators should be disclosed in the appendix. However, some can be confidential with the explanation of the clear reasons such as the negative effect of disclosure on competitiveness, or the cost for calculation.

Companies can quote their own indicators with the way of calculation or references, even if they are not included in the Common Indicators.

Listed companies are the main target. Closed companies can also use the mechanism.

Voluntary disclosure first, possible development to the mandatory disclosure

Ways to increase credibility on disclosed IA based management

In the IA based Management Report

- Persuasive Story of value creation
- Supported by numerical indicators (KPIs)
- Continuous disclosure of information

Inside the company

- Effective measures to maintain, enhance and improve each IA
- System for management on achievements and risks
- Internal control Mechanism for the above

Outside the company

- Assurance for indicators (KPIs)
- External audit on disclosed information, management and internal control.

Contents of IA based management disclosure guideline

Introduction

Background

- Importance of IA based management
- Objective of promoting disclosure on IA based management
- Present situation of disclosure on management
- Necessity of guideline

Basic Ideas on disclosure of IA based management

- What is disclosed and how?
- How to reinforce the story?
- How to tackle basic challenges
- Function of Indicators
- Media of disclosure
- Flexibility and options
- Merit of disclosure
- Responsibility on disclosed information

Specific guideline for description

- Ways of description on corporate story
- Ways of description on KPIs in the story
- Ways of description on common IA indicators attached
- General reminder

Guideline for stakeholders and analysts

Simplified way for preparing IA based management report

Future Prospects

Attachments

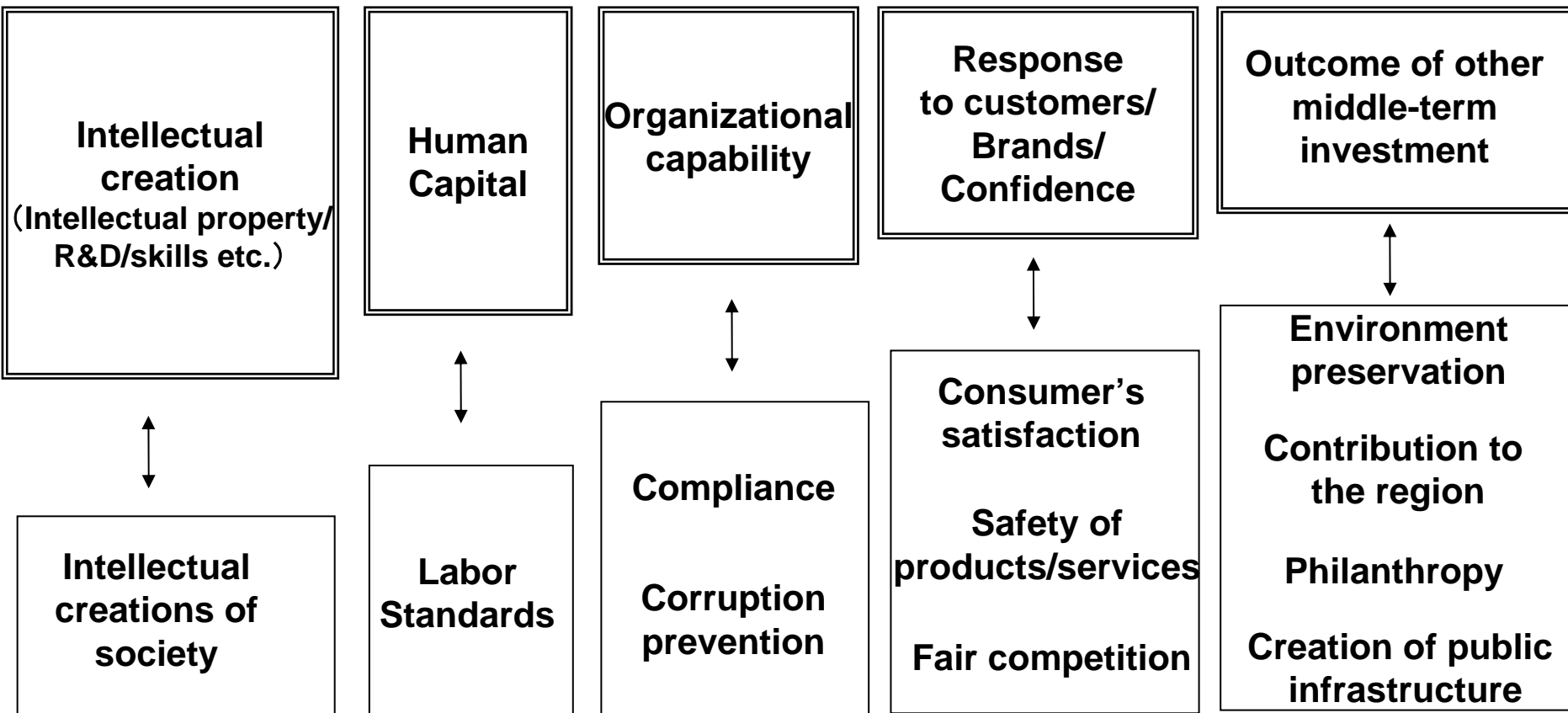
- Sample of IA based management
- Detailed contents and definition of each common IA indicator

Relationship between Intellectual Assets and CSR

What companies recognize as Intellectual Assets can be seen as elements of CSR (Corporate Social Responsibility).

→ Intellectual Assets and CSR are two sides of the same coin; both describe interface between companies and society.

Intellectual Assets



CSR