

Does Intellectual Capital Reporting Matter to Financial Analysts?

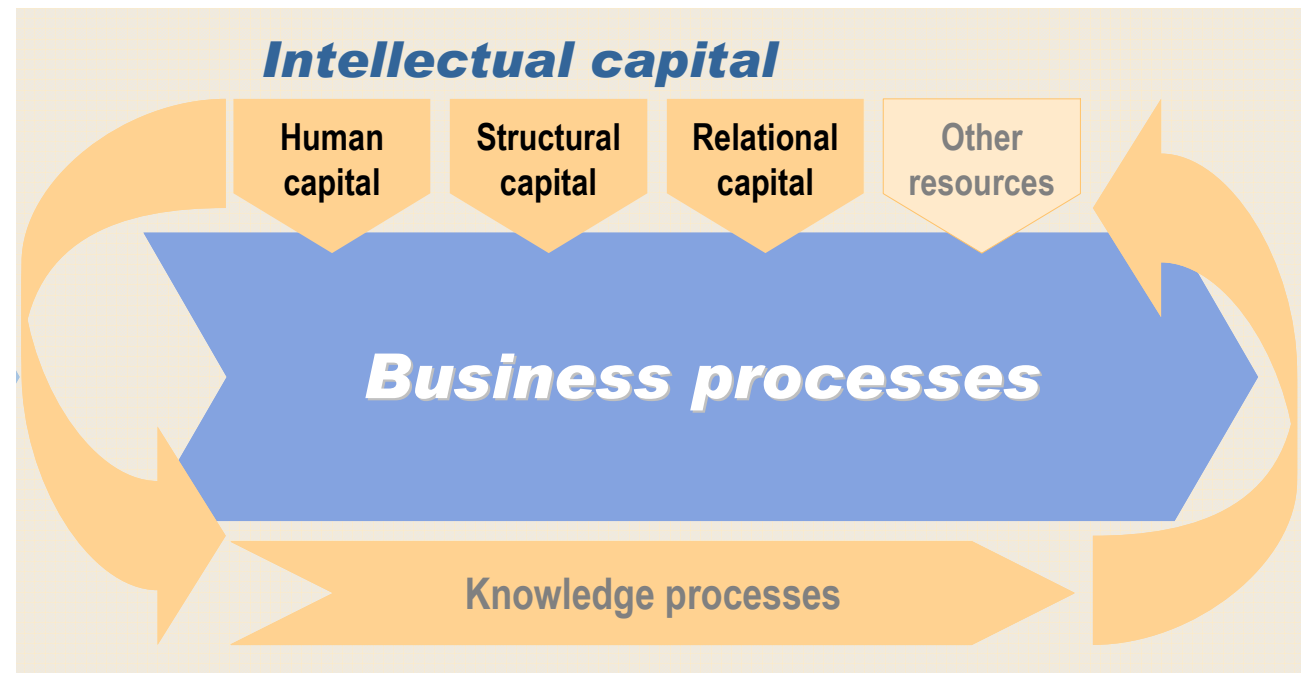
Working Group Intellectual Capital Statement (AK-WB)

Fraunhofer IPK, Wissenskapital GmbH, Intangible Asset Consulting, eureka and alwert.

Dr.-Ing. Kay Alwert
Kay.Alwert@alwert.com

alwert.consulting

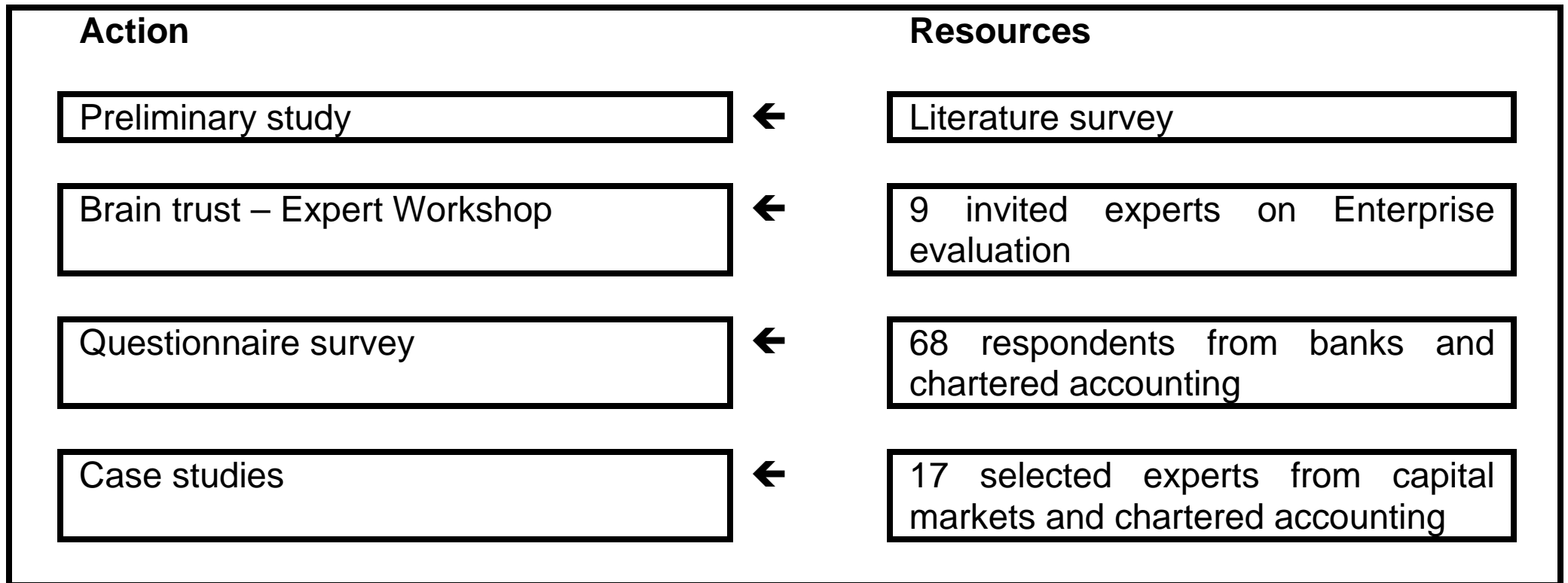
Dunckerstraße 27
10439 Berlin
Tel.: +49/(0)30 / 20144 538



Research design: a multidimensional study.

- **Research question:** Do intellectual capital reports of SME generate any impact on the valuation behavior of German analysts?
- **Methodology:** A test design was developed which comprised a preliminary literature review, a brain trust with financial experts, a quantitative survey and an experiment based on two Case Studies involving 17 high level analysts from 9 different institutions.
- **Findings:** If some constraints about structure, content and length of an IC report are fulfilled, it contributes to a more homogeneous rating of SMEs, than a rating based solely on information from annual financial reporting. Therefore it reduces risks for both banks and SMEs.
- **Research limitations/implications:** The research is based solely on German actors. It focuses on SMEs and their relevant capital market partners, which are banks.

Methodology and participants.



Questionnaire Survey: Elements of an intellectual capital report.

- **Requirements** to an intellectual capital report **do not differ significantly** from banks, equity analysts and chartered accountants.
- Disclosure of data related to intangible assets **contributes to better corporate reporting.**
- **Indicators appear more important** than and interpretations.
- An intellectual capital report should **not exceed 10 pages.**
- **Analysts have a different perception about the importance of certain intangibles than companies.**
- Details on the **measures for improvement** of intangibles are considered as **important.**
- **There is a set of highly relevant indicators for analysts.**

Analysts rate the importance of intangibles different than companies.

Managers	Experts from the capital market
Motivation of employees	Customer relations
Leadership competence	Relations to the capital market
Product Innovation	Product innovation

There is a set of highly relevant indicators for analysts.

#	Indicator
1	Education and Qualification of employees
2	Fluctuation (recruits and exits)
3	Turn over per customer segment
4	Customer satisfaction based on surveys
5	Number of customer complaints
6	Number of new products in development
7	Average costs of capital
8	Dependency on key suppliers
9	Rate of absence and illness
10	Financial rating
11	Defined successors for top management and key personnel
12	Share of turnover with new products
13	Structure of customer bases (regular vs new)

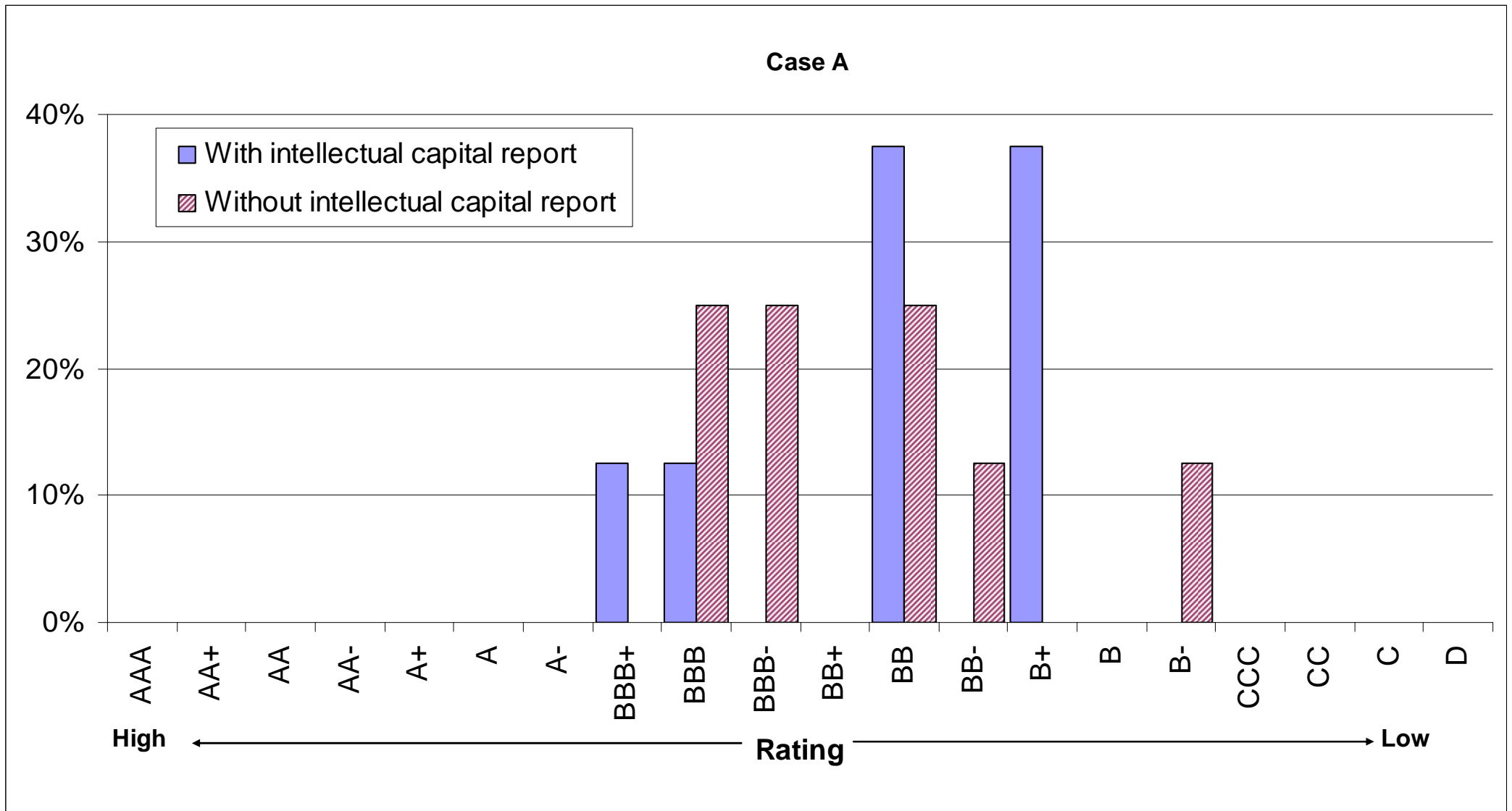
Recommended structure for an intellectual capital statement.

Content	
1	Summary
2	Data related to market and industry (business environment)
3	Description and explanation of the business strategy
4	Definition and explanation of the most relevant drivers of intellectual capital
4.1	Data about the current status quo of intellectual capital
4.2	Analysis of intellectual capital
4.3	Measures for the utilization and development of poor performing drivers of intellectual capital
5.	Appendix

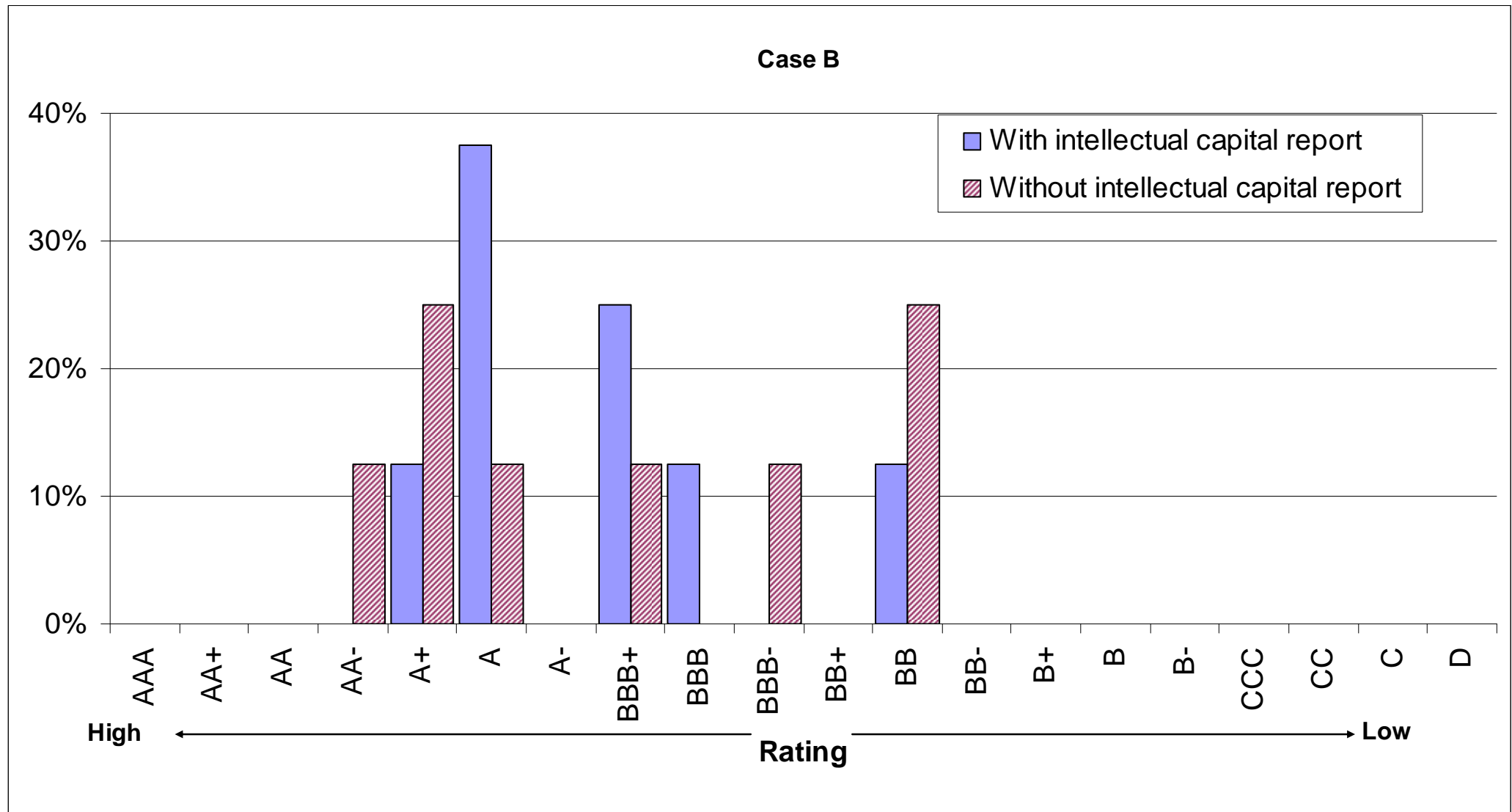
Case study research: Is there a difference?

- Based on the Idea of the “Schroders-Test”, conducted by PWC, **reports of two companies where framed for a case study test.**
- **17 analysts** from representative institutions **were selected.** Selection criteria was experience in enterprise rating, function within the institution and prestige and reputation of the delegating institution.
- In a one-days workshop in Frankfurt **two independent peer groups had to rate the two companies**, one with the financial annual report and one with the additional intellectual capital report.
- Both case studies were generated based on the intellectual capital report, the annual report and the Audit Certificate for 2005.

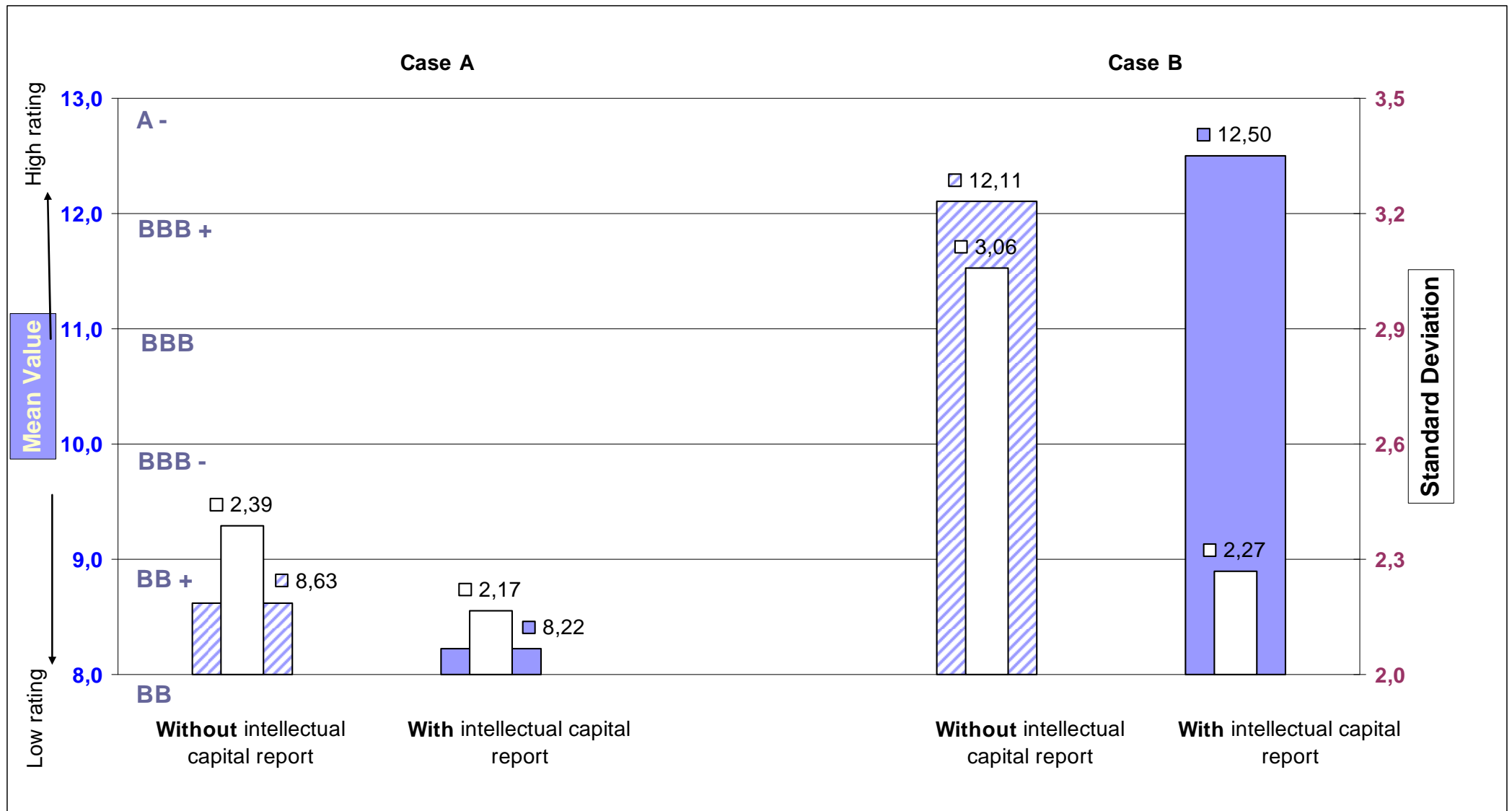
Results from the German case study research with analysts – RATING COMPANY A



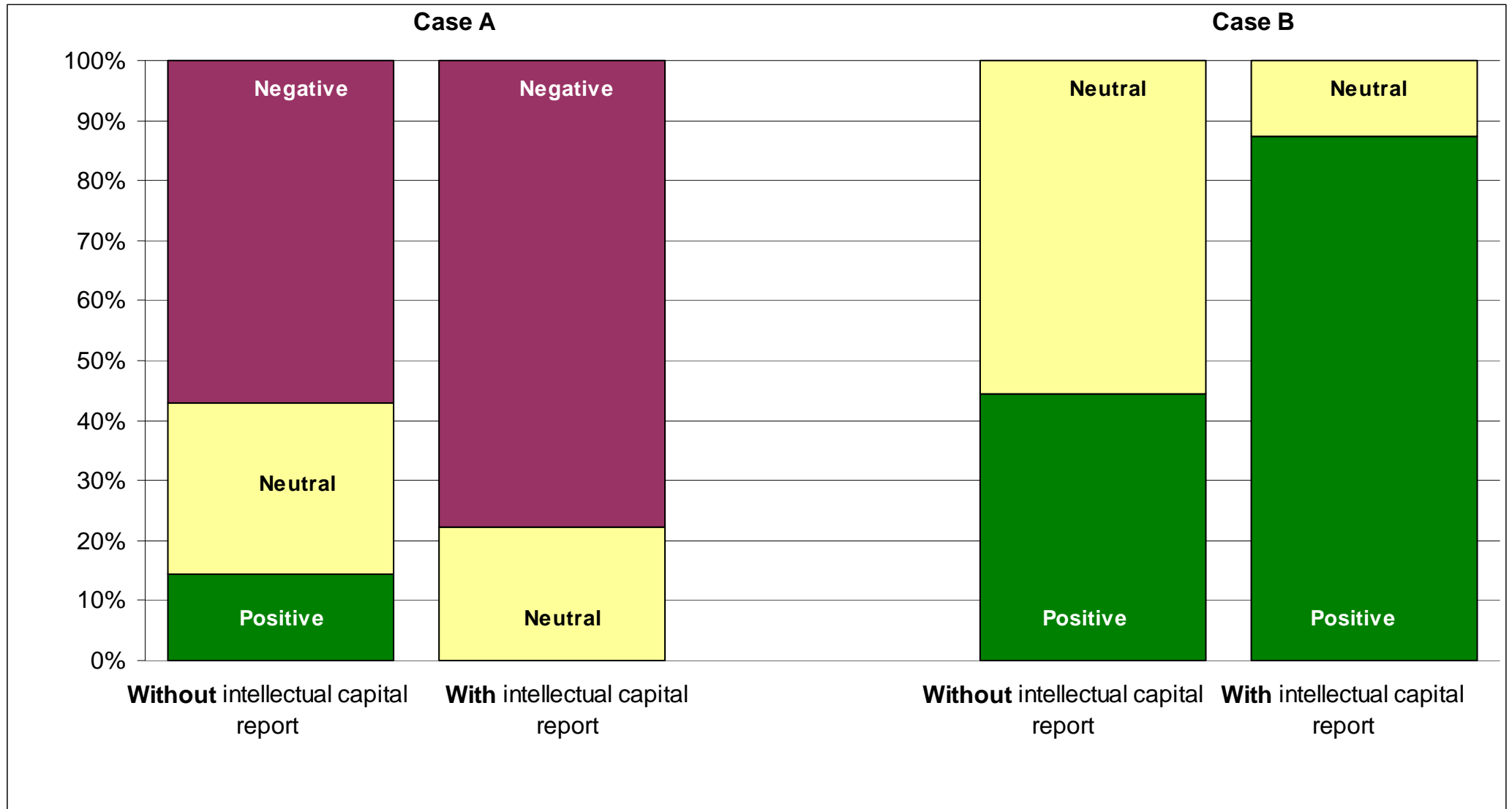
Results from the German case study research with analysts – RATING COMPANY B



Results from the German case study research with analysts - RATING



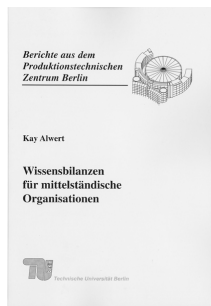
Results from the German case study research with analysts - FORECAST





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Wissensbilanzen für mittelständische Organisationen

Alwert, Kay: Dissertationsschrift IRB Verlag 2005



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Hrsg.: Mertins, Alwert, Heisig
Beiträge von über 20 namhaften Experten!

Dr.-Ing. Kay Alwert
Kay.Alwert@alwert.com
alwert.consulting

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