



Intellectual Assets based Management and KPIs

XBRL International 2008

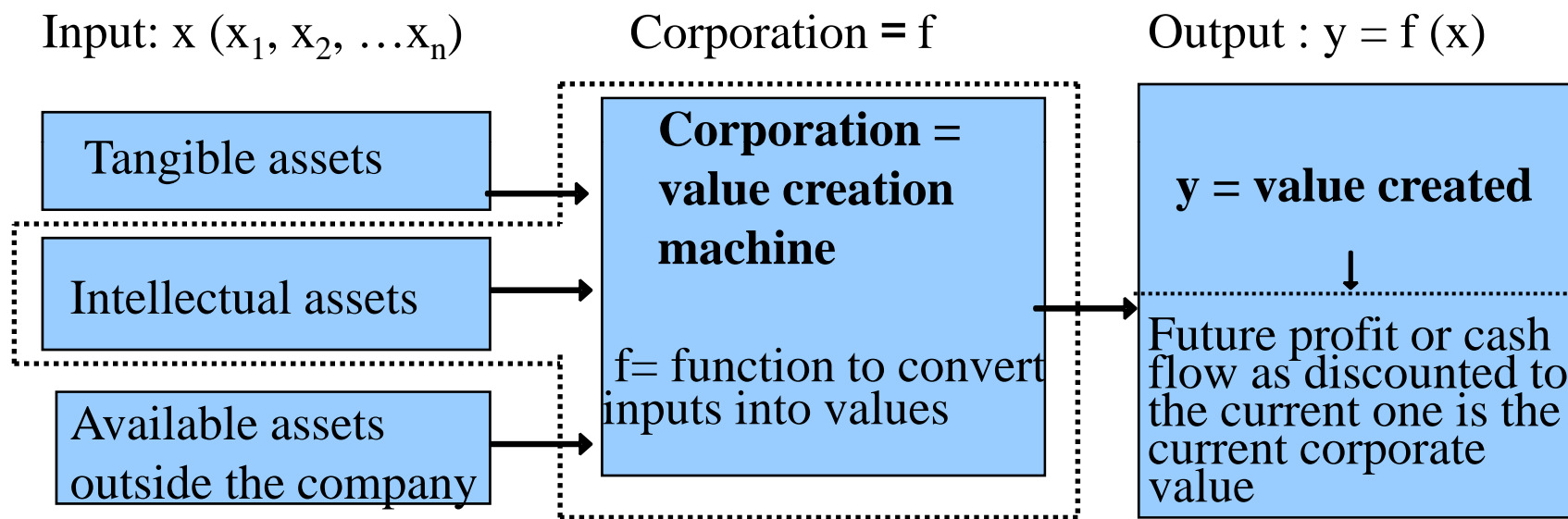
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Nature of a company

Company is a value creation mechanism, which can be expressed in a metaphor of the mathematical function. The part surrounded by dotted line is usually invisible in financial reporting.



y has many elements($y_1, y_2, y_3 \dots$), including sales, corporate profit, cash flow and social contribution.

f is the mechanism to create value.



Corporate Management

Not only x itself, but also the conversion mechanism, f to create values are substantial.

Important components of x and f are both intangible, or IAs (Intellectual Assets).

IAs last remain effective longer than tangible financial assets, so they are more reliable grounds for the future achievement.

Therefore, how to manage IAs to create values, that is, IAbM (Intellectual Assets based Management) is the most essential part of corporate management.



Decisive elements of long-term corporate value

- Basic philosophy of the management: behind f
- Various kinds of intangible resources, including employees: x
- The way to combine its strength to a specific value chain: f
- Expected achievements: y

However, there are no rules on describing these un-written factors unlike financial information.



Necessary format on IAs

y, f and x are peculiar to each company.

However, stakeholders need credible, accountable and comparable information.

→ Simple, one-size-fits-all type format to describe non-financial information does not work. Rather, some format which allows flexible expression is needed.

→ Basic principle is to explain essential elements of f and x in a narrative story.

Basic structure of the story is formatted.

Reliable KPIs to back up f or x is indicated.



Guidelines

- In Japan these were made clear in the guideline on IAbM in 2005.
- Similar approach was taken in Japan, US and Europe.

EBR framework in USA

IAbM guideline in Japan

IC Reporting in EU

METI Guideline on IAbM Disclosure

History

Feb. 2005 Establishment of special sub-committee under Industrial Structure Council
Aug. 2005 Mid-term report summarized by the sub-committee on IAbM
Oct. 2005 METI published 'Guideline for disclosing IAbM'

Main Characteristics

- Encourages companies to express corporate story of management in a narrative way, by showing the outline of the story
- Proposes the way of incorporating supporting KPIs for enhancing the credibility of the story
- Exemplifies 35 KPIs related to IAs
- Presents a guideline for analysts/stakeholders to evaluate the report

Element of the Story

- Nature of business and direction
- Corporate strategy, investment, accumulated IAs and unique value chain as of today
- Current business results
- Predicted uncertainties (risks and chances), accompanied by ways to deal with them, including investment
- Projected achievement in the future

Basic Principles

- **Showing the overall picture from top manager's eye in a story**
- **Focusing on the future value creation that affects corporate value**
- **Evaluate future uncertainty (risks/chances) fairly and explaining how to deal with them**
- **Making a report easy to understand for important stakeholders**
- **Supplementing and being compatible with financial information**
- **Adding supporting KPIs to enhance credibility**
- **Providing historical comparability (e.g. KPI for the past two years)**
- **Making a report on a consolidated basis**



Framework of story in IAbM Guideline

(General) Basic management philosophy
Outline of business characteristics

(From Past to Present)

- A: Management policy in the past
- B: Investment (based on A) (performance figures included)
- C: Unique intellectual assets accumulated in the company, strengths based on them, and value creation method (based on A and B) (supporting intellectual assets indicators included)
- D: Actual performance in the past, such as profits (as a result of value creation C) (figures included)

(From Present to Future)

- E: (Based on C and the assessment of the past to the present) Intellectual assets that rooted in the company and will be effective in the future, and future value creation method based on them (supporting intellectual assets indicators included)
- F: Identification of future uncertainty/risks, how to deal with them, and the future management policy including those elements
- G: New/Additional investment for maintenance and development of intellectual assets needed (in line with the management policy F) (figures included)
- H: Expected future profits, etc. (based on E to G) (numerical targets included)

Examples of KPIs in IAbM Guideline

Key Elements of Corporate Value

Examples of Indicators

(1) Management stance/
Leadership

- Degree of internal penetration of management principles
- External transmission of information by top manager
- Development of future leaders (average age of subsidiary presidents)

(2) Selection and Concentration

- Competitiveness of major business
- Weighted average of the numbers of companies providing the same products/services
- Employee assessment
- Review performance of unprofitable department
- Degree of R&D concentration
- Differentiation of market

(3) External negotiation power/
relationships

- Weighted average of market share of main products/ services of the main business
- Degree of customer satisfaction
- New customer sales ratio or growth rate of new customers or members compared to those in the previous year
- Price pass-through capability
- Negotiation power
- Financing capacity

(4) Knowledge Creation/
Innovation/ Speed

- R&D costs vs. sales
- Outsourced R&D cost ratio
- Number of IP owned, economically meaningful term
- Employees' average age and increase/decrease from the previous year
- New products rate

(5) Teamwork/ Organizational
knowledge

- In-house improvement proposal for quality control system
- Number of lateral projects
- Job leaving ratio
- Degree of employees' satisfaction
- Incentive system

(6) Risk Management/
Governance

- Compliance system
- Diversification of risks
- Number of public announcements regarding risk information and speed of public announcement of problems
- Risk of being an acquisition target
- Compensation claims in pending lawsuits
- Risk of information leakage

(7)Coexistence in society

- Amount of environment-related investment
- Number of SRI funds which adopted the corporation
- Corporate image survey and ranking results



Summarized IAbM Reports

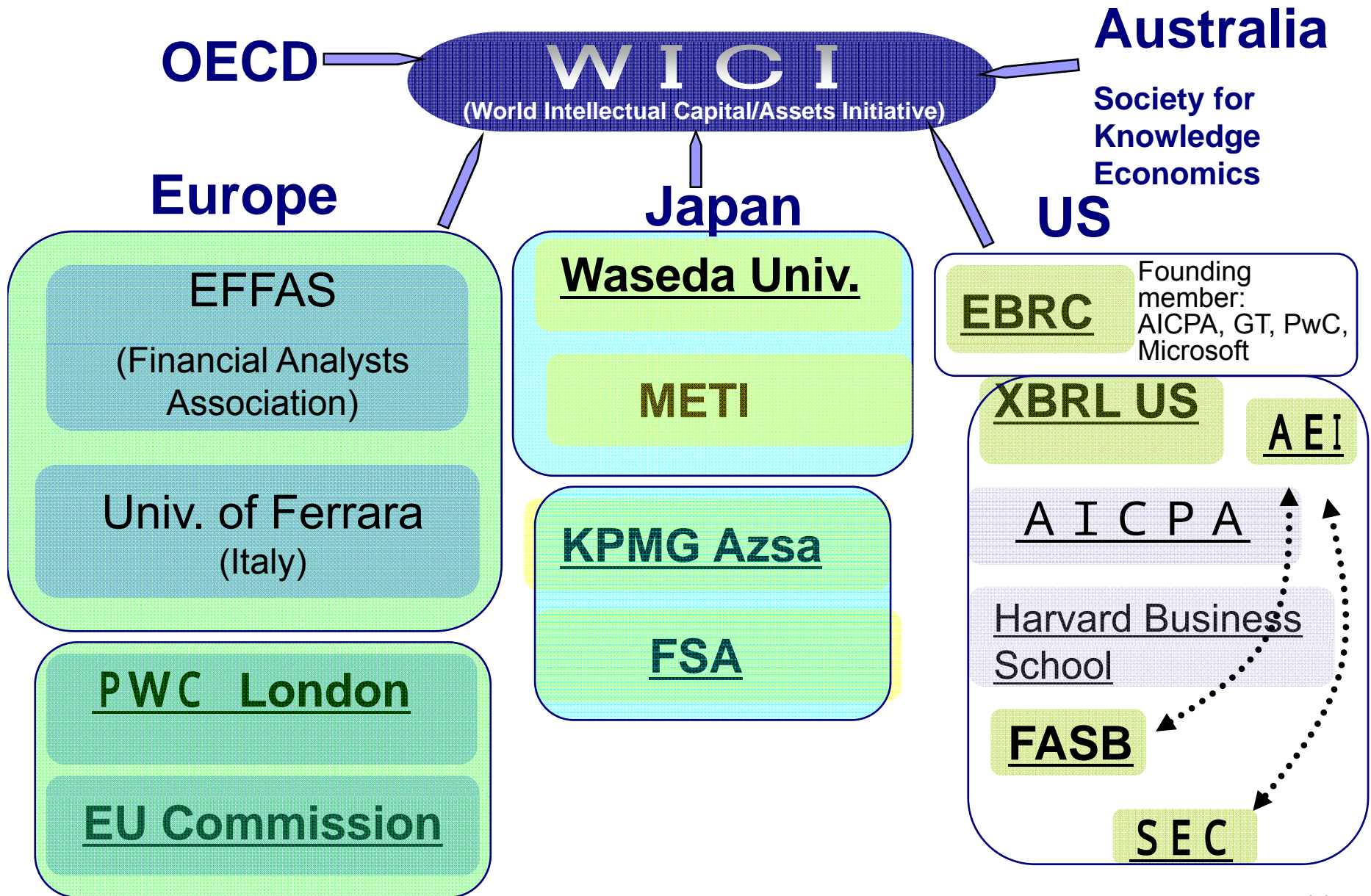
-More than 30 companies have created and released reports based on the guidelines by METI.

Some companies have included their intellectual asset management reports in their annual reports.

-Through the R&D grant application process of NEDO, 240 companies in 2007 and 190 companies in 2008 summarized gist of IAbM reports, though they are not published.

Some of these reports can be viewed from the web site of http://www.meti.go.jp/policy/intellectual_assets/index.htm

World network on XBRL & IAbM



Framework in IAbM Guideline and EBR

IAbM Guideline

Past ~ present

(facts)

Business
outline

A

B

C

D

Present ~ future

(forward)

F

E

F

E

G

H

EBR2.0

Business
landscape

Strategy

Resources
& Processes

performance

KPIs in IT/Electronics Sector (METI 2008)

-New products ratio

case: Murata Corp. 38% in 1H 05, 40% in 1H 06

-Customer satisfaction ratio

-Weighed average of numbers of companies providing similar products/services

	Sony	Panasonic	Sharp	Fujitsu	NEC
06	6.2	7.4	9.5	9.8	10.4
07	6.2	8.3	9.7	9.7	10.4
Profit*	4.2	5.7	5.4	3.8	3.4

* operating profit / sales in 07

KPIs in IT/Electronics Sector (Continued)

-Share of overseas sales in total sales (%)

	Sony	Pana	Sharp	Fujitsu	NEC	TDK	Murata
07	77	50	53	36	25	82	75
Profit*	4.2	5.7	5.4	3.8	3.4	10	18

* operating profit / sales in 07

-Net Environment Impact

Co2 emission in operation — environmental contribution in decrease in CO2 emission in use or manufacturing process

-Freshness of workers