



# SYMPOSIUM INTERNATIONAL

## Évaluation et valorisation des actifs immatériels

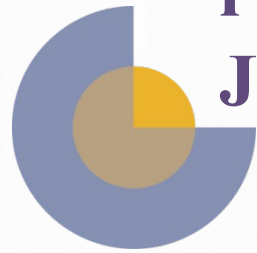
6 et 7 octobre 2011 - Paris



ORGANISATEURS



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# Intégration du capital immatériel dans l'économie et les politiques publiques au Japon

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des Finances japonais*



# Integration of Intangible Assets in economy and public policies in Japan

Symposium International  
Assessment and Valuation of Intangible Assets

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October, 2011

# 1. Intellectual Assets based Management(IAbM)

## 1 – 1 Background

1 – 2 Ultimate goal for promoting IAbM

1 – 3 Concept of IAbM

1 – 4 METI Guideline on IAbM Disclosure

1 – 5 Recommended outline of IAbM  
report

# 1 – 1 Background

## ~ Emphasis on Differentiation and High Added Value ~

It is vital for Japan, which is faced with issues such as the global economy, its transformation into a knowledge-oriented economy, a declining birthrate and an aging population, to capitalise on its intrinsic strengths in order to create and realise value and profits through the differentiation of goods and services.

Intellectual-assets-based management, which enables a company to utilise its intellectual assets in order to differentiate it from others and to realise sustainable as well as short-term profits, will become important.

Growth process	Appropriate type of production	Consumer tastes	Type of marketing with highly competitive prices	Assets serving as a source of competitiveness
High-growth period	Mass production	Lively consumer demand	Low-price marketing taking advantage of economies of scale for standardised goods	Tangible assets, such as land and equipment
Stable-growth period	Small-lot production of a wide variety of products	Diversified tastes of general consumers	Marketing high-value-added products	Invisible assets, such as patents, techniques, know-how, and brands

(Prepared referring to “A Method for Visualising Corporate Intellectual Assets”  
(written by Daichi Seki of Ernst & Young ShinNihon LLC and published in 2008))

# 1 — 2 Ultimate Goal for Promoting IAbM

## Challenge in Modern Society

Globalized Money Capitalism which focuses mainly on money, short-term profit and often creates 'winner-takes-all' situation.

This might kill non-financial, long lasting and diversified elements (Intellectual Assets) of companies, therefore undermine sustainable growth and society, resulting in abundant losers and poverty.

→Need for modified capitalism

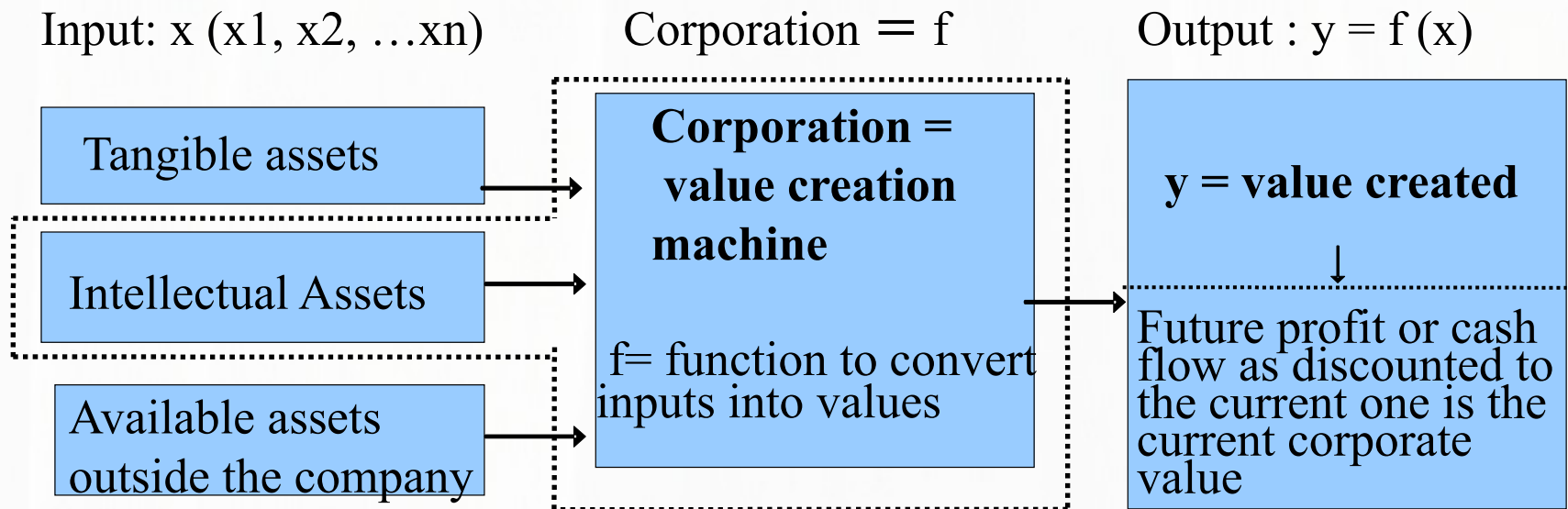
-not focusing too much on money, and compatible with logic in the market  
= focus on non-financial elements which leads to value creation by companies, while bridging companies' interests and stakeholders' ones  
→ encourage companies to explain 1)real core non-financial Intellectual Assets peculiar to the company, and 2)how to use them to create values which leads to short term or long term financial performance

Policies: 1) diffuse the notion of IAbM (IA based Management) 2) prepare the platform of IAbM report in Japan and WICI in the world

Aiming at: 1)winner abundant society, 2)diversified energetic activities and 3)promoting human capitalism as an alternative to money capitalism

# 1 — 3 Concept of IAbM

**~~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.**



Both  $IAs(x)$  and conversion mechanism ( $f$ ) are substantial.

Main categories of IAs

Human assets (inc. their knowledge or technique, leadership...),

Organisational assets (inc. teamwork, loyalty, accumulation of technology) Relational

assets (inc. reputation, network with business partners ...)

# 1 – 4 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

## 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**

## 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

the past



# 1 — 5 Recommended outline of IAbM report

— **(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)

# 1 – 6 History activities related to METI

2004 Jun. White Paper on International Trade focusing the importance of IAs  
~~Sept. Launch of OECD project on IAVC (Intellectual Assets and Value Creation)~~

**2005** Oct. Guideline for Intellectual Assets based Management Disclosure\_(METI)  
[http://www.meti.go.jp/policy/intellectual\\_assets/index.htm](http://www.meti.go.jp/policy/intellectual_assets/index.htm)

Nov. 1st IA week in Tokyo

**2006** Mar. Interim Report on IAbM in SMEs (SMRJ)  
<http://www.meti.go.jp/press/20060324002/20060324002.html>

Jun. New system to put much on the element of IA based management in R&D grant

Dec. OECD IAbM Conference in Tokyo

OECD report on Intellectual Assets and Value Creation

**2007** Mar. Manual on IAbM for SMEs (SMRJ)

Apr. Report by WG under Financial Service Agency referring IAbM report

Apr. Amendment of innovation related laws to define the concept of IAbM

Oct. Establishment of WICI (World Intellectual Capital/Assets Initiative)

Dec. International Conference on Intellectual Café

2008 Mar. Guide for recognizing and utilizing IAs (METI)

Nov. WICI Forum in Tokyo

2009 Apr. Keys to finance companies based on analyzing IA b M

Autumn; Contribution to the workshops hosted by DG Enterprise of EC

· Joint Symposium on Sustainable Disclosure with EC in Brussels and Tokyo

Nov. Future Center Summit 2010 in Tokyo

SMRJ: Organization for Small and Medium Enterprises and Regional Innovation in Japan

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## 2 . IA in Economy and Policies

2—1 IAs and Cash flow

2—2 Utilization in Credit Rating

2—3 IAbM for companies and communities

2—4 Link with Innovation Policy

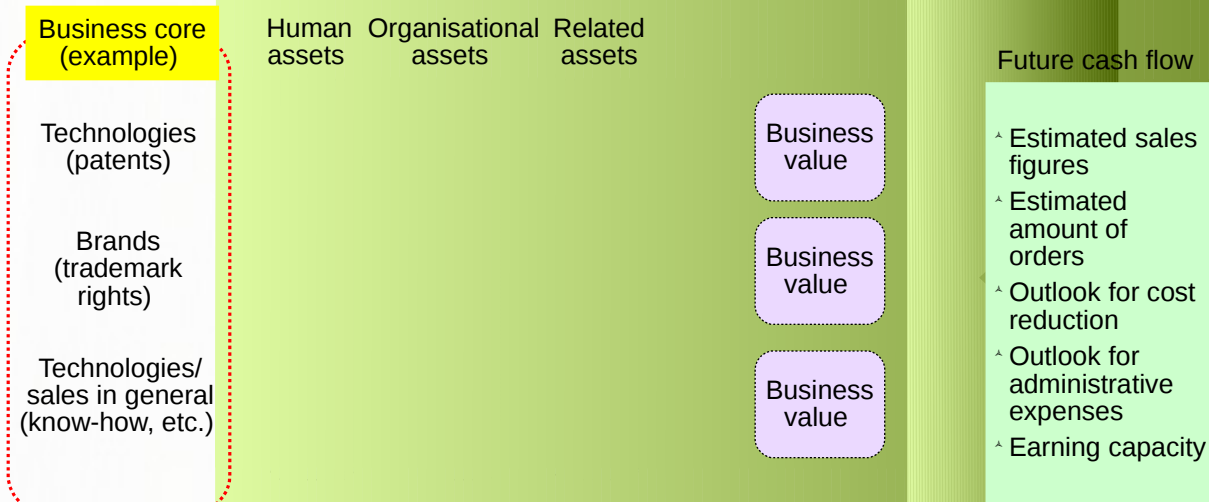
2—5 Application to SME s

2—6 Relation with Risk Management

## 2 — 1 IAs and Cash Flow

### ~~Analysing Cause-and-Effect Relations between Intellectual Assets~~ Information and Future Cash Flows

- Summarising what specific influences the qualitative information on intellectual assets disclosed by a loan seeker will have on the future flow of the loan seeker's cash and analysing the cause-and-effect relations between such information and the cash flow.
- The relation between intellectual assets constituting a business core and other intellectual assets (human assets, organisational assets and related assets) is important. In the case, for example, where technologies, brands, sales force, etc. constitute the source of business income, the strengths thereof will be utilised in a chain of core intellectual assets, such as patents and know-how, and other intellectual assets (human assets, organisational assets and related assets), and consequently business values will be created.
- Intellectual assets are not equivalent to intellectual property but also have an impact on the future cash flow.

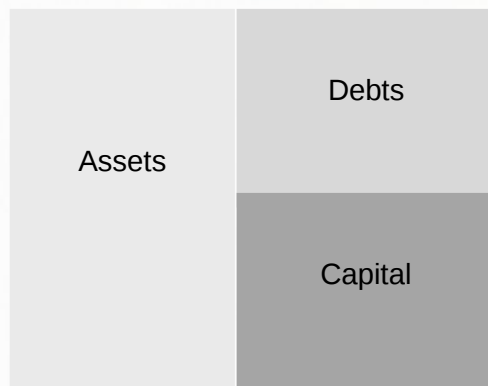


## 2 – 2 Utilization in Credit Rating

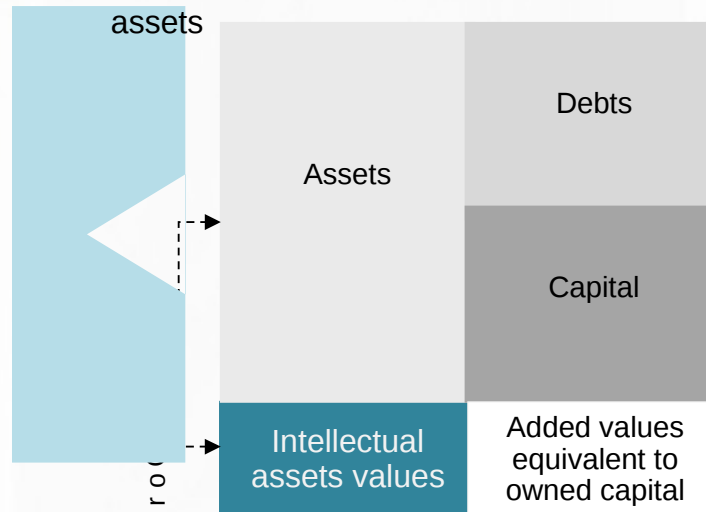
- Accounting does not cover intellectual assets, such as technologies developed in-house, intellectual property rights and excellent human resources, and the values of such assets are not reflected in balance sheets.
- Including the quantitative values of intellectual assets into financial data that underlies the credit rating of enterprises and transaction policies wherever possible is an effective means of ascertaining the actual conditions of debt-and-credit balance.
- By making a decision on the granting of a loan based on the actual conditions of debt-and-credit balance including the qualitative values of intellectual assets, as shown in the following figure, the shift from the credit rating of enterprises and the establishment of transaction policies exclusively based on assessments of achievements, i.e., business results, to more appropriate credit rating of enterprises and the establishment of more appropriate transaction policies that reflect the actual conditions of enterprises, including their potential, will be effectuated.

Conceptual diagram of the actual conditions of debt-and-credit balance based assessments of intellectual assets

(1) Current balance sheet



(2) Concept of the actual conditions of debt-and-credit balance based on assessments of intellectual assets



(3) Decision on the granting of a loan based on the actual conditions of debt-and-credit balance

## 2 — 3 IAbM for companies and communities

### Common Concern on Global competition

'Winner takes all' situation in the global market

- have nots issue=social unrest
- majority(=losers) claims for protectionist measures

Concentration of production of goods in cheap labor countries

- regional employment lost
- destruction of local economy while raising the protectionism

IA based management companies

Value Creation based on each company's unique characteristics

- each characteristic may create a winner
- winner abundant society
- smaller risk on economic/social unrest

IA based management communities

Diversified regional management utilizing the characteristics of the region

- PR globally its own characteristics to attract more people and capital
- Creation of vitalized regional economy
- Compatibility of globalization with regional employment achieved

IAbM as a solution

## 2 – 4 Link with innovation policy

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### -Amendment of innovation related Laws (Apr. 2007)

Define the concept of ‘technology management capability’ as one of applications of IAbM

Add new roles for government related institutions (AIST, NEDO) to assist companies to raise the ability in IAbM

### -New Innovation grant system (Apr. 2007)

IAbM as a prerequisite for application to NEDO R&D grant

-Promoting ‘Intellectual Café’ activities for knowledge fusion as one of the tools to create IA and to increase the chance of utilizing IA

Intellectual Café and Innovation Symposium (2007-2008)

Future Center Summit (2010)

## 2 — 5 Application to SMEs

- IAbM reports ~ valuable tool for SMEs to inform many stakeholders of their real origin of competence, vision, and strategy.
- IAbM reports have thus enabled SMEs to have
  - new credits from banks,
  - new clients, and
  - freshmen
- METI therefore supports IAbM in SMEs as a policy in close collaboration with SMRJ.  
(Organisation for Small and Medium Enterprises and Regional Innovation Japan).

[http://www.meti.go.jp/policy/intellectual\\_assets/english.html](http://www.meti.go.jp/policy/intellectual_assets/english.html)

- ✓ **Guideline for Intellectual Assets based Management Disclosure** (METI)
- ✓ **Keys to IAbM Evaluation Finance** (METI)
- ✓ **Manual of IAbM for SMEs** (SMRJ)
- ✓ **Guidelines for Practice of IAbM for SMEs** (SMRJ)
- ✓ **Council for Financial Service Agency recommended IAbM report as a tool for relationship banking**

So far ---



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**- 180 SMEs have disclosed IAbM reports (reports for banks and**

**clients)**

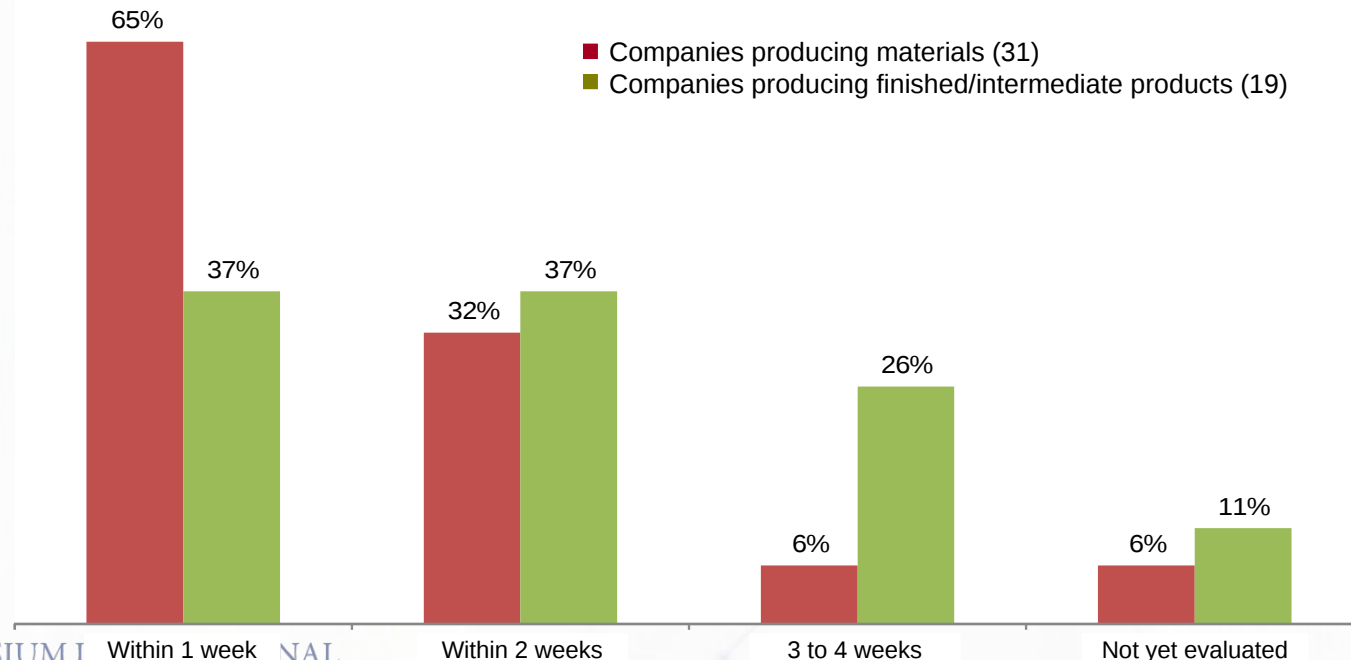
**- 600 SMEs have made reports to demonstrate their**



## 2-6 Relation with Risk Management After The Earthquake – Supply Chain

- Over 60% of companies producing materials and 40% of companies producing finished/intermediate products evaluated the impact on their supply chains (including the extent of damages suppliers suffered and whether they could supply parts and materials) within one week of the earthquake.
- A halt in production of parts and materials at companies with large market shares has a significant impact on the society.
- In order to ensure that production can recover quickly after a disaster, companies should consider preparing business continuity plans (BCPs) and putting in place risk management systems to address realistic risks.

Number of days taken to evaluate the impact on supply chains

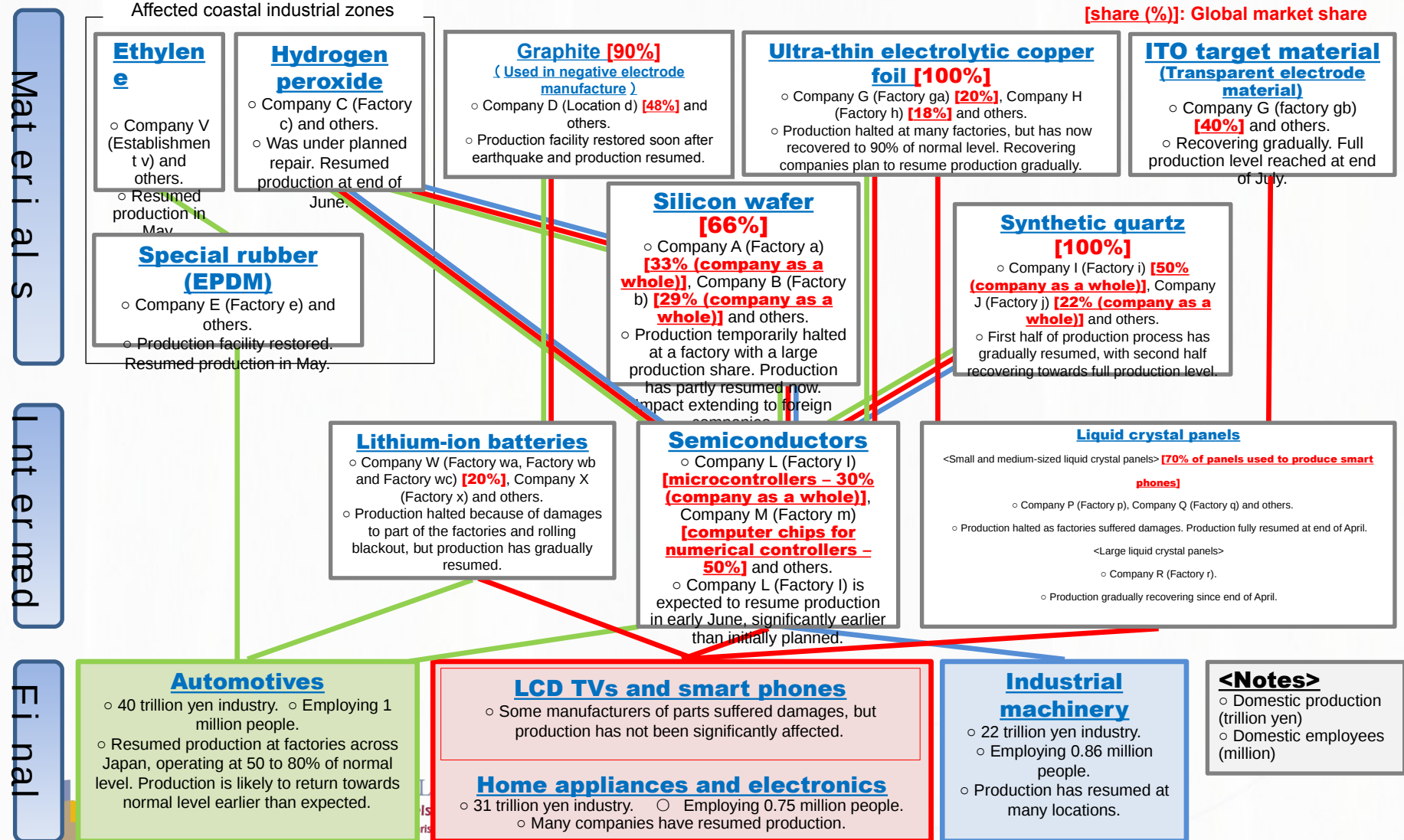


Note: Some companies are counted more than once because different items were impacted differently.

Source) METI: Emergency industry survey following the Great East Japan Earthquake (published on 26 April)

# [Reference] Impact of earthquake/tsunami and rolling blackout on supply chains (example)

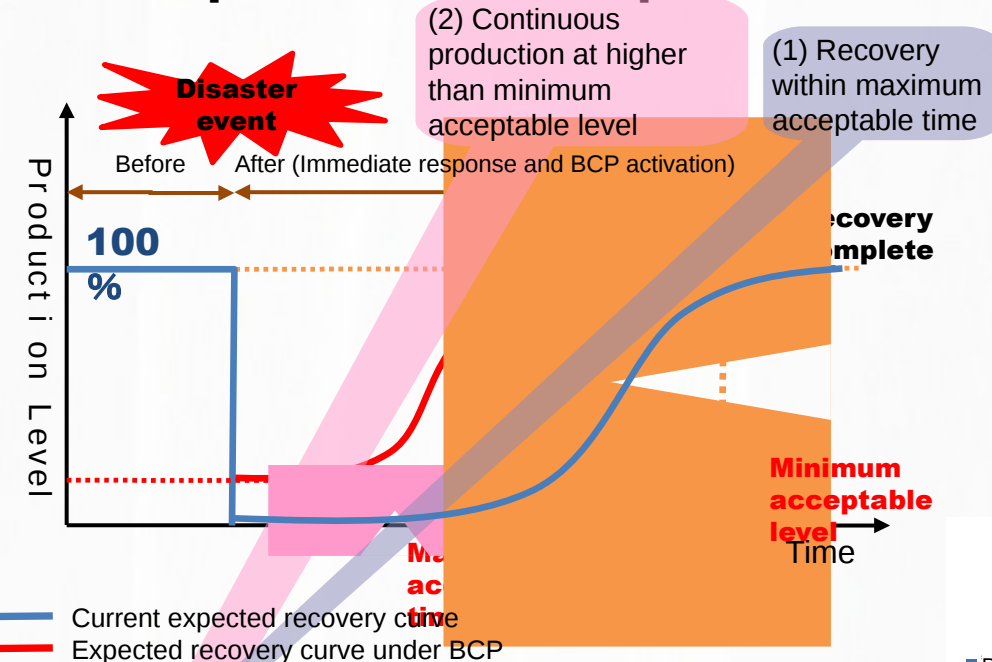
- After the earthquake, productive activity around the disaster area stopped temporarily and raw materials and parts, for which Japan occupies a large market share of the world, were not supplied stably, influencing the domestic and foreign supply chain.



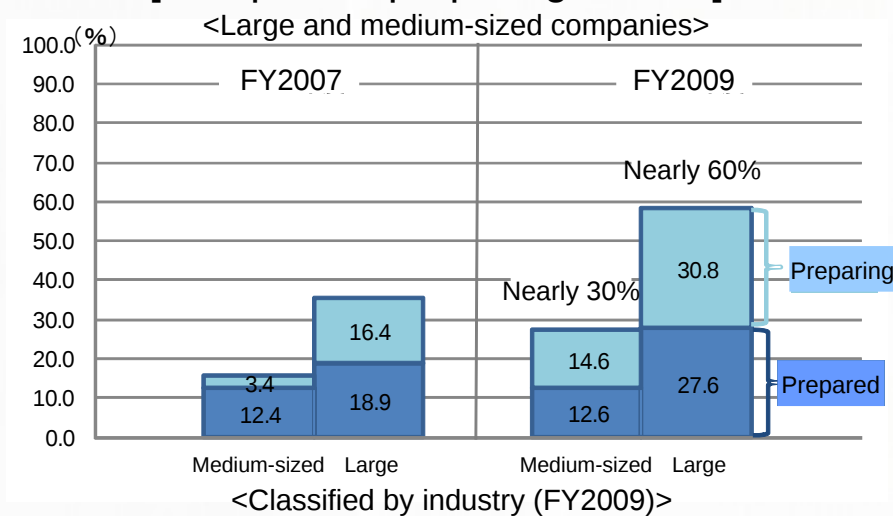
## 2-6 Business continuity plans (BCP)

- Business continuity plans (BCPs) are effective in shortening recovery time.

### [Effectiveness of BCPs]



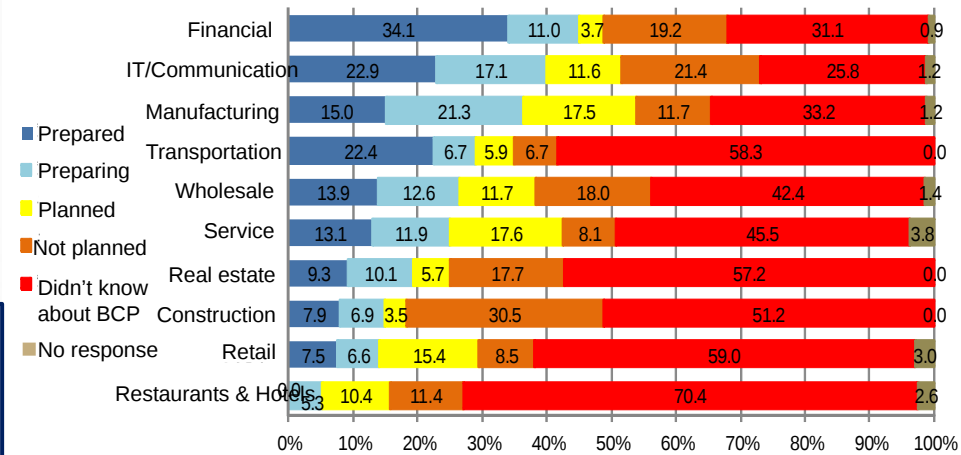
### [Companies preparing BCPs]



### [Case of effective BCP implementation]

#### Manufacturer of PCs

Production of desktop PCs at a Fukushima factory came to a complete halt after the earthquake. Following the business continuity plan, it was promptly decided to shift the production to a factory in Shimane, where laptop PCs are produced, and the production of desktop PCs resumed just after 12 days from the earthquake.



(Source) Prepared by METI based on Cabinet Office's "Survey on Business Continuity of Companies and Preparation for Disaster Prevention (March 2010)"

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## 3. Global Network

(In addition to commitment to works in OECD)

3—1 WICI Network

3—2 Activities in IIRC

# 3 — 1 WICI Network

[www.wici-global.com](http://www.wici-global.com)

**WICI (World Intellectual Capital/ Assets Initiative) global network was established in 2007, aiming at setting up a new business reporting framework in the 21st century of knowledge era.**

**It has already proposed a new business reporting framework for integrating financial and non-financial information with developing XBRL taxonomies and examples of sector KPIs.**

## Recent Main deliverables

WICI concept paper [http://www.wici-global.com/docs/wici\\_concept\\_rev.1\\_jan\\_2011.pdf](http://www.wici-global.com/docs/wici_concept_rev.1_jan_2011.pdf)

WICI KPI concept [http://www.wici-global.com/publications/concept\\_paper/ver1\\_final\\_201006\\_E.pdf](http://www.wici-global.com/publications/concept_paper/ver1_final_201006_E.pdf)

**Global Assembly (Coordinating Parties  
=EFFAS, METI, EBRC, Ferrara, Waseda)**

### Governance Group

US (EBRC/Mike Willis), Europe(University of Ferrara/Stefano Zambon), Japan(Waseda Univertisy/Yasuhito Hanado )+Chair

### Chairman

**Takayuki Sumita (METI)**

Secretariat

### Observers

**European Commission  
BNDS (Brasil),OECD**

WICI  
Australia

WICI Europe &  
European Country (each)

WICI  
Japan

WICI U.S.  
(AICPA/EBRC)

WICI also has good contact with IASB, EC, OECD, A4S, Eurosif and other international organizations

## 3.2 Outline of Activities of IIRC (International Integrated Reporting Committee) \_\_\_\_

- In August 2010, A4S (Prince's Accounting for Sustainability Project\*1) and GRI (Global Reporting Initiative\*2) together established IIRC (International Integrated Reporting Committee).
- IIRC aims at presenting a framework for realizing corporate reporting that integrates non-financial information with financial information. [www.theiirc.org](http://www.theiirc.org)
- METI makes substantial input through contact with IIRC Office and through WICI.

\*1 A4S – Initiated by the Prince of Wales in 2004, A4S is a project that develops a decision-making framework and a reporting system that can meet the 21st century challenges of sustainability, taking into account the long-term and broader consequences of corporate behaviour.

\*2 GRI – GRI aims at developing and promulgating a framework for sustainability reporting and presents the principles and indicators for measuring and reporting an organisation's performance in economic, environment and social terms. The framework developed by GRI (G3) is the most widely used framework in the world.

### [The purpose of Integrated Reporting]

- 1) **Support the information needs of long-term investors**, by showing the broader and **long-term consequences** of decision-making.
- 2) Reflect the interconnections between environmental, social, governance and financial factors in decisions that affect long-term performance and condition, **making clear the link between sustainability and economic value**.
- 3) Provide the necessary framework for environmental and social factors to be taken into account systematically in reporting and decision-making.
- 4) **Rebalance performance metrics away from an undue emphasis on short-term financial performance**.
- 5) Bring reporting closer to the information used by management to run the business on a day-to-day basis.

## 4 . Future

4—1 METI's Action

4—2 IA WEEK 2011

## 4 – 1 METI's Action \_\_\_\_\_

- It is expected to promote a long-term management (enhancement of competitiveness) and investment by the movement of the report to integrate the financial information and non-financial information with working the direction to evaluate corporate value except financial condition and business performance for the investors in long-term perspective.
- To promote “Information disclosure of enhancing corporate value”
  - 1 ) Active transmission to integrated report including IIRC etc., from Japan paying close attention to international situation
    - ① Research on Institutions ② Use of IIRC pilot projects etc.
  - 2) The promotion of use and disclosure on Intellectual Assets
    - Revision of the Intellectual Asset-Based Management manual for SMEs (Optimized the report of management activity of SMEs)
  - 3) Promotion of consideration for how risk information should be disclosed
    - Transmission about how should be evaluated the business continuity and risk information with the Tohoku earthquake (March 11, 2011) from Japan to the world
- Consideration of how risk management and risk information should be disclosed



# 4 — 2 IA Week 2011

- In Intellectual Assets week (one week of end of November in every year since 2005), various organizations have held the forum which in relation to intellectual assets management under the support of METI.
- 1,000 people or more in all event total participate in 2010 (the 6th).
- IA week(the 7th) will be held 11 events from November 21th to December 1 in 2011.

## < Industry >

The Industrial of Professional  
Engineers  
Intellectual Asset Management  
Center

## < Business Support Organization >

Japan Patent Attorneys Association  
Japan Federation of Gyosei-shoshi Lawyers  
Associations  
The SME Management Consultants  
Association  
XBRL Japan

## < Research Organization >

Waseda University Intellectual  
Capital Research Society  
Intellectual Capital Management  
Consortium

## IA Week 2011 Executive Organization

## < Press Organization >

Nikkei Inc.

## < Public Organization >

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