



"A Global Framework for Measuring and Reporting on Intellectual Assets and Capital"

W I C I

World Intellectual Capital/Assets Initiative

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KPIs, Non-Financial Information & Corporate Value Creation
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Current Business Reporting Model

- Adopted during, and to meet the needs of, the industrial age
- Based on assumptions that profitability is driven by tangible assets such as physical plant and equipment and raw materials that are needed to produce tangible products
- Compliance-based
- One-size-fits-all model with an exclusively historical financial statement focus
- Static, paper-based, summary-level reports

Business Reporting Must Adapt to Change

- **Capital must be redeployed quickly**
- **Technology has enabled rapid change and increased competition**
- **Business reporting critical to capital allocation**
- **Therefore, business reporting must change:**
 - Forward-looking information
 - Focus on long-term value
 - Alignment of internal and external business reporting

Evolution of Corporate Reporting

Business Reporting: A Changing Dynamic

Historical Financial
Statements

Enhanced Business
Reporting

Past

Present

Future

Lagging indicators...

- One size fits all (GAAP)
- Ignores nonfinancial measures
- Reports results of past decisions
- Periodic
- Historical
- Cost-basis
- Financial only
- Statements
- Backward-looking

Leading indicators...

- Tied to company-specific mission, vision, and values
- Focuses on factors critical to success
- Moves decision criteria to forefront
- On-demand
- Real-time/future
- Fair value basis
- Comprehensive
- Custom reports and analysis
- Forward-looking

Greatest Barriers to the Evolution of Corporate Reporting

Market and Regulatory drivers:

- Short-termism, focus on quarterly earnings
- Fear of liability (primarily in the US)
- Lack of regulatory mandate



Inertia is the name for the tendency of an object in motion to remain in motion, or an object at rest to remain at rest, unless acted upon by a force.



Greatest Barriers to the Evolution of Corporate Reporting (2)

Other factors contributing to resistance to voluntary change:

- Former lack of a globally accepted, structured reporting framework
- Disclosure overload/compliance burden
- Desire to monetarily value and/or rate/rank everything, misguided perception of measurement certainty, failure to understand the mechanics of valuation

Valuation is both an Art and a Science



INTERNATIONAL PICTURE OF CORPORATE REPORTING

FINANCIAL REPORTING

EFRAG/OIC/ANC/GASB/FASB/ASB-FRC

NATIONAL
VALUATION BODIES

ACCOUNTING

VALUATION

IASB

IVSC

SUSTAINABILITY
(ENVIRONMENTAL/SOCIAL)

VALUE CREATION
(INTANGIBLES/
KEY VALUE DRIVERS)

GRI

WICI

UN GLOBAL COMPACT
PRI / CDSB / CDP / SASB

WICI EUROPE / JAPAN / USA / ITALY /
FRANCE / GERMANY

NATIONAL SUSTAINABILITY
BODIES

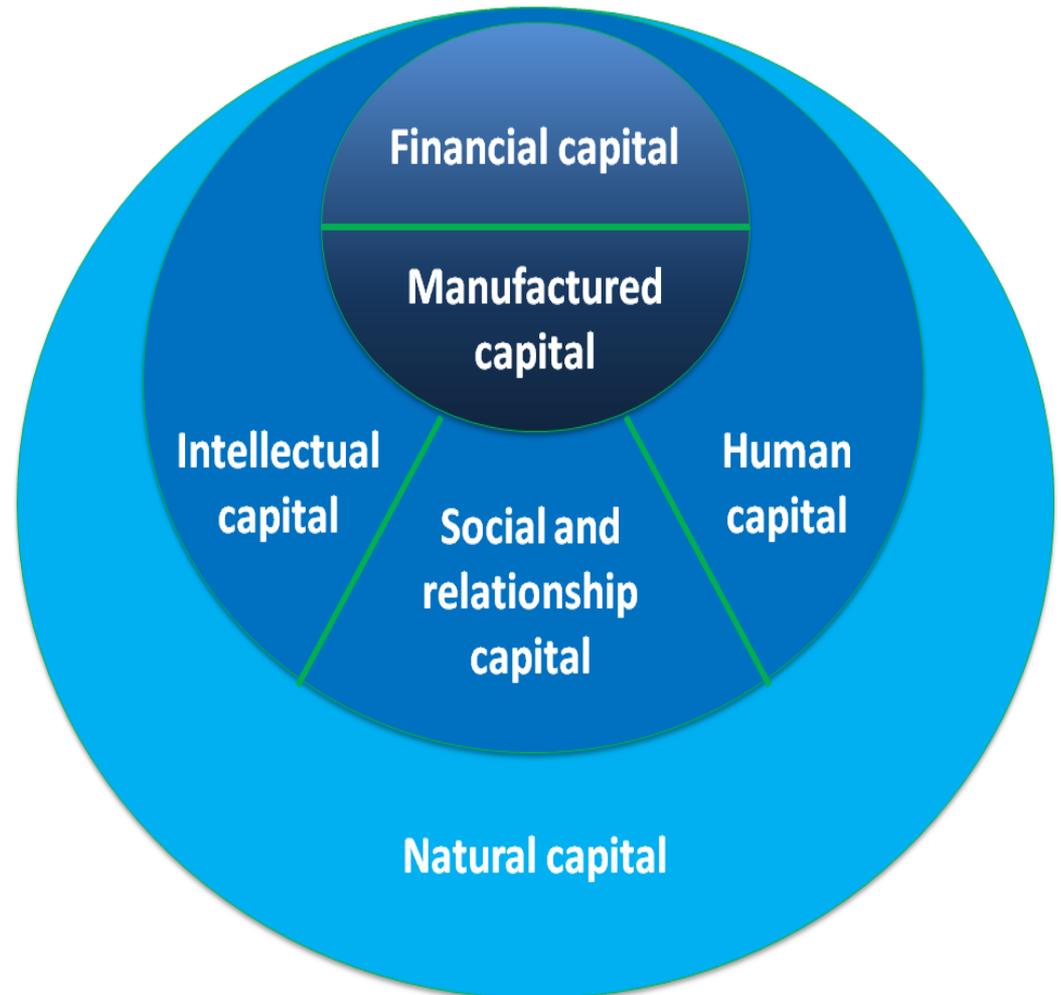
NON-FINANCIAL REPORTING

IIRC
(CRD)

X
B
R
L

3 Steps to support meaningful reporting of value creation based on intangible capitals

- 1) The release of the International Integrated Reporting Framework (Dec. 2013), covering both tangible and intangible forms of capital:



3 Steps to support meaningful reporting of value creation based on intangible capitals

- 2) The further articulation of clear concepts and definitions for reporting of **elements that reflect value creation driven by intangibles:**

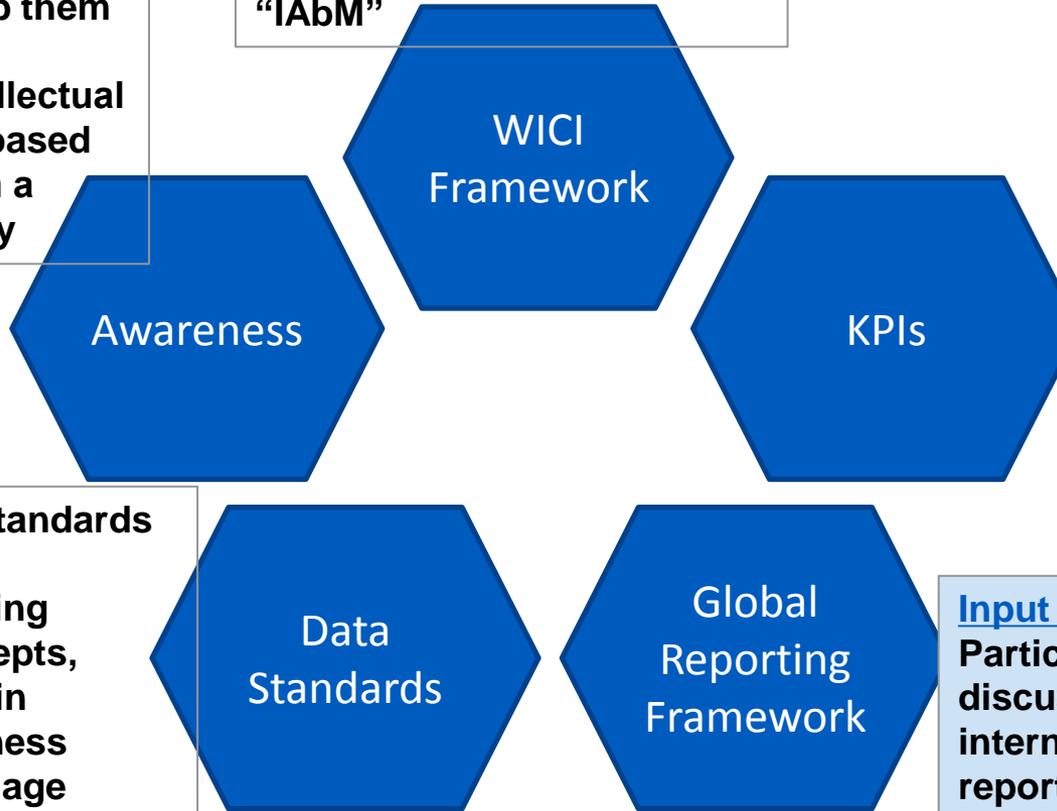


World Intellectual Capital/Assets Initiative (WICI)

Raise Awareness:
Engage in awareness-building for organizations and investors to help them understand and implement “Intellectual Capital/Assets-based Management” in a constructive way

Update Framework:
Provide a regularly updated reporting and disclosure framework as a tool for improved communication between organizations and their stakeholders about “IAbM”

Develop KPIs:
Identify and promote industry-specific Key Performance Indicators (KPIs) that organizations can freely select from to help them articulate their value creation story.



Leverage Data Standards

Elaborate reporting framework concepts, including KPIs, in eXtensible Business Reporting Language (XBRL) - the open international standard for digital business reporting

Input to Global Framework
Participate actively in the discussion about other internationally recognized reporting and disclosure frameworks, and provide WICI inputs into the emerging globally accepted framework in this field

WICI-KPIs

WICI-KPI Concept is well reflected in the IIRC Discussion Paper.

WICI-KPI Concept

➤ ***Definition of WICI-KPIs***

- ✓ **Numerical figures related to critical factors of value creation**
- ✓ **Different attributes from indicators required for a specific purpose by a certain civil society**
- ✓ **An informative set of indicators frequently used**

➤ ***Expected attributes of KPIs***

- ✓ **Reinforce the narrative description of a company's value creation mechanism**
- ✓ **Make visible the value creation story in a given timeline of past-present-future**
- ✓ **Numerical figures, including those quantified through rating methods**
- ✓ **Subset of internal decision making process**
- ✓ **Each KPI can't be applicable to all companies in general nor in a specific industry**
- ✓ **No intention to define a set of KPIs to be disclosed on a mandatory basis**
- ✓ **Company can choose or add their own indicators**
- ✓ **Company should disclose the same KPIs consistently or change them with explanation**
- ✓ **WICI-KPIs will be reviewed based on change in industry, society and economy**

WICI-KPIs for Industries

- **Electronic components (WICI Japan)**
- **Pharmaceutical (WICI Japan)**
- **Automotive/automobile (WICI Japan)**
- **Telecommunications (WICI Europe + EFFAS CIC)**
- **Software & IT services (EBRC + Gartner)**
- **Mining and Extractive (EBRC + Gartner)**
- **Fashion & Luxury (WICI Europe + EFFAS CIC)**
- **Electricity (WICI Europe + WICI Italy)**

**All available for free download in the WICI website
(www.wici-global.com)**

3 Steps to support meaningful reporting of value creation based on intangible capitals

3) Provide examples of real world practice:



Form of Capital:		Google Inc.	Amazon.com Inc.	eBay Inc.	Yahoo! Inc.
C. 2. c. Relationship (Social) capital	Management's identification of relationships with other organizations and third parties that it regards as important; these can be both tangible (e.g., contracts, license agreements, joint venture agreements, and alliances) and intangible (e.g., long-term relationships with no contractual basis and personal relationships).	2	2	0	3
C. 2. d. Organizational (Structural) capital	Management's identification of organizational resources not reported on the balance sheet and that are independent of its employees; these can be both tangible (e.g., patents, trademarks, copyrights, formulas and data bases) and intangible (e.g., trade secrets and employed but undocumented methodologies and processes).	1	2	3	1
C. 2. e. Human capital	Management's identification of any attributes of its workforce (both employees and contractors) that it regards as important; these can be both tangible (e.g., employment contracts) and intangible (e.g., education, skills and abilities, experiences, attitudes, and accomplishments).	3	2	2	2

Conclusion

- **International recognition of the relevance of intangibles in driving corporate value creation has increased due to a number of factors**
- **WICI and its geographical articulations has a unique opportunity to contribute meaningful content to support corporate management and reporting of value creation through intangibles**
- **Communication, positioning and collaboration are critical to enhancing the profile of WICI and its work products**