

WICI Activities and Collaboration with the IIRC

Milan Conference

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1. WICI's activity

1 – 1 WICI Network

1 – 2 Main Activities

1 – 3 WICI Concept

1 – 4 WICI Vision

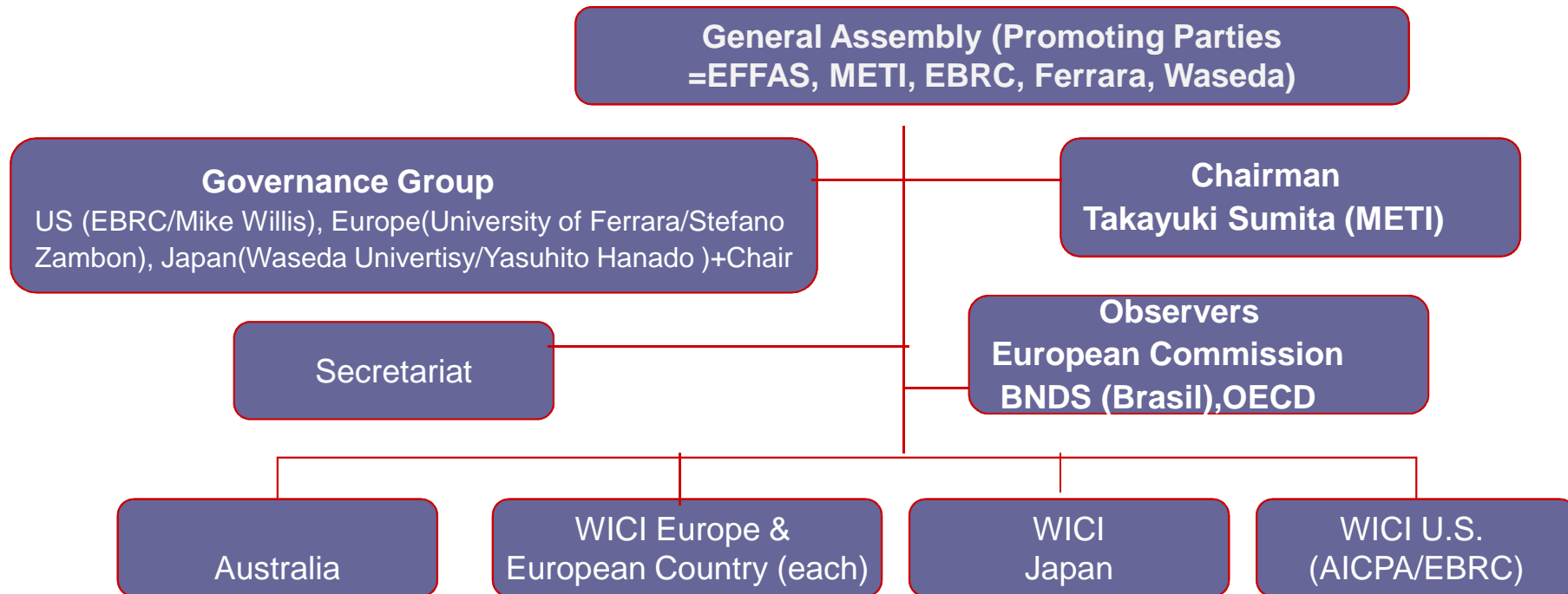
1 – 5 WICI Mission

1 – 6 WICI Activities and Achievements

1-1 WICI Network

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.



1-2 Main Activities

- In 2008, WICI issued a new **Business Reporting Framework** for integrating financial and non-financial information, based on METI Guideline and EBRC input.
- At the same time, WICI developed its own **XBRL taxonomies** in line with the Framework.
- WICI has published draft industry specific KPIs as examples of **frequently used KPIs** in industries such as Pharmaceutical, Electronic components, automobiles, fashion and textile industries.
- WICI presented the **basic concept** in 2011 and **KPI concept** in 2010.
WICI concept paper 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
- WICI has Cooperated with international organization such as IASB, European Commission, OECD, IIRC, A4S, Eurosif etc. and academia.
- As a collaborative organization to IIRC, WICI has made substantive **input to IIRC** activities since 2010.

1-3 WICI Concept

http://www.wici-global.com/wp-content/uploads/2012/06/wici_concept_jan_2011.pdf

- WICI sees a company as a value creation mechanism
- Business reporting should focus on the core substance of the company by addressing 1) the company specific value creation mechanism, 2) specific resources including non-financial ones, 3) perspective on the future and 4) strategy. Then it can well connect a company and its stakeholders.
- WICI proposes a new business reporting system which
 - ✓ Identify sources of differentiation and explain material issues, including non-financial elements
 - ✓ Make clear the mid and long term value creation mechanism of the company
 - ✓ Presenting an integrated picture of the company's activities
 - ✓ Providing clues for stakeholders to predict future performance
 - ✓ Allow companies to freely choose the substance without requiring tick the box response
 - ✓ Reduce the total cost of reporting through summarizing a comprehensive and integrated report
 - ✓ Support company's total sustainability including but going beyond environmental and social sustainability
- To attain these goals, WICI
 - ✓ **Presents the skeleton of a narrative story of the value creation and strategy without regulating the substance of disclosure (see next slide)**
 - ✓ **Asks companies to include measurable KPIs to support the narrative story, as well as the concept paper of KPI to avoid misunderstanding on the nature of KPIs and to allow company to choose the most material KPIs by itself**
 - ✓ **Recommend companies to use XBRL format to improve comparability and making reports more easily utilized by stakeholders**

Underlined parts are similar elements to those in IIRC Consultation Draft

1-4 WICI Vision

The organizations recognize and manage their intellectual capital/assets (composed of human capital, organizational capital and relational capital), which are the source of their strategic and financial strength over time. And they utilize the intellectual capital/assets together with monetary/financial capital and physical capital to realize their own value creation story and processes.

Through the implementation of an *Intellectual Capital/Assets-based Management* (IAbM), organizations support the establishment of a business context where Intellectual Capital/Assets and IAbM can be developed, evaluated and valued appropriately.

Accordingly, the value created through the utilization by organizations of their unique (intangible) resources in the most efficient way, could be maximized also for the entire society and economy, while the value creation cycle can be made more sustainable as a result of their specific management styles.

We aim to contribute to shape an economy and society centered on human and sustainable capitalism and not on a mere financial capitalism focusing only on short-term profits.

1-5 WICI Mission

Develop KPIs

Identify and promote industry-specific KPIs (Key Performance Indicators) so to favor the organizations to realize the substance of the “IAbM”, as well as to disseminate and build on the idea that these industry-specific KPIs are NOT a set of indicators that organizations must disclose, but rather that the organizations can freely select to fit with the substance and features of their own management and value creation processes.

⑤



KPI

④

0101010101010
1010101010101
XBRL
0101010101010
1001010101010

Apply IT Tools

Elaborate a reporting framework that since the beginning it is also expressed in, and integrated with, a digital standardized technological language, such as XBRL.

WICI

Mission

①



Raise Awareness

Conduct awareness-building activities for many organizations and investors to understand and implement the concept of “Intellectual Capital/Assets-based Management” in a positive and constructive way.

②



Update Framework

Provide a regularly updated reporting and disclosure framework as a tool for an improved communication between any organizations and their stakeholders about “IAbM”.

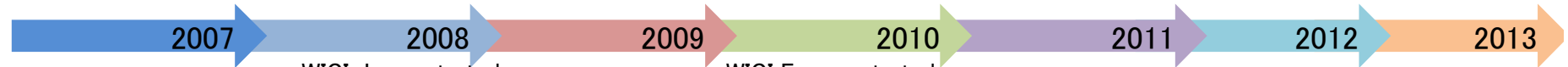
③



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.

1-6 WICI Activities and Achievements



2008
WICI Japan started
WICI 1st Taxonomy

2010
WICI Europe started
WICI KPI Concept Paper

WICI Concept Paper (Framework)

Industry-KPIs Projects : Automobile / Electronic Devices / Pharmaceutical / Telecommunications / Fashion & Luxury

WICI Symposium (Tokyo)

- Nov 19th "Value Creation Management and Interactive Data"
- Nov 20th "Business communication frontier"
- Dec 2nd "Challenges to Integrated Business Reporting"
- Dec 1st "Strategic corporate management in Integrated Reporting Era"
- Oct 31st "Towards substantial disclosure beyond the form"
- Nov. 22nd

Global Discussion/ Comment submitted

- EC Transparency Directive
- EC Internal Market
- GRI G4
- EC Workshops of ESG Disclosure
- IIRC Discussion Paper
- GRI on Sustainability and IR
- IASB's Exposure Draft on Management Commentary

Collaboration with IIRC

Connectivity Project

MoU

2. Main Ideas in WICI Framework

2—1 Focus on Value Creation

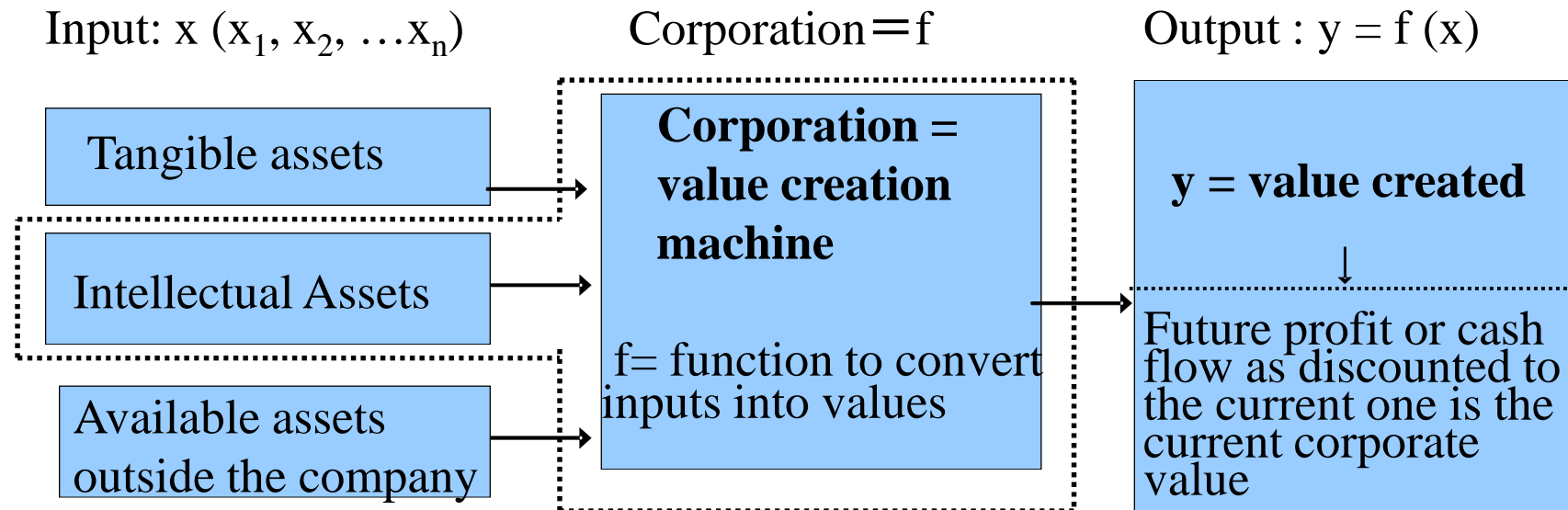
2—2 Big Picture in a narrative story

2—3 Future Oriented Approach in 2 Cycles

2—4 WICI Reporting Framework

2-1 Focus on Value Creation

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 or business model (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 ...)



2-2 Big Picture in a narrative Story

(General) (0) Basic management philosophy
(a) Outline of business characteristics

(From Past to Present)

- (b) Management policy in the past
- (b)(c) Investment based on management policy (figures included)
- (b)(c) Unique intellectual assets accumulated in the company, strengths based on them, and value creation method (based on the above) (supporting indicators included)
- (d) Actual performance in the past, such as profits (as a result of value creation) (figures included)

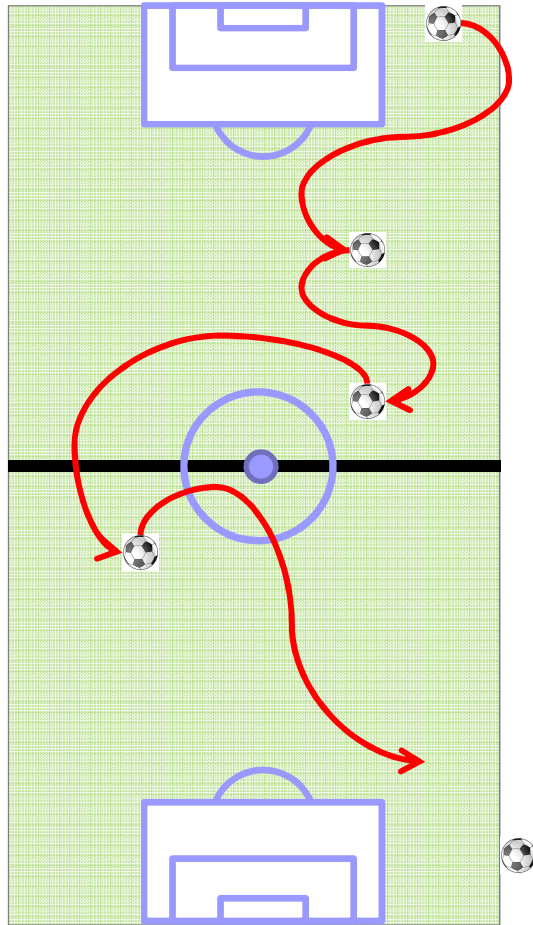
(From Present to Future)

- A: Identification of future uncertainty/risks, how to deal with them, and the future management policy including those elements
- BC: (Based on (b)(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 indicators included)
- BC: New/Additional investment for maintenance and development of intellectual assets needed (in line with the management policy A) (figures included)
- D: Expected future profits or target, etc. (based on the above)

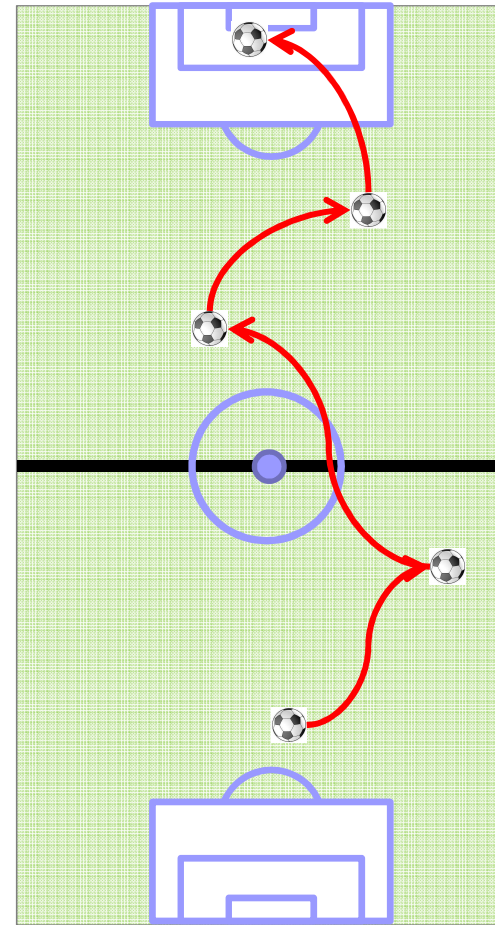
a-d and A-D reflects those in WICI framework

2-3 Future Oriented Approach in 2 cycles

First Half
(Past-Present)



Second Half
(Present-Future)



2-4 WICI Reporting Framework

0. Corporate Profile & Business Attributes		
0-1. industry overview 0-2. duration and results per business unit 0-3. business cycle per business unit 0-4. competitive analysis		
past	current	future
a. Business Landscape a-1. business landscape summary	d. performance d-1. performance summary (results of operation) d-2. GAAP based d-3. GAAP derived d-4. Industry based d-5. Company specific d-6. Capital market-based	A. Business Landscape A-1. business landscape summary A-2. economics A-3. industry analysis A-4. technology trends A-5. political A-6. legal A-7. environmental A-8. social
b. Strategies b-1. corporate strategy summary b-2. vision and mission b-3. strengths b-4. weakness b-7. goals and objectives b-8. corporate strategy b-9. business unit strategies b-10. business portfolio		B. Strategies B-1. corporate strategy summary B-2. vision and mission B-5. opportunities B-6. threats B-7. goals and objectives B-8. corporate strategy B-9. business unit strategies B-10. business portfolio
c. Resources and Processes c-1. resources and processes summary c-2. resources forms c-3. key processes c-4. value drivers		C. Resources and Processes C-1. resources and processes summary (C-99.)Resources and processes summary especially with changes in resource forms, key performance and main process from that described in c-2 and c-3 D. performance D-1. financial prospects (summary)

3. WICI and IIRC

3—1 Common Approach and Elements

3—2 IIRC Project on 5 issues

3—3 Big Picture with Connectivity

3—4 KPI

3—5 Requirements

3—6 Institutional ties

3-1 Common Approach and Elements

- WICI Framework is one of the 7 references of IIRC's work.
- Basic Approach and Main Elements are overlapping (below).

[Common approach]

- 1) Focus on corporate strategy for sustainable Value Creation as well as how to recognize a company
- 2) Forward-looking with a special attention on future performance
- 3) Long-term perspective
- 4) Respect on non-financial capitals or resources, including intellectual capital, human capital and social capital, and interconnection between those and financial factors
- 5) Flexibility in choice of material elements by companies

[Common Factors] as underlined

IIRC Guiding Principles

Strategic focus and Future orientation
Connectivity of information
Stakeholders Responsiveness
Materiality and conciseness
Reliability and completeness
Consistency and Compatibility

IIRC Content Elements

Organizational overview and external environment
Governance
Opportunities and risks
Strategies and resource allocation
Business model
Performance
Future outlook

* Common factors appear in WICI Concept (Slide 5)

3-2 IIRC Projects on 5 Issues

- Among several issues, IIRC chose 5 main issues to be more elaborated, value, business model, capitals, materiality and connectivity.
- WICI played an active functions in projects on Connectivity, Materiality and Capital.
- Connectivity paper is hugely inputted by WICI as the selected 'collaborative organization.'
- The gist of the work was inserted to IIRC Consultation Draft in Apr. 2013.

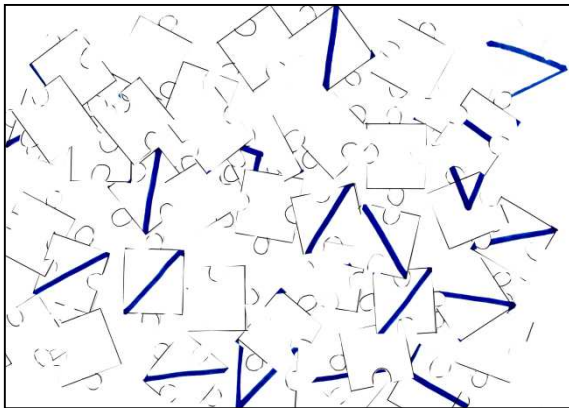
Essence of Connectivity

- Connectivity is the core part of integrated reporting, which describe a company's value creation story
- Main issues in connectivity
 - two cycles (past to present, present to future)
 - big picture of value creation story, rather than silo type analysis
- Connect
 - material elements into a value creation story as well as in close-up pictures
 - financial information with non financial one
 - narrative story and numerical indicators
 - intension of a company with understanding by users
 - each elements with established definition

3-3 Big Picture with Connectivity

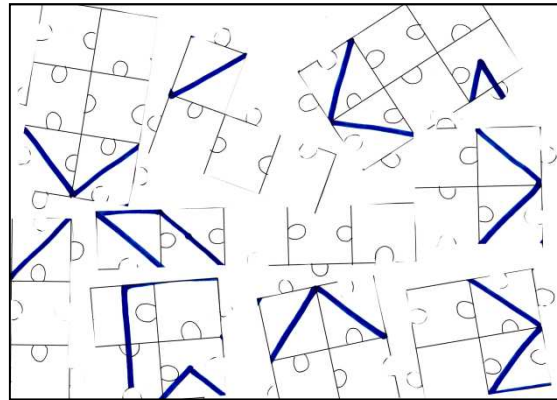
Volume of information is the same
But the value of information is different with or without connectivity

Pieces of information
without connectivity



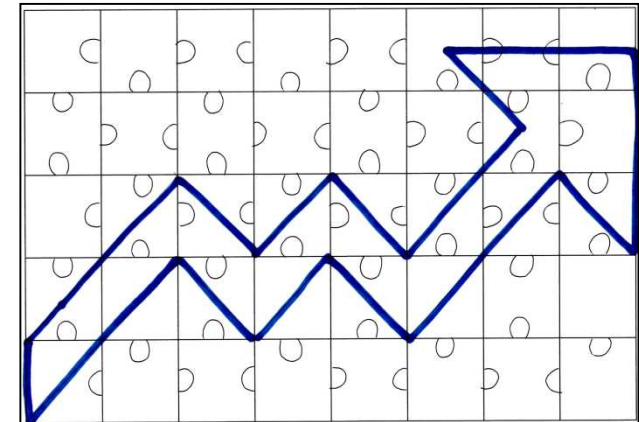
Number of pieces=40

Close-up pictures
(partial connectivity)
without big picture



Number of pieces=40

Big Picture



Number of pieces=40

3-4 KPI

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

WICI KPI Concept; <http://www.wici-global.com/wp-content/uploads/2012/06/Concept-Paper-on-WICI-KPI-in-Business-Reporting-ver.1-.pdf>

- 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
 - ✓ A 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



2-2 Big Picture in a narrative Story

- (General)** (0) Basic management philosophy
(a) Outline of business characteristics

(From Past to Present)

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(From Present to Future)

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- D: Expected future profits or target, etc. (based on the above)

a-d and A-D reflects those in WICI framework

3-5 Requirements

IIRC requirements in its Consultation Draft are similar to WICI/METI Skeleton

WICI/METI Skeleton (reference)	IIRC Requirements Draft Ch. 4
(General) (0) Basic management philosophy	
(a) Outline of business characteristics	4A Overview
(From Past to Present)	
(b) Management policy in the past	4D Strategy (4B Governance)
(b)(c) Investment based on management policy	
(b)(c) Unique intellectual assets accumulated, strengths based on them, and value creation method	3A Strategic Focus 4E Business Model
(d) Actual performance in the past	4F Performance
(From Present to Future)	4G Future Outlook
A: Identification of future uncertainty/risks, how to deal with them, and the future management policy	4C Opportunities and Risks 4D Strategy (4B Governance)
BC: Intellectual assets effective in the future, and future value creation method	4E Business Model
BC: New/Additional investment for maintenance and development of intellectual assets needed	4D Resource Allocation
D: Expected future profits or target, etc.	4F Performance

3-6 Institutional ties

- MOU
- WG
- Support to the Technical Team
- Co-organization of seminars