



12th EIASM INTERDISCIPLINARY WORKSHOP on INTANGIBLES, INTELLECTUAL CAPITAL & EXTRA-FINANCIAL INFORMATION

Towards a normalization of the Intangibles and Intellectual Capital field: the contribution of the “WICI Intangibles Reporting Framework (WIRF)”

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**National Research University – Higher School of Economics,
Saint Petersburg Campus,
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World Intellectual Capital /Assets Initiative

The World's Business Reporting Network

www.wici-global.com

WICI

World Intellectual Capital/Assets Initiative Network

**Global collaborative, non-profit Network,
officially born on 31 March 2008 with the signature of a
Memorandum of Understanding (MoU)
in Washington DC at the American Enterprise Institute (AEI)**

World Intellectual Capital Initiative (WICI)

1st Informal Meeting – 1st October 2007 – OECD, Paris
Monaco Annex, 2, rue du Conseiller Collignon



Participants (from left to right): Prof. Yasuhito HANADO, Waseda University (Tokyo/Japan), Desirée VAN WELSUM, OECD (Paris/France), Douglas LIPPOLDT, OECD (Paris/ France), Alexander WELZL, European Federation of Financial Analysts Societies EFFAS (Frankfurt a. M./Germany), Yoshiko SHIBASAKA, KPMG (Tokyo/Japan), Bob LAUX Microsoft Corporation (Redmond/USA), Amy PAWLICKI, American Institute of Certified Public Accountants AICPA (New York/USA), Gert-Jan KOOPMAN European Commission (Bruxelles/Belgium), Annabel BISMUTH, OECD (Paris/France), Prof. Stefano ZAMBON, University of Ferrara (Ferrara/Italy), Grant KIRKPATRICK, OECD (Paris/France), Michael KRZUS, Grant Thornton (Chicago/USA), Christina BOEDKER, Society for Knowledge Economics (Crows Nest/Australia); Participants not on the picture: Rainer GEIGER, OECD (Paris/France), Jean-Philippe DESMARTIN, ODDO Securities (Paris/France), Yoshiaki TOJO, OECD (Paris/France)

Who We Are (www.wici-global.com)



The Promoting Parties of WICI are:

Enhanced Business Reporting Consortium (USA)

(American Institute of Certified Public Accountants (AICPA), Microsoft Corporation, PricewaterhouseCoopers and Grant Thornton)

European Federation of Financial Analysts Societies (EFFAS)

Japanese Ministry of Economy, Trade and Industry (METI)

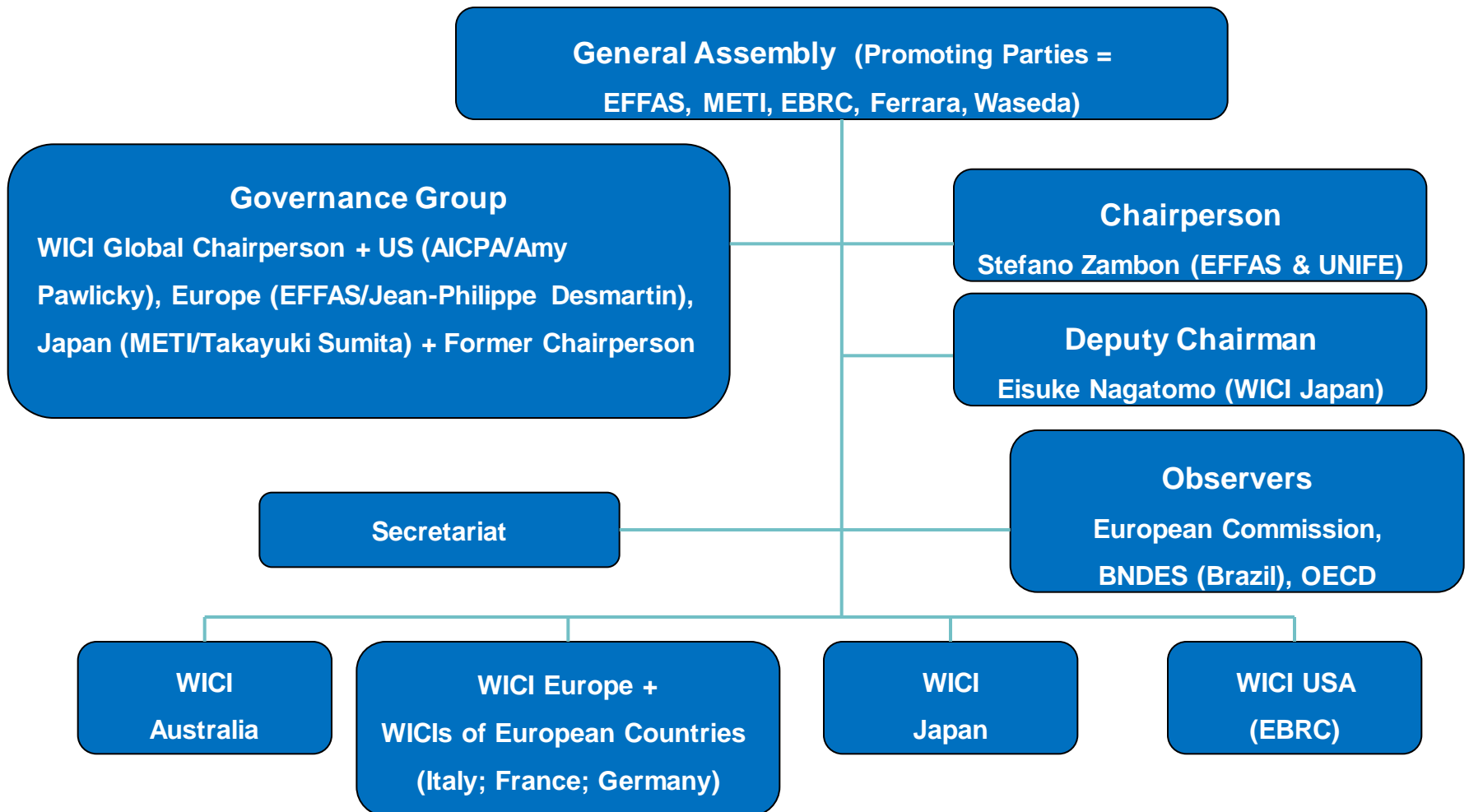
Society for Knowledge Economics of Australia

University of Ferrara

Waseda University

The European Commission, the OECD, and the Brazilian Development Bank (BNDES) participate in WICI as Observers.

The Structure of WICI (from 1st July 2015)



Our Vision and Goals

Our Vision

WICI, the world's business reporting network, is a quite unique private/public sector collaboration aimed at improving company reporting for representing value creation and, hence, capital allocation through better corporate reporting information

Our Goals

- **The first is to contribute to develop a new global framework for measuring and reporting corporate performance to shareholders and other stakeholders**
- **The second is to develop guidelines for measuring and reporting on industry-specific key performance indicators (KPIs).**
- **The third is to facilitate the development of XBRL taxonomies for this content.**



We believe that such better information will improve capital allocation decisions both within companies and between investors and companies. The result will be more value creation for a better world economy.

INTERNATIONAL OVERVIEW of REPORTING SCENE

FINANCIAL REPORTING

EFRAG/OIC/ANC/GASB/FRC



A/C STANDARDS

IASB

VALUATION

IVSC / ISO

IIRC

X
B
R
L

SUSTAINABILITY

(ENVIRONMENTAL/SOCIAL)

GRI/UN GLOBAL COMPACT/

DJ & FT SUST. INDEX

VALUE CREATION

(INTANGIBLES/KEY VALUE
DRIVERS)

WICI



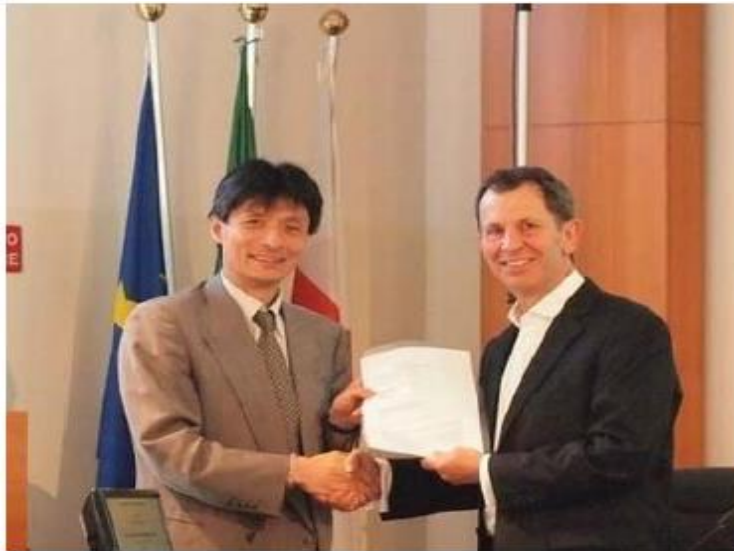
WICI EUROPE/FRANCE/ITALY/JAPAN/USA

NON-FINANCIAL REPORTING

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Collaboration between WICI and IIRC



- Collaboration formalised in a Memorandum of Understanding (MoU) which is in place since June 2013 and it has been extended to November 2016

- WICI has a seat in the Council of the IIRC



- WICI took the leadership of the IIRC Background Paper for <IR> devoted to the principle of “Connectivity”, and it participated in the IIRC Working Group on “Capitals”

WICI Connectivity Project for <IR>/IIRC

INTEGRATED REPORTING <IR>

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CONNECTIVITY
BACKGROUND PAPER FOR <IR>

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8	Developing a consistent message
9	B Other functional departments' considerations
9	Internal communications
10	Connecting material matters
11	Information technology
12	Internal audit
12	3. Integrated report
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17	Connecting time horizons
19	B Report approach
19	Applying communication techniques
21	Leveraging technology

WICI Framework's Background

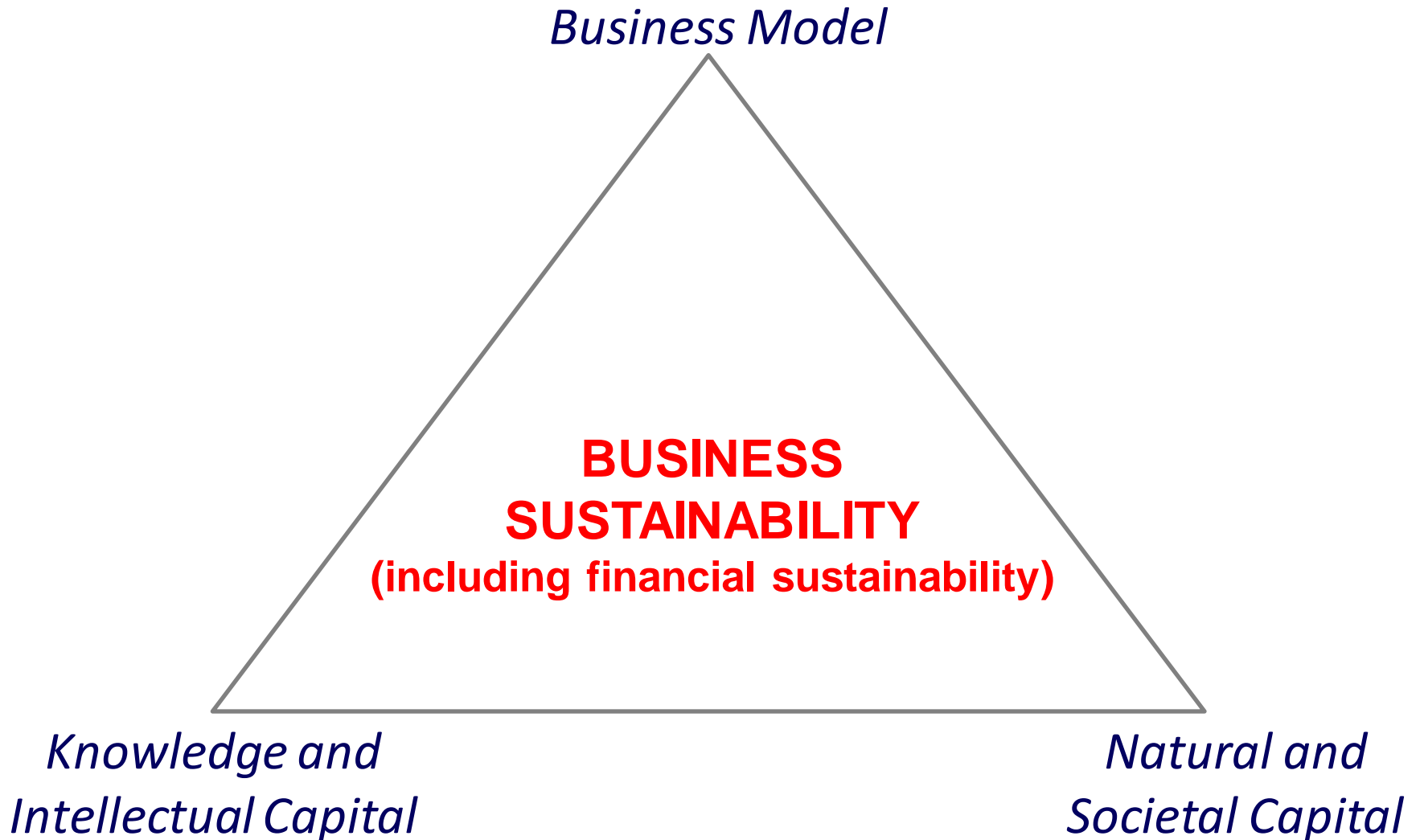
Financial report today does not reflect the real strengths of a company. From current financial information we cannot see:

- the origin of company competitiveness
- its value creation as a combination of company-specific Intangibles
- the sustainability of its strengths, and
- the company long term value creation capacity

In this situation, financial people cannot properly evaluate a company.

Therefore, we need some reporting mechanism to describe the real origin of strengths and business sustainability of a company

Towards «Business Sustainability» and Integrated Reporting



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September 2016

Consultation Draft

February 2016

WICI Intangibles Reporting Framework Version 1.0

(Comments to be received by 16 May 2016)



World Intellectual Capital/Assets Initiative



22 Sept. 2016
morning

**Consultation Draft:
15 February 2016**

WICI Intangibles Reporting Framework Version 1.0



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WICI INTANGIBLES REPORTING FRAMEWORK (WIRF)

- Aimed to fill in a today large “reporting gap” present today, which is the guidance on measuring and disclosing an organization’s intangible resources
- It essentially addresses the non-financial (or non-monetary or extra-financial) information on intangibles, insofar as financial information on them is covered by accounting and valuation standards and rules
- Auditing issues have intentionally not been covered

September 2016

*WICI Intangibles
Reporting Framework* Version
1.0



World Intellectual Capital/Assets Initiative

WICI INTANGIBLES REPORTING FRAMEWORK (WIRF)

Due Process followed

Due Process Steps	Date/Period
Decision made on the development of an intangibles reporting Framework by WICI Governance Group	13 th May 2015
Formation of a dedicated technical team within WICI	31 st May 2015
Public presentation of the Draft Framework at WICI Symposium 2015	4 th December 2015
Approval of the Framework Consultation Draft by the WICI Governance Group	11 th February 2016
Publication of the “WICI Intangibles Reporting Framework Consultation Draft” including an associated set of consultation questions for stakeholders (www.wici-global.com/wirf/WICI_Intangibles_Reporting_Framework_v1.0.pdf)	15 th February 2016
Period of public consultation	From 15 th Feb to 16 th May 2016
Analysis of the comments and responses received	From 17 th May 2016 to 31 st May 2016
Revision of the Framework on the basis of the comments and responses received	From 1 st June 2016 to 31 st August 2016
Final approval by the WICI Governance Group	15 th September 2016
Launch of the final version of WIRF	22 nd September 2016

16 responses received (e.g., IIRC, SASB, CDSB, E&Y, KPMG, Erste Bank)

Monthly or bi-monthly conference calls by the WICI Governance Group and the technical team have also been held.

WICI INTANGIBLES REPORTING FRAMEWORK

- WIRF crystallizes in one conceptually consistent Framework the best practices and proposals that have emerged in the field of intangibles reporting over the last twenty years.
- It is important to underline that WIRF is largely based on an evolutionary interpretation of the 2005 Japanese Guidelines on “Intellectual Assets based Management” (IAbM) and the 2008 “Principles for Effective Communication of Intellectual Capital” by the EFFAS Commission on “Intellectual Capital”, as well as the IIRC’s <IR> Framework

WICI INTANGIBLES REPORTING FRAMEWORK

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Chapter 1 – Rationale and Objective of the Framework

- The purpose of the “WICI Intangibles Reporting Framework” is to ***establish the principles, the contents and the structure for the reporting of intangible resources which are material for an organization’s value creation process and its communication to stakeholders.***
- The Framework is ***principles-based***
- The primary target audience is ***all companies and other organizations*** of the private, public and not-for-profit sectors.
- Reporting and communication on intangibles are intended to provide ***useful information for decision making***, and in particular ***resource allocation decisions***, primarily to the organization’s ***management*** as well as ***providers of financial capital*** including investors, creditors, and analysts. These are expected to be the primary information users.

【Figure 1.1】 WICI's Framework Focus within the corporate reporting landscape

Corporate Reporting

Financial Reporting

WICI's

Sustainability Reporting

Financial Capital

Manufactured Capital

Human Capital

Intellectual Capital*

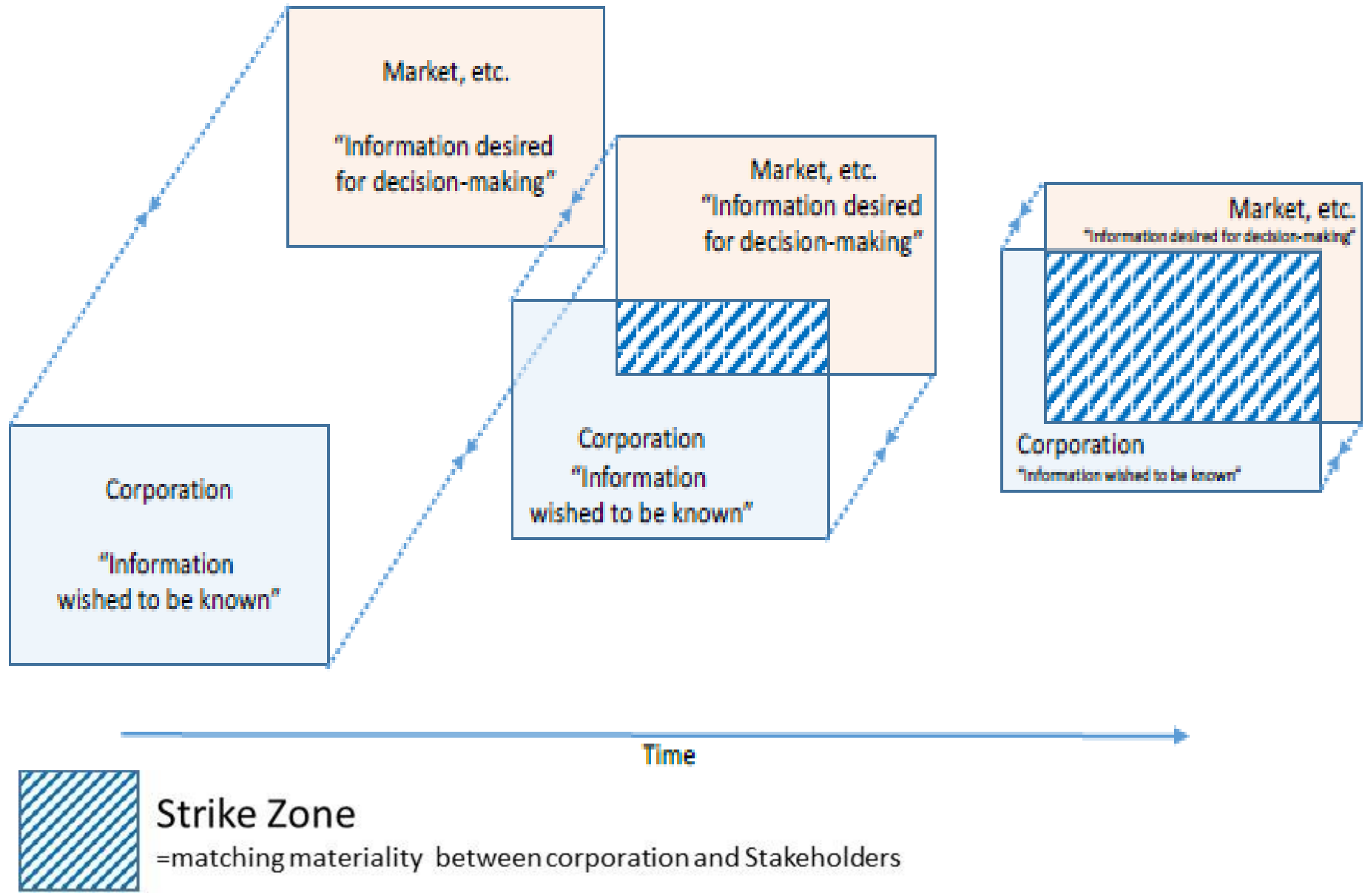
Social and Relationship Capital

Natural Capital

Six capitals as defined by IIRC

* Organisational Capital according to WICI Framework ¹⁸

【Figure 1.2】 Positive information cycle between an organization and its stakeholders



Chapter 2 – Definition of Intangibles

- Intangibles are ***non-physical resources*** which, either alone or in conjunction with other tangible or intangible resources, can generate ***a positive or a negative effect on the value of the organization in the short, medium and long term***
- Intangibles may impact two distinct but inter-connected forms of value:
 - ***Strategic value*** is that related to the enhancement of the competitive, market, product, reputation, and/or risk profile of the organization;
 - ***Financial value*** is that linked to the generation of net cash flows over time.
- It is not necessary that intangibles are owned or controlled by an organization. They simply have to be available and/or utilized by it to generate value → ***new concept of capital***

Chapter 2 – Definition of Intangibles (cont'd)

Positive Intangible Resources (“intangible assets”)

They are the drivers of long-term competitive differentiation and advantage. They derive from a strategic utilization (including the combination) of intangibles that is conducive to an organization’s sustainable strategic value and/or sustainable future streams of cash flows

Negative Intangible Resources (“intangible liabilities”)

- Intangibles that may have substantive negative impact on an organization’s strategic and/or financial value (e.g., bad reputation of the organization; poor management quality and leadership).
- Negative intangible resources are often linked to specific risks of an entity

Chapter 2 – Definition of Intangibles (cont'd)

Intellectual Capital

- The above definition of intangible assets is fundamentally equivalent to the concept of Intellectual Capital.
- Intellectual Capital encompasses the internal (competencies, skills, leadership, procedures, know-how, etc.) and external (image, brands, alliances, customer satisfaction, etc.) intangibles which are dynamically inter-related and available to an organization, thereby enabling it to transform a set of tangible, financial and human resources into a system capable of pursuing sustainable value creation
- Intellectual Capital is typically subdivided into three main categories, which are 1) Human capital, 2) Relational capital, and 3) Organizational capital. The boundaries of these categories are flexible and they should not be interpreted/perceived in a static or rigid way.

Chapter 3 – Interpretations of the Principles for Intangibles Reporting and Communication

- Principles and guidelines from existing corporate reporting frameworks are well established.
- Rather than presenting new and different intangibles reporting principles, the role of the WICI Framework is to identify the most important Principles for intangibles reporting and communication, and to provide an interpretation of each selected principle in the context of reporting on intangibles.

Basic references for these Principles are:

- International <IR> Framework (2013)
- Principles for IC Communication by EFFAS Commission on Intellectual Capital (2008)

Chapter 3 – Interpretations of the Principles for Intangibles Reporting and Communication

Interpretations of the basic Principles in the context of intangibles reporting and communication are provided for:

- Materiality
- Connectivity
- Conciseness
- Comparability
- Future orientation

Chapter 4 – Structure of Intangibles Reporting

Definition of Key Performance Indicators (KPIs):

“KPIs are numerical figures (metrics) related to critical/material factors of value creation, and which should provide objective evidence of performance trends by tracking them over time.”

The role of KPIs in reporting is to support the narrative explanation of the organizational strategy linking to past, present or future financial and/or strategic performance → distinction between lagging and leading KPIs.

Chapter 4 – Structure of Intangibles Reporting (cont'd)

According to their level of relevance, KPIs can be articulated on three levels:

- General KPIs are those that may be relevant for most organizations across industries and sectors.
- Industry-specific KPIs are those specific to a certain industry or sector
- Organization-specific KPIs are those specific to each organization that should be reported in order to best represent its unique value creation mechanism.
- Examples of industry-based KPIs are those proposed by the WICI (www.wici-global.com/kpis)

Chapter 4–Structure of Intangibles Rep'ing (cont'd)

- **Suggested structure of Intangibles Reporting → 3 sections**
 - ***Outline of business and management philosophy:***

This information consists of the illustration of the general characteristics of the organization's activities and the resilient management philosophy, with attention devoted to its value creation mechanism
 - ***Intangibles and value creation from past-to-present.***

This information addresses intangibles, their role in the strategic management of the organization, and their contribution to value creation from past to present period. Information can be presented using KPIs
 - ***Intangibles and value creation from present-to-future:***

This section covers information on intangibles, their role in the strategic management of the organization, and their contribution to value creation from the present to the future period. Information should be presented using KPIs related to future performance

Some guidance and examples on relevant KPIs and information are provided for each of the three section

APPENDICES

Appendix 1 – Comparison between IIRC and WICI Frameworks



Appendix 2: Economic characteristics of intangibles

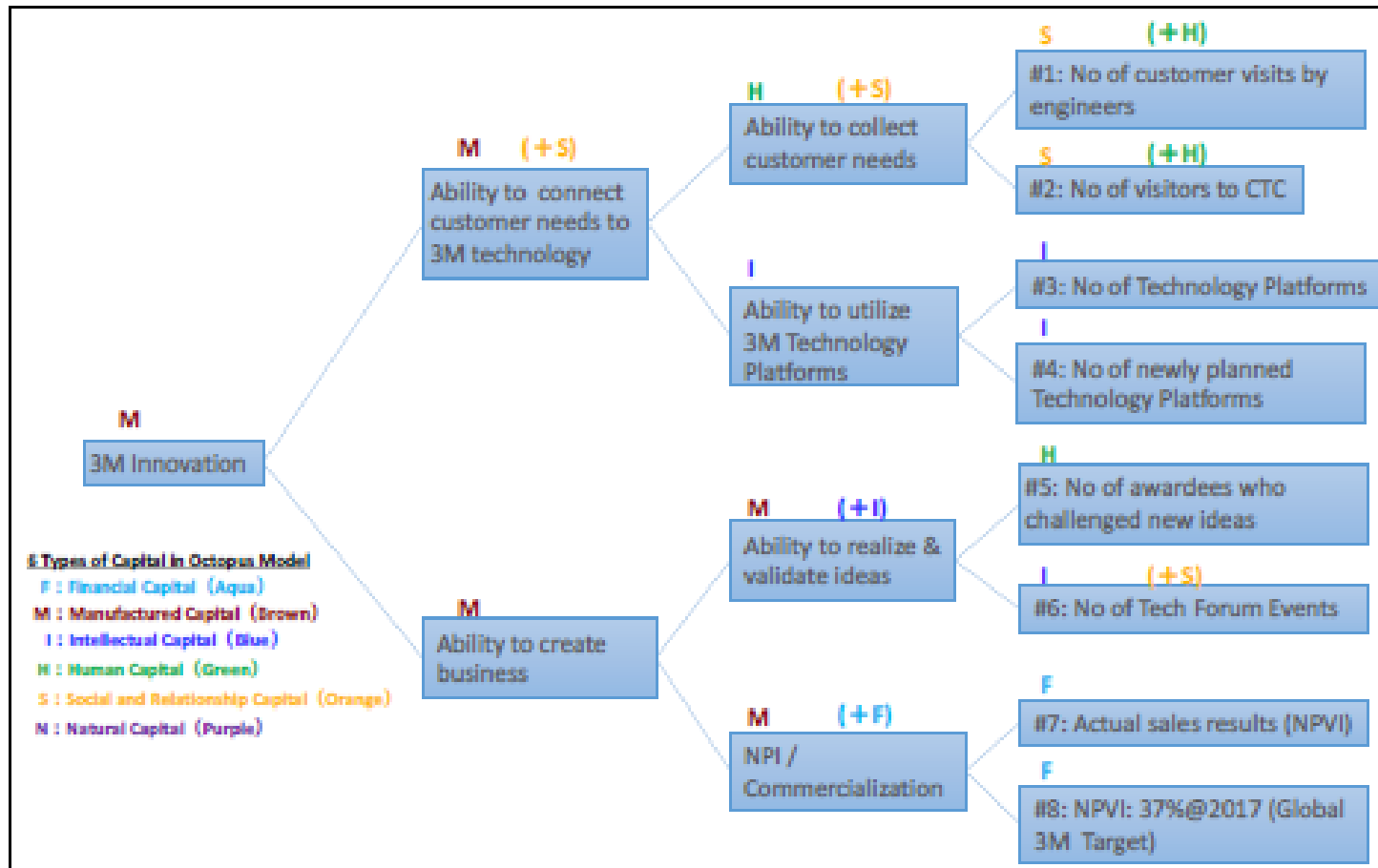
Appendix 3: Differences from accounting definitions

Appendix 4: Extant principles for reporting & communication on intangibles

APPENDICES (cont'd)

Appendix 5 – Some examples of interrelatedness between KPIs

Logic Tree for 3M Innovation



Source: presentation by Mike Masahiko Kon (3M Japan Vice President/WICI Japan Vice Chair) at 12th World Congress of Accounting Educators and Researchers, Florence (Italy), November 14, 2014.

GLOSSARY

Composed of 20-strong items → some of them controversial (business reporting, strategic value)

E.g. “Non-financial” (or non-monetary)”

“The term "non-financial" is utilized in this Framework to refer to narrative or quantified information that is not expressed in monetary units (e.g., percentage, Likert scale, absolute number, physical measures).

Non-financial' does not mean that a measure or information does not have a financial impact or significance.

Sometimes the expressions “non-monetary”, “extra-financial”, “pre-financial” or “not yet financial” are used synonymously with “non-financial”.”

PERSPECTIVES ON THE FUTURE OF INTANGIBLES REPORTING

- A few weeks ago, Prof. Baruch Lev and Prof. Feng Gu published a book titled «**The End of Accounting**», where «arcane» and not insightful accounting information should be accompanied by a system of industry-based indicators on critical resources and processes for the value creation of an organization
 - Traditional financial information will of course persist, but its relevance for investors' decision making will be limited
- Similar line followed by the E&Y's project on «**Long-term value**»
- WICI has been moving exactly along this avenue by setting a Framework for a **more insightful representation and reporting of intangibles and value creation mechanism of an organisation**
- Relevance of WICI Framework also for the **development of Integrated Reporting** practice

Concluding remarks

- Difficulties of current accounting and reporting practice to capture long-term value creation drivers
- We are moving towards new systems of corporate information linked to value creation and articulated on KPIs focussing on key-factors of the business model and activities
- WICI provides a comprehensive set of voluntary sector-based KPIs from where a company can choose the most representative of its unique value creation story

Concluding remarks (2)

- We know that innovation can come from a conceptual systematization...
- A quite well-known historical antecedent....



[Luca Pacioli, Summa, 1494]

- More modestly the “WICI Intangibles Reporting Framework” aims to systematize in a firm but consistent way some basic concepts and reporting practices regarding intangibles

THANK YOU!

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