

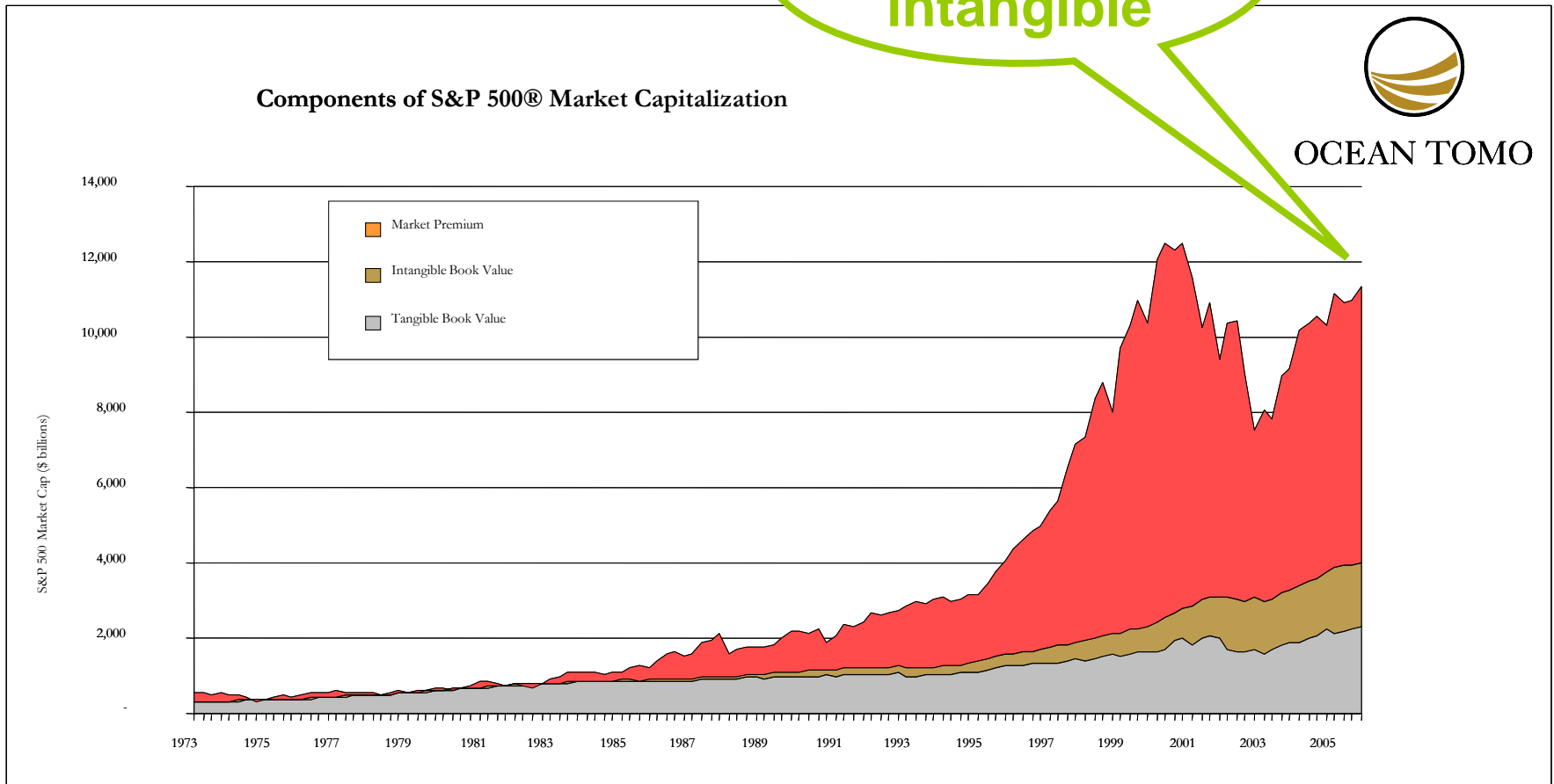
Triangulating Intangibles

*A strategy for accounting in
the knowledge era....*

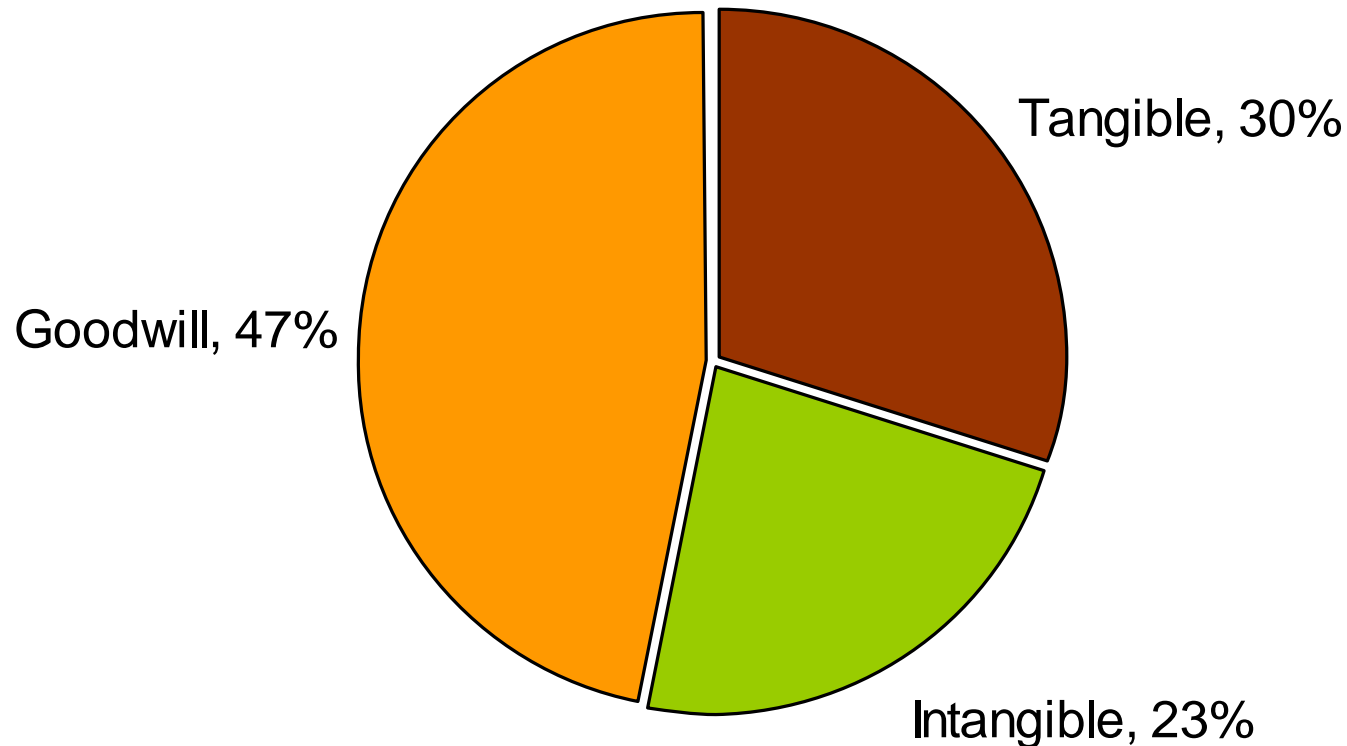
Mary Adams
I-Capital Advisors

Corporate value is increasingly intangible

2009: 81%
intangible



Mergers are 70% intangible

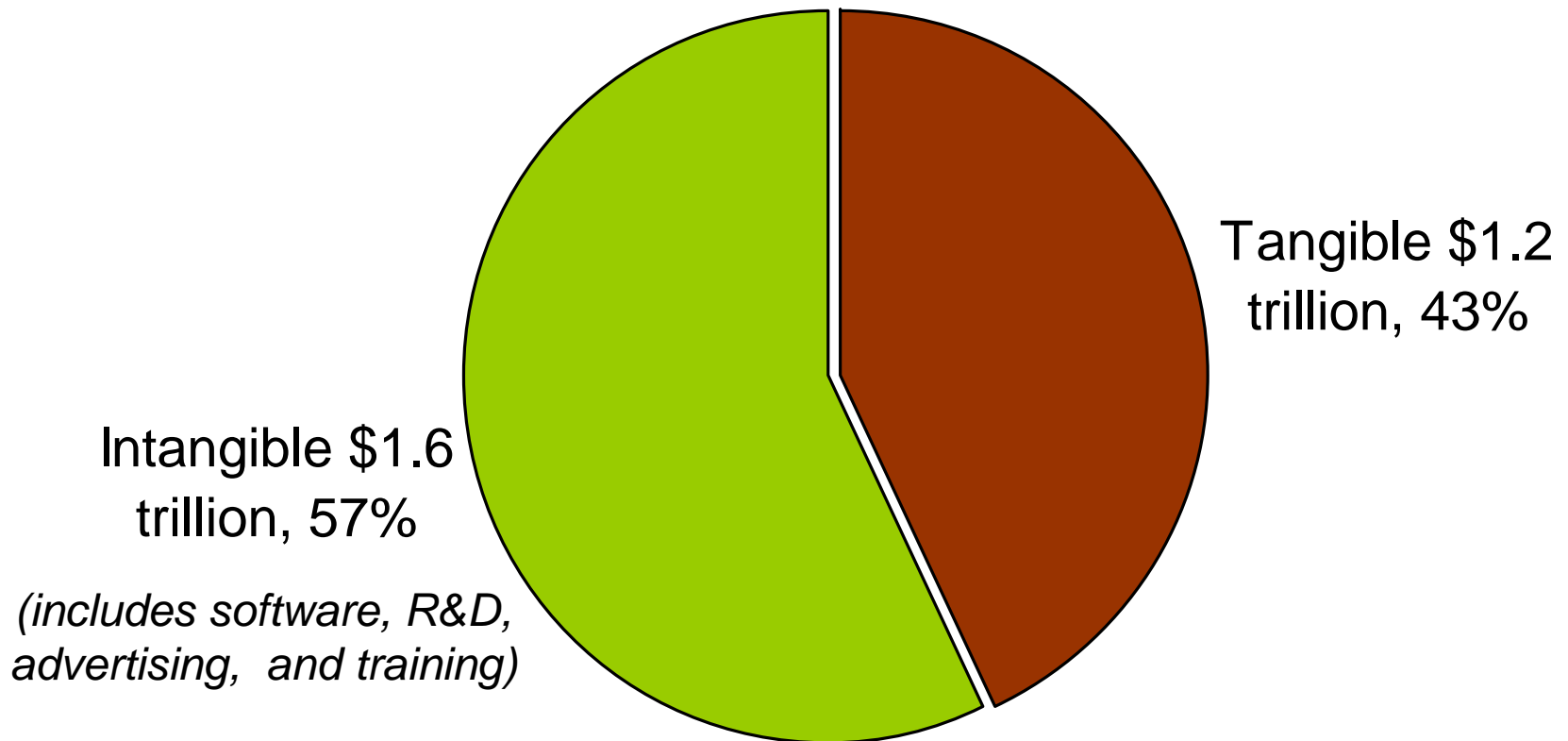


The gap is not “goodwill”

- It's not the result of some abstract market “feeling”
- It's the result of 30+ years of investment in the knowledge infrastructure of American corporations (people, processes, info tech, networks)
- Annual investment in knowledge intangibles now exceeds tangible investment.....

It's about investment in knowledge

U.S. corporate investments - 2007





Intangible Capital

**Knowledge
Assets**



Human Capital



Structural Capital



Relationship Capital

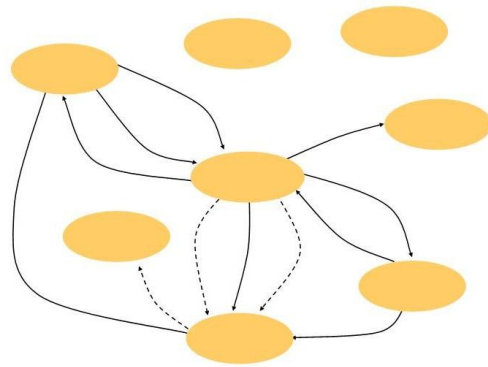
Competencies
Experience
**Management
skills**

**All captured
info and
knowledge**
Processes
**Intellectual
Property**

Customers
Vendors
Partners
Brands
Reputation

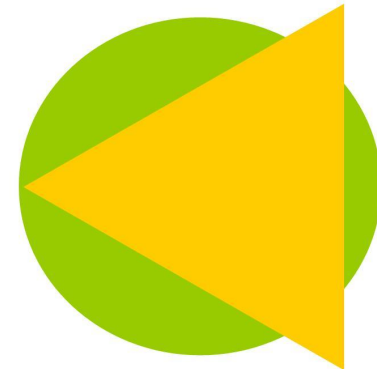
Filling in the intangible info gap

The New Factory



The New Management

The New Accounting



Narrative is not enough

PwC provided two different versions of an annual report to groups of analysts:

1. Financial statements, narrative, a few key metrics and extensive quantified nonfinancial data *[full Coloplast annual report]*
2. Stripped out quantified nonfinancial data *[resulting report still similar to/better than market norm]*

Very different results:

1. 60% of analysts recommended “buy”
→ *earnings estimate lower but more consistent*
2. 80% recommended “sell”
→ *earnings estimate higher*

How to fill the gap?

A. Inventory

B. Measurement - triangulation

1. Financials

→ *investment is easiest but ignored*

2. Quantitative

→ *KPI's popular but dangerous*

3. Qualitative

→ *assessments create quantitative data about hard-to-measure but critical data*

C. Narrative/XBRL

→ *give them something to talk about*

Triangulating intangibles

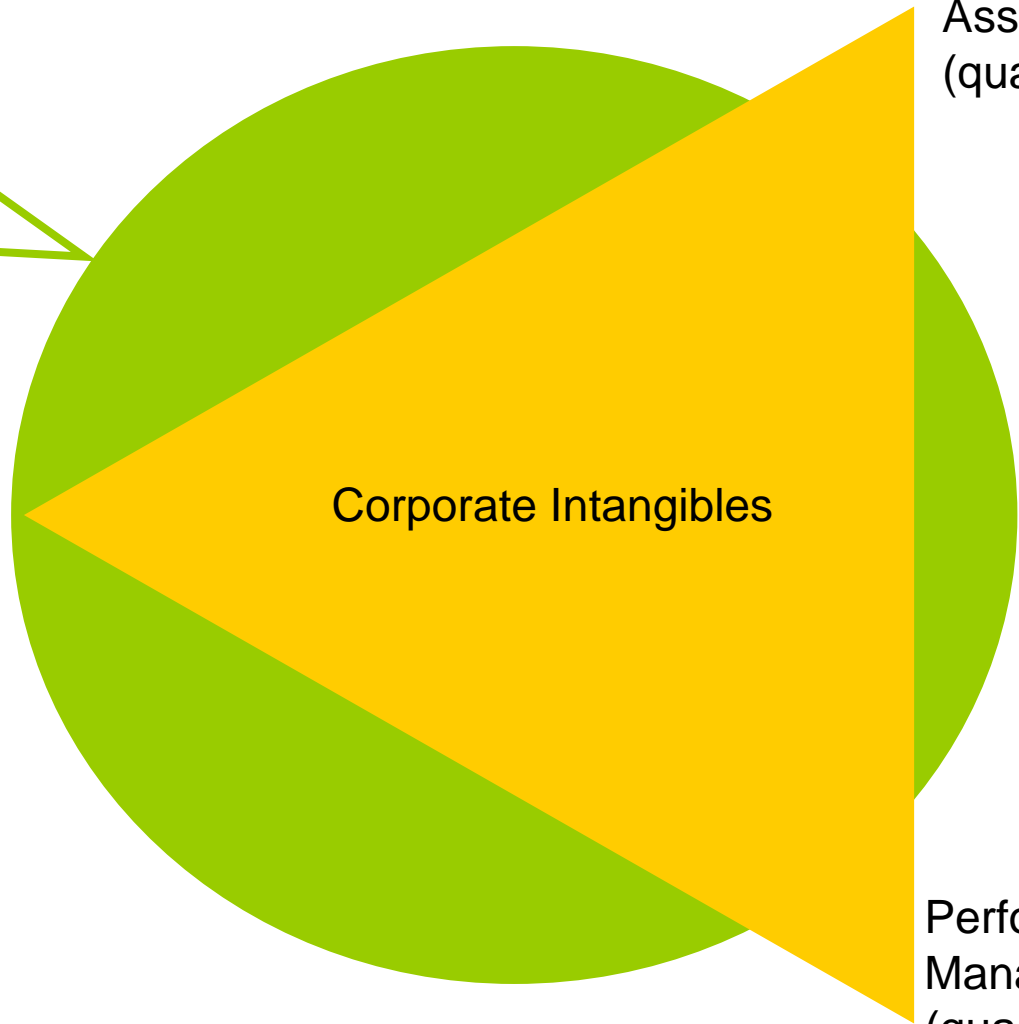
- Capacity
- Earnings
- Valuation
- Innovation
- Reputation

Investment
(financial)

Corporate Intangibles

Assessment
(qualitative)

Performance
Management
(quantitative)



I-Capex* (\$1.6 trillion/year)

- Most intangible capital expenditures are expensed under today's acctg standards
- Cost is actually the most concrete piece of data available about intangibles
- Should be tracked in a management report
- Internally, will help with better decisions
- Externally, will help tell corporate story

** the new capital expenditure*

IC assessment*

- Systematic analysis of qualitative issues
- Turns qualitative into quantitative data
- Range from self-assessment to broad review by stakeholders (both internal and external)
- Focus on adequacy, performance, risk, outlook
- Can be built for strategy, innovation, valuation, reputation perspectives
- Ideal is a 360-degree review of the entire IC/ knowledge factory portfolio

* *the new balance sheet*

Performance measurement*

- Uses non-financial quantitative indicators
- Examples: headcount, customer demographics, IP mapping, process metrics
- Bottom up for learning
- Top down for management and reporting—key performance indicators (KPI's)

** the new income statement*

Simple triangulation example

Pre- and post- implementation of a new knowledge sharing platform

1. Investment in new knowledge sharing platform (human, structural, relationship)
2. Qualitative measures (employee communication and collaboration)
3. Quantitative measures (number of steps to solve a problem, time to resolution)

Triangulation at corp level

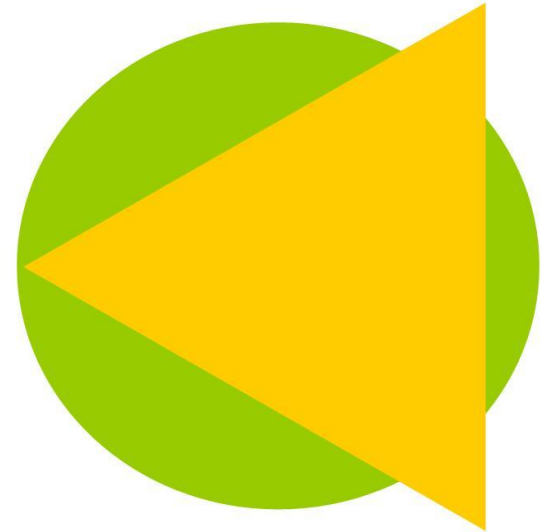
FIRST - inventory primary value-creation processes (SC), competencies (HC) and relationships (RC)

- ➔ Track annual investments
- ➔ Assess performance, risk, outlook
- ➔ Track key quantitative measures

For now...

- We need to work within existing systems
- The place to start is *management accounting* for *bottom-up learning*
- Changes to *statutory reporting* cannot be institutionalized until there is a clear emerging practice
- *For now*, the best *top-down influence* is education...and the best place to start is to teach accountants triangulation

Triangulation



...to help stakeholders
to understand the
performance and **capacity** of the
knowledge-era business

Resources

I-Capex Is the New Capital Expenditure

IMA: *Statement on Accounting for Intangibles*

Book: www.intangiblecapitalbook.com

Community: www.icknowledgecenter.com

Blog: www.smartercompaniesblog.com

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