WICI

May 2021

Setting the New Agenda for CFOs

Understanding the role of Intangibles in Value Creation

World Intellectual Capital/Assets Initiative

Table of Contents

Foreword

We welcome this report and the insights it provides about the current state of reporting on intangibles. Intangibles account for an increasing share of value creation and it is therefore critical that they are properly understood, measured, integrated into decision-making and reported upon. It is also important that capital providers understand how businesses are managing their intangible assets for sustainable value creation. In our view, not enough attention is currently given to the role of intangibles in contributing to, or eroding, value. This guide will be an important step in prompting that discussion.

The Value Reporting Foundation, to be formed from the intended merger between the IIRC and SASB, commends WICI for producing this overview of current practice as well as its recommendations for how reporting on intangibles can be improved to provide decision useful information for both preparers and users. We are clearly at the innovation stage in terms of best practice and we encourage more work to increase both awareness and quality for the future.

The examples included in the report illustrate the many relevant dimensions of intangible value, from how banks can use information on intangibles to support lending decisions to new management control perspectives and investors' analyses and decision-making.

We plan to work with WICI to continue developing the basis for meaningful reporting of intangibles to assist corporate measurement, valuation and improved transparency through appropriate narrative and quantitative disclosures. This work is essential to achieving high quality and comprehensive corporate reporting which promotes more efficient and productive capital allocation and sustainable business performance.

CHARLES TILLEY
CEO, International Integrated Reporting Council

JANINE GUILLOT
CEO, Sustainability Accounting Standards Board

Preface

It is increasingly recognized that intangibles play a significant role in creating enterprise value. The balance sheet remains vital but recognized tangible assets are diminishing in their contribution to the overall value of the business. Accordingly, how to identify, manage, and enhance intangibles is a key issue for corporate management. The EU's new proposal, issued in April, on a Directive on Sustainability Reporting requires companies to provide information on intangibles. This signals a clear recognition of the importance of intangibles to corporate management and value creation. Successful businesses understand the importance of managing their relationships with stakeholders to the ability of the business model to generate and capture value. At present there is little guidance for CFOs on how to manage intangibles and financial reporting only captures in intangibles where there is a transaction such as an acquisition. In recent times we have seen how intangibles can be subject to significant write-downs creating financial instability in the market. Accordingly, WICI decided that it is was important to start a conversation with CFOs on the management of intangibles. This paper is a first step in WICI's work to stimulate a debate on how companies can improve how they understand and respond to the drivers of enterprise value which impact overall enterprise value.

There is significant interest amongst investors and other stakeholders on a company's sustainability performance and significant developments are underway to enhance and integrate sustainability performance into reporting to stakeholders. Unfortunately, sustainability performance is sometimes conflated with intangibles as both representing drivers of enterprise value. Whilst sustainability performance has a direct link to enterprise value, intangibles represent the value to be derived from appropriately managing stakeholder relationships and innovation.

WICI believes that this document can serve as important marker for shifting the debate beyond the recognition and measurement to intangibles, to helping CFOs understand the nature of these resources and the critical role they play in driving enterprise value. The practical examples set out in this document provide some initial insights on how companies approach the management of their intangibles and importantly communication information to stakeholders about the role they play in overall enterprise value.

TAKAYUKI SUMITA
Chair, WICI Global

Finding value in a changing business landscape

Traditionally, the resources of business were things you could touch: machines, land, buildings; then vehicles, and later computers. But business processes, relationships and models are evolving. Modern businesses invest more and more into intangible assets - such as research and innovation, branding, organizational design, know-how, relationships.

These non-physical resources, 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.

What is new about today's economy? It is not the role of ideas themselves. The technologies we take for granted - the wheel, fired pottery, the plough or the steam engine - were once brilliant new ideas. What is new about today's economy is that many of our best ideas remain disembodied. The idea is indeed valuable, but it does not take physical form. This changes almost everything.

Martin Wolf, Chief Economics Commentator, Financial Times

Characteristics of intangibles

- Longer term - intangibles can last longer than tangibles as a source of value creation.
- Dynamic - intangible value drivers can be sensitive to changes in sentiment and perspective.
- Entity specific - combination of intangibles for one company to create value maybe quite unique and hard to replicate.
- Scalable - e.g. potential to license across the world, across a vast range of products.
- Synergies - e.g. combining intangibles - algorithms, brand, highly skilled workers.
- Capable of driving sustainability - corporate responsibility and sustainability have been identified as affecting a range of intangible assets.

Delivering value - managing intangibles

1. Understand and manage your unique value creation mechanism, identify material and emerging intangibles and how those intangibles connect and combine to create value, recognizing that materiality is derived from a combination of financial and social/environmental considerations.

2. Identifying, utilizing, combining, strengthening, maintaining or investing into intangibles to create value.

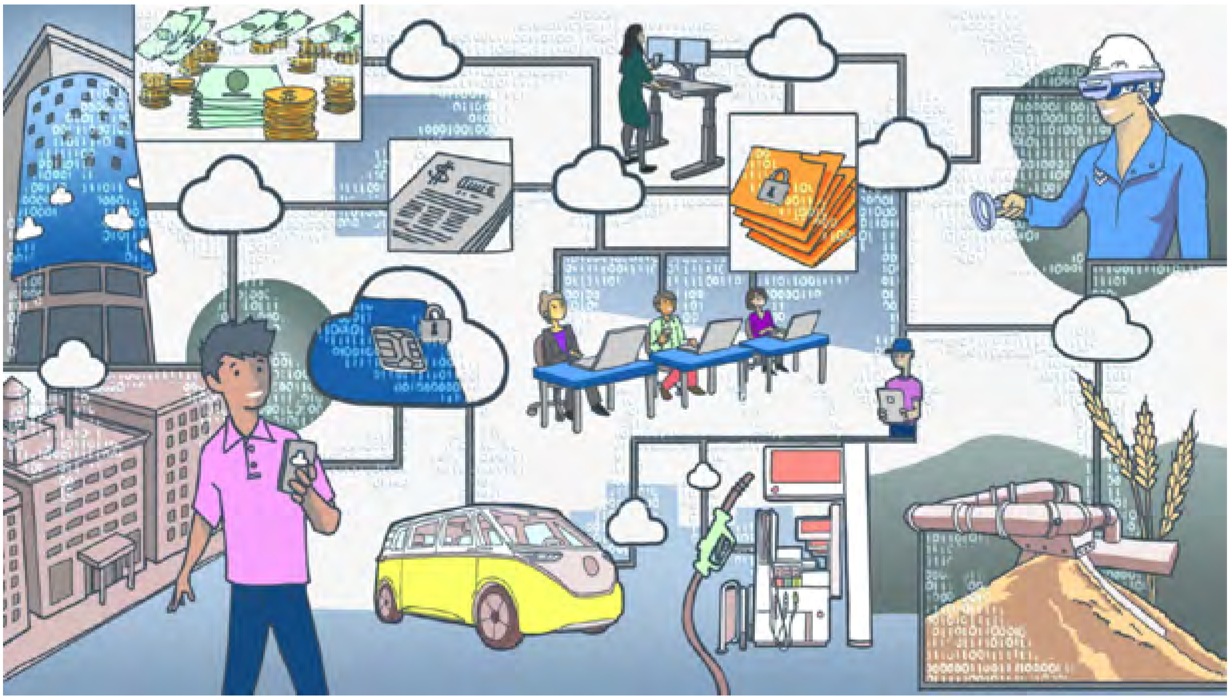
3. Explore connections to existing disciplines and practices - integrate in key performance indicators and targets, identify standards/frameworks used to support objectives, budgeting and forecasting to allocate resources and plan.

Examples

Alibaba (digital economy)

To achieve long-term sustainable growth, you need the right balance among system, people and culture...

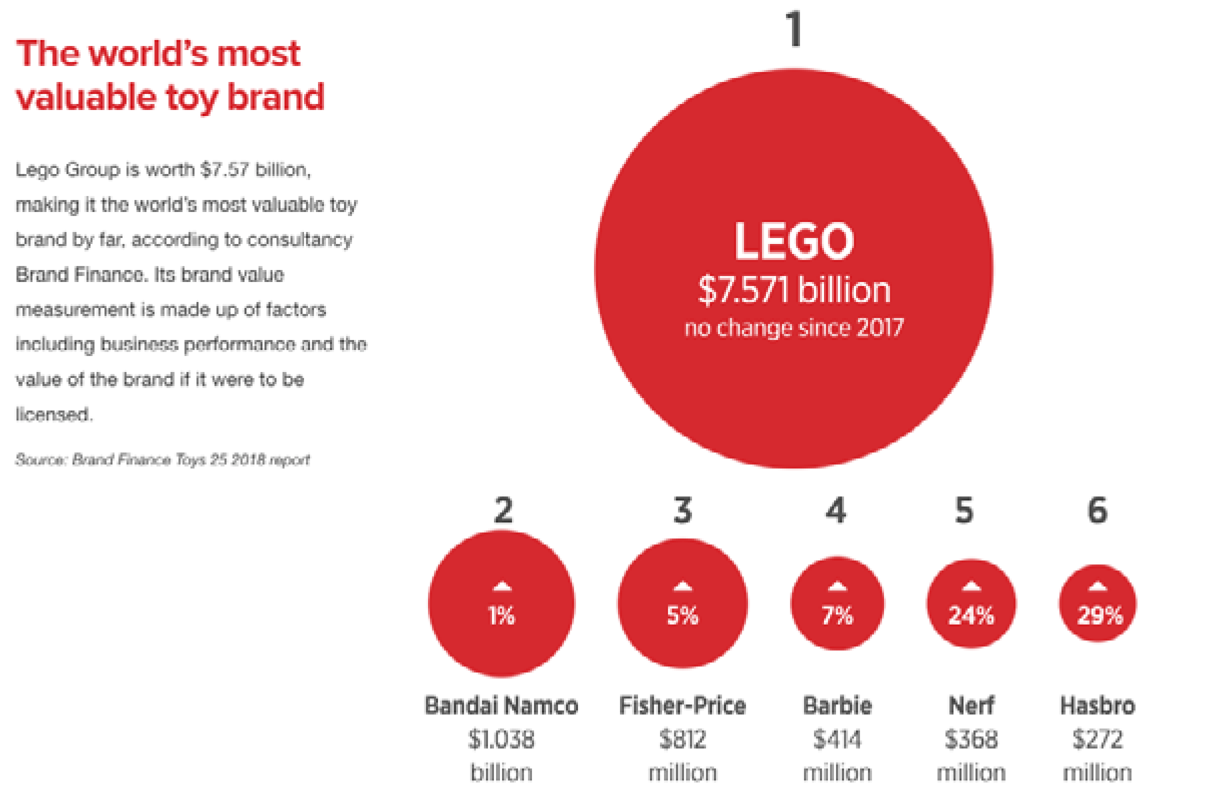
Jack Ma, Co-founder and executive chairman of the Alibaba Group



Microsoft (IoT, cloud, AI etc.)

It took time for the investment world to embrace companies built on intangible assets. In the early days of Microsoft, I felt like I was explaining something completely foreign to people. Our business plan involved a different way of looking at assets than investors were used to. They couldn't imagine what returns we would generate over the long term. The idea today that anyone would need to be pitched on why software is a legitimate investment seems unimaginable, but a lot has changed since the 1980s. It's time the way we think about the economy does, too.

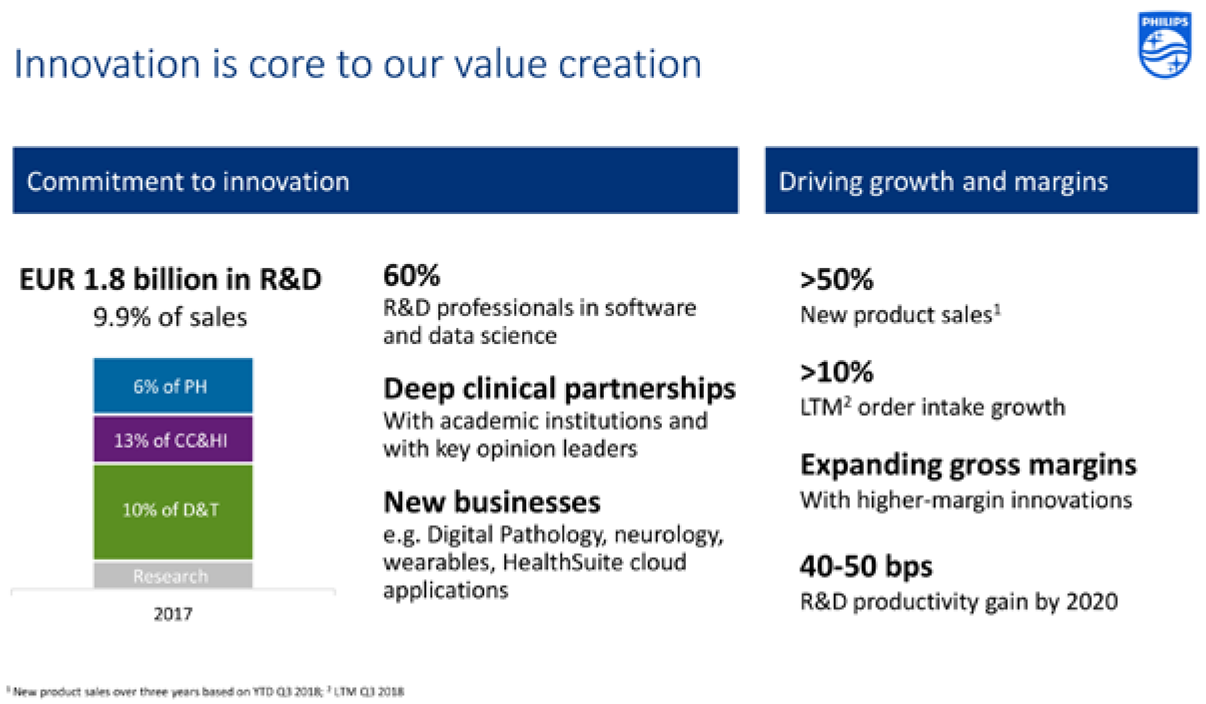
Bill Gates, principal founder of Microsoft Corporation



Lego (brand & marketing)

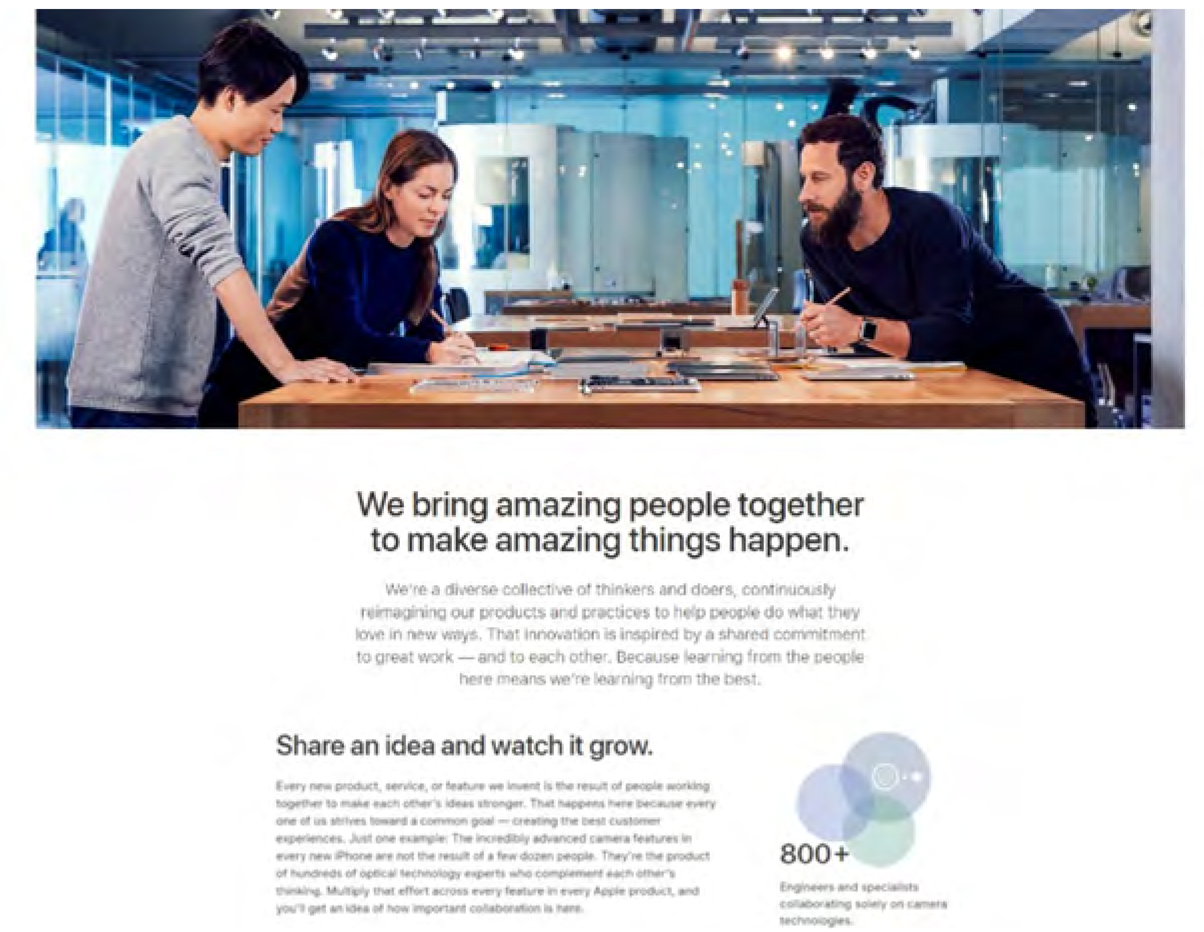
In many companies, the chief marketing officer is only the marketing. I don't just do marketing. You know that's actually only one small portion of the job. What my team does is the whole product portfolio, product experience, communication, content, social channels. So it's really core to what we put out there ....

Julia Goldin - Chief Marketing Officer, Lego



Phillips (innovation)

It's almost impossible to talk about Philips without talking about innovation. From Gerard, Anton and Frederick's humble beginnings in Eindhoven-discovering methods to mass produce the light bulb and bring light into the homes of Europe-through tens of thousands of patents, the urge to create the new and predict the future is part of the company's DNA.



We bring amazing people together to make amazing things happen.

We're a diverse collective of thinkers and doers, continuously reimagining our products and practices to help people do what they love in new ways. That innovation is inspired by a shared commitment to great work — and to each other. Because learning from the people here means we're learning from the best.

Share an idea and watch it grow.

Every new product, service, or feature we invent is the result of people working together to make each other's ideas stronger. That happens here because every one of us strives toward a common goal — creating the best customer experiences. Just one example: The incredibly advanced camera features in every new iPhone are not the result of a few dozen people. They're the product of hundreds of optical technology experts who complement each other's thinking. Multiply that effort across every feature in every Apple product, and you'll get an idea of how important collaboration is here.

800+

Engineers and specialists collaborating solely on camera technologies.

Apple (ideas)

Innovation… is the people you have, how you're led…

Steve Jobs, former CEO, Apple

Our capital, our equity, is our ideas…

Jonny Ive, Chief Design Officer, Apple

Communicating value creation from intangibles

Why?

- Supporting and evidencing strategic positioning - performance, growth opportunities, efficiencies, resilience - risk anticipation, mitigation adaptation capacity.
- Building trust, confidence and relationships with key stakeholders.
- Differentiating from competitors.
- Demonstrating progress on existing commitments and values.

What?

- Unique value creation mechanism - business model, story.
- Strategic intangible assets - key factors of the value creation mechanism.
- Strategy, Mission, Vision, Values etc.
- Strategy for the future business, development and utilization of intangible assets.
- Governance - management approach, qualities and diversity of directors, remuneration system, etc.
- Risks and opportunities related to intangibles e.g. social/human/intellectual - recruitment & retention, training & development, skills, intellectual property, innovation capacity.
- Business environment - e.g. size of the industry/market, company's positioning, important competitors etc.

For details see
http://www.wici-global.com/kpis

How?

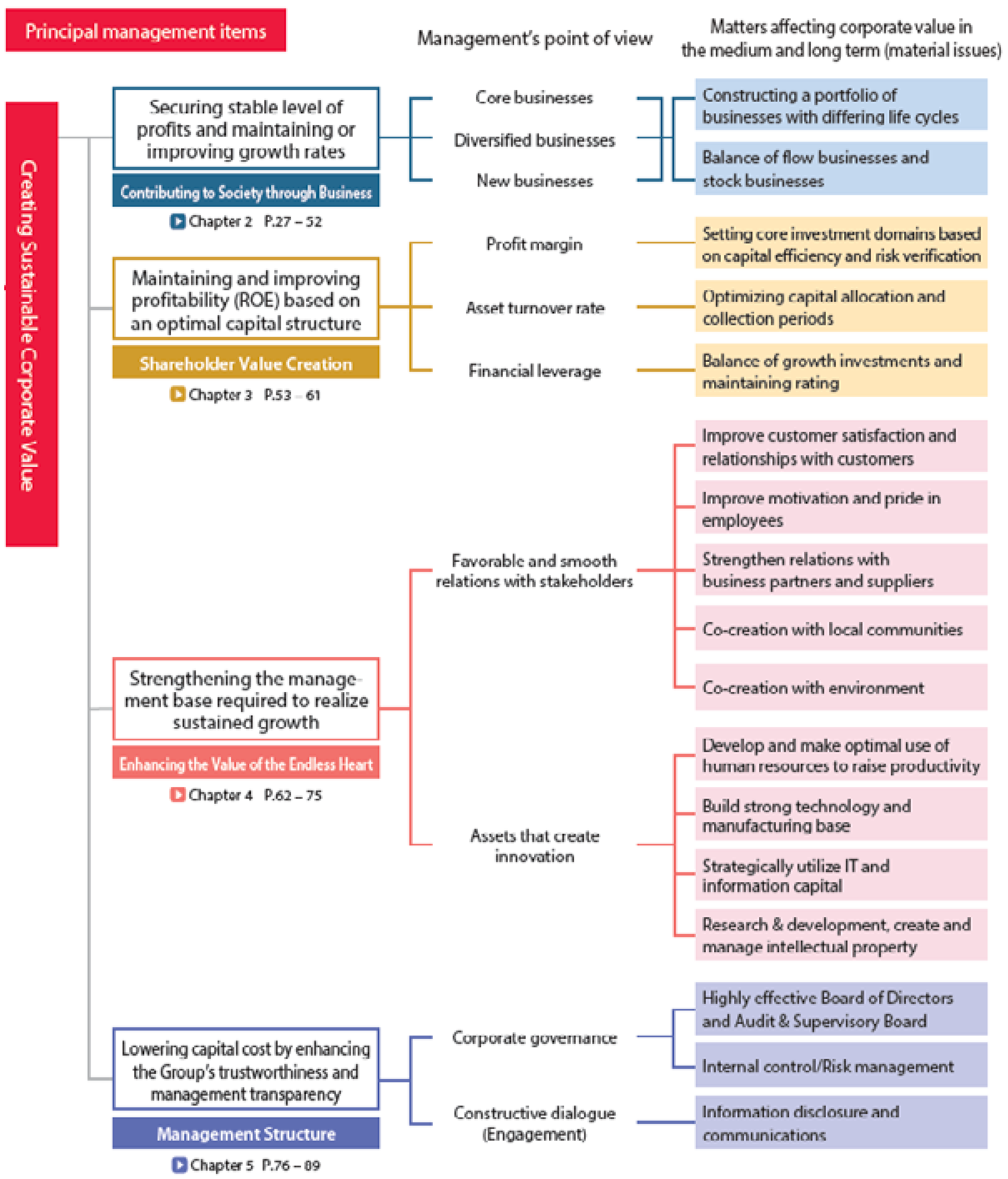
1. Outline of activities and value creation model - value proposition, the main products/services offered to the markets and collaboration and/or competition with other entities.

2. Intangibles and value creation from past-to-present - strategy to create value; the way activities are planned and implemented in order to achieve the organization's strategy; an organization's strengths, which include both intangibles and their relationship to tangible and financial assets, described as the key factor in the company-specific value creation mechanism; performance generated from the utilization and interaction of strategic intangible and tangible resources.

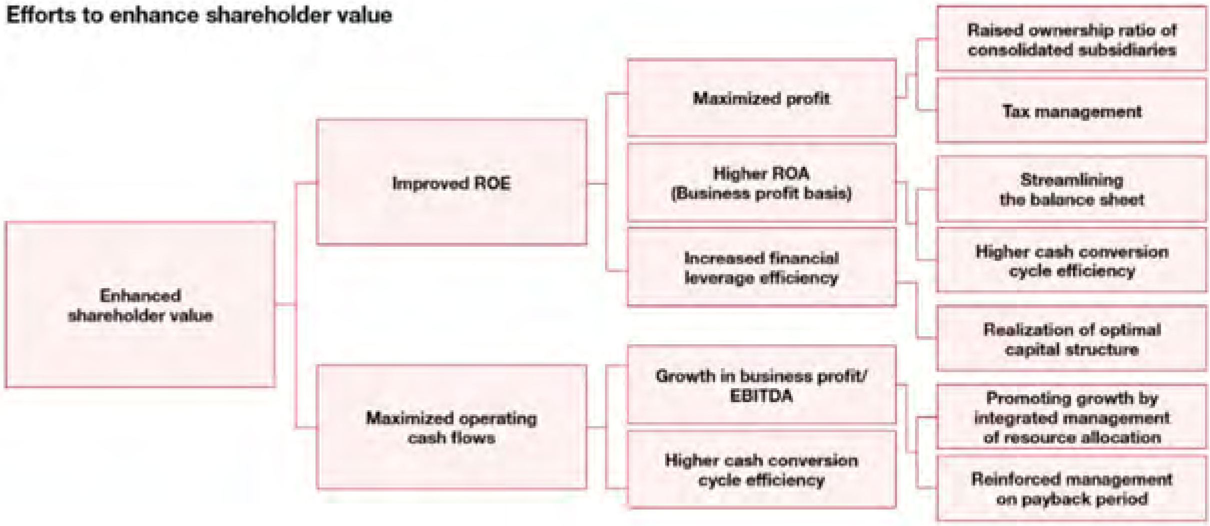
3. Intangibles and value creation from present-to-future - commitment to continuous improvement; establishment of feedback model from stakeholders and shareholders; strategy for value creation in the future, as well as the business model, activities and key intangibles utilized; risks, opportunities or uncertainties that may damage or improve strategic resources including intangibles.

For details see
http://www.wici-global.com/framework

Examples



Daiwa House Group



Ajinomoto Group

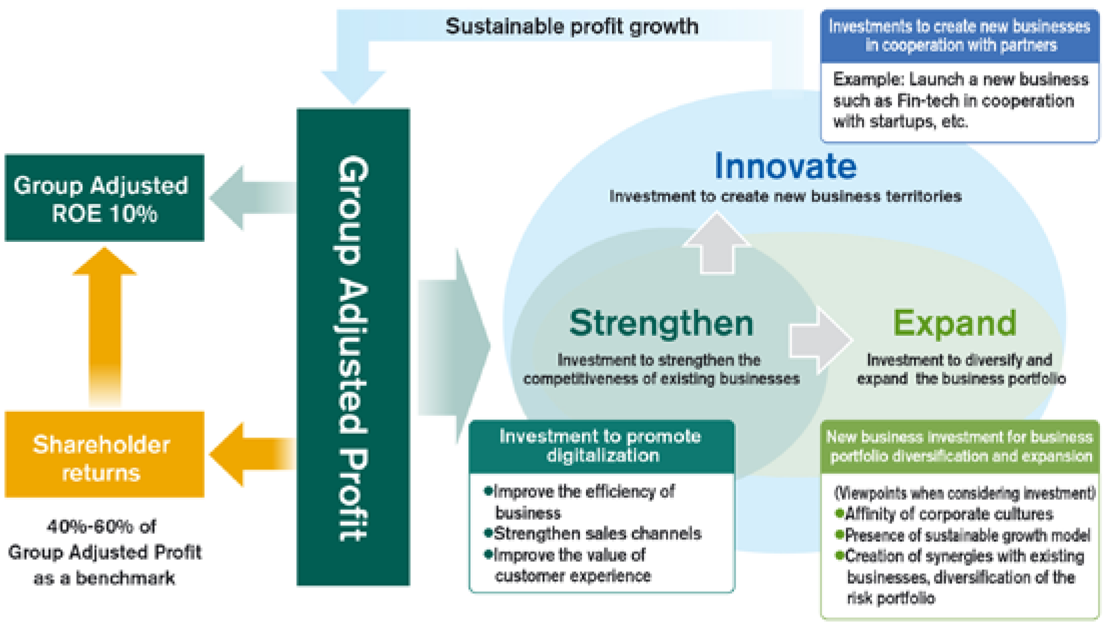
Our Approach to Internal Reserves

We will achieve sustainable growth, even in uncertain business environments, by investing to strengthen, expand and create businesses.

Internal reserves after shareholder returns are used for investments that aim to improve the competitiveness of existing businesses, for investments to diversify and expand the business portfolio, and for investments to create new business territories in cooperation with partners, with the ultimate aim of sustaining growth and increasing shareholder value.

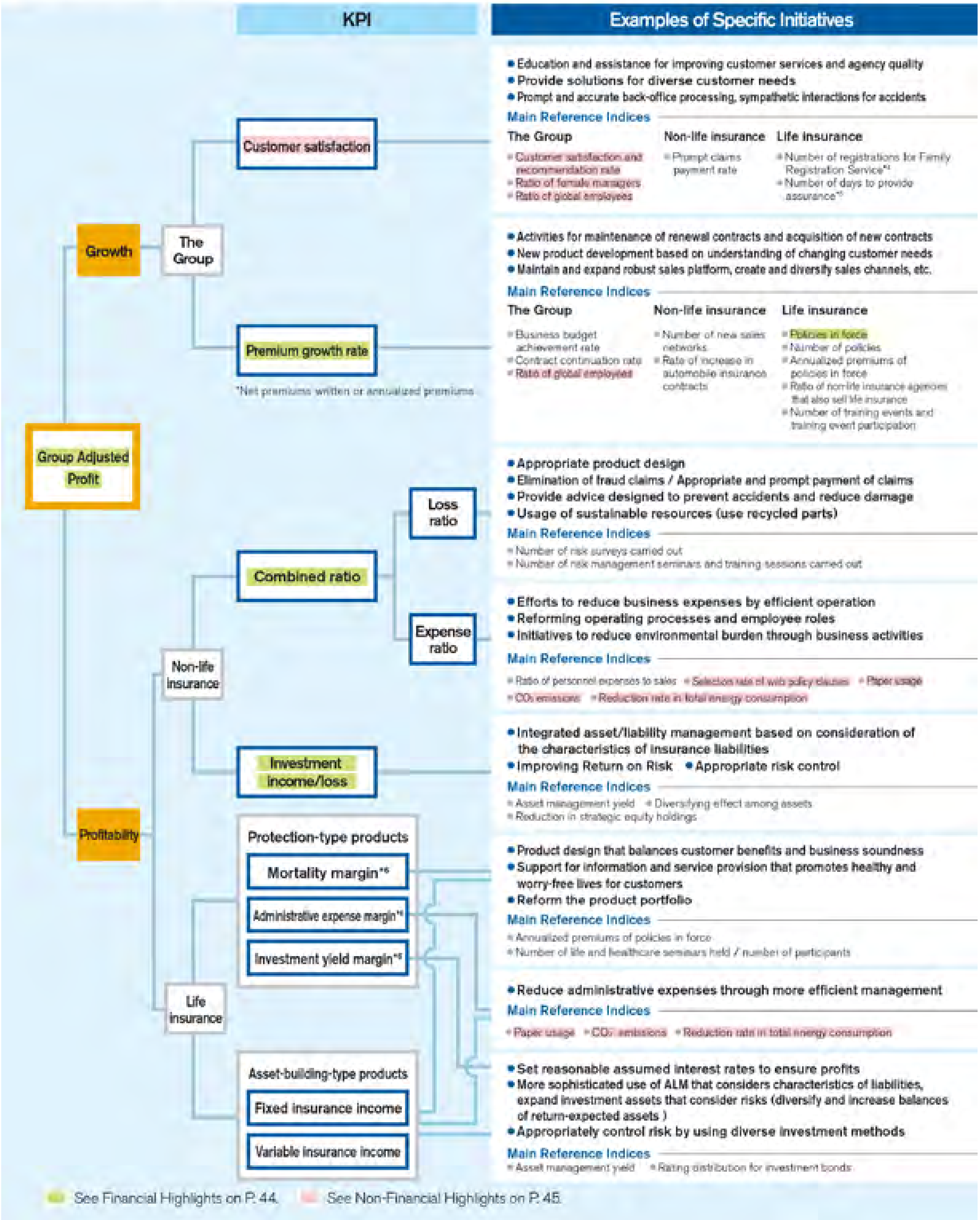
For business investments, acquisition candidates are screened for their affinity with our corporate culture, having sustainable growth models, and operations that can generate synergies with existing businesses while dispersing risk, in order to contribute to sustained improvement in the Group's capital efficiency.

Through these investments, we aim to accelerate improvements in capital efficiency and secure competitiveness in the future, even in uncertain business environments.



MS&AD Approach to Internal Reserves

KPI and Specific Initiatives to Achieve Group Adjusted Profit Target and Sustainable Growth



MS&AD KPIs and Sustainable Growth

R & D

innovative

Possessing an innovative R&D capability is critical for Samsung Electronics' continued march toward becoming a leading global company.
Through strategic investments in R&D and a strong commitment to creative talent development, we will continue to deliver cutting-edge technologies and solutions that will advance us well into the future.

R&D INVESTMENT (in billions of KRW)

2005	5.3492
2006	5.5851
2007	**5.9047**

R&D HUMAN RESOURCE
(Unit: employee) (including employees overseas)

2005	32,000
2006	36,000
2007	**39,300**

Ongoing R&D Investment for Technology Leadership

By focusing our R&D efforts on our core businesses and future technology development, we hope to deliver diverse and outstanding achievements, including: the world's first 50nm-class-1Gb DDR2 memory; first 30nm-class 64Gb NAND Flash; the world's smallest and lightest all-in-one color laser printer; a drum washing machine boasting the world's lowest noise and vibration levels; commercialization of the world's largest (14.3-inch) color e-paper, the world's largest LCD panel (70-inch) for Full-HD TV; and selection of our Mobile WiMAX as the IMT-2000 standard along with WCDMA and CDMA 2000.

Special efforts have been made to manage intellectual property rights, which include our patents. In the U.S., our aggregate patent portfolio totaled approximately 20,600 by the end of 2007. In 2007, we registered 2725 patents in the U.S. alone, which was the second most of any company.

Systematic R&D Structure for the Next Generation

In May 2008, Samsung Electronics revamped its R&D organization to focus on greater efficiency and future technology development. The new organization is systematically structured in three layers. The Corporate Technology Office (CTO), the synergistic creator of technology, leverages proprietary technology to drive innovation across current business units and enhance core technologies for new business opportunities. The R&D centers of each business focus on the development technology that is expected to deliver the most promising long-term results. In the meantime, the development teams within each product division are responsible for commercializing products scheduled to hit the market within one or two years.

Samsung Electronics operates six R&D centers in Korea and a total of 16 centers in eight countries, including the U.S., the U.K., Russia, Israel, India, Japan and China. These centers are tasked with developing best-in-class products and proprietary technology. We have also built a global R&D network encompassing the world's leading companies, research centers and universities. These research facilities are closely linked, and develop strategic technologies for the future as well as unique technologies that will establish new market trends.

Our greatest asset is the extensive pool of talented people who develop value-added, market-leading products that are enhancing the lives of our customers. At the end of 2007, 39,000 people were involved in the development of Samsung products for tomorrow. There are now 3200 PhDs in our talent pool. Through solid alliances with global R&D networks and an efficient support system for our R&D workforces, we will continue to lead the company into the future with many of the world's most innovative products and technologies.

Leading Future Technology Initiatives

Our goal is to be the clear leader in future technology development, rising above any challenges in the business environment. We will enhance our technology and market leadership in our current core businesses, while taking aim at future-oriented fields, such as the solutions business, new IT devices, energy resources, the environment, bio-technology and health. Our R&D investment will be further increased to strengthen our proprietary technology leadership in nurturing future growth engines.

"Our researchers are working very closely with R&D, proud to be a part of creating the future. Combining our ability with unbridled passion, we will enhance the lives of our customers through the development of the newest, groundbreaking technology."

Samsung (Research & Development)

WINNING WITH BRANDS AND INNOVATION

Consumer preferences are changing and they are taking radically different paths when purchasing brands. We must therefore innovate faster to respond to these changes. While the level of innovation will vary by category, depending on market requirements and brand strategies we use 70:20:10 as a general percentage guideline. The '70' innovation projects are global roll-outs, such as Baby Dove which was launched in 19 markets in 2017. Local innovations marketed through global brands make up the '20' part of our portfolio, such as the launch of Comfort Sakura in Japan. The '10' are hyper-local launches such as the Sunsilk Yuya range in Mexico which respond directly to local requirements.

To enable this, C4G has created more than 200 Country Category Business Teams (CCBTs) which are multifunctional entrepreneurial units which break down silos by combining marketing, R&D, customer development and supply chain expertise. They have ownership of their own profit and loss account and are empowered to take decisions for their local requirements. Through CCBTs, we are aiming for more relevant innovations, which are rolled out faster. We are already seeing an improvement in time to market across our portfolio. At the same time, we are seeing more rapid local innovations to meet local trends. CCBTs are supported by 45 Brand Communities, which ensure global collaboration and best practice sharing.

Consumers increasingly seek brands that are authentic and which they can trust. Our Sustainable Living brands are a key differentiator in this regard. In 2016, 18 of our top 40 brands were Sustainable Living brands which combine a powerful purpose with products contributing to the Unilever Sustainable Living Plan.

Unilever (Brands & Innovation)

Experience & Cases

Natura & Co CFO: José Antonio Filippo

a) As a CFO, how do you describe the relevance of managing intangible capitals (such as human resources, innovation, relationship, etc.)?

JF: It all starts with human capital. Companies need to choose paths that allow for constant and positive organizational transformation. By doing that, they can reach the maximum potential of working through collaborative and agile networks. This type of evolution is only possible if the potential of each individual is liberated, helping to achieve self-realization.

Consumers and their habits have changed radically, and the same thing happens - and will continue to happen - to those who work in companies. People management should seek to provide an environment that presents challenges, as well as unique and mobilizing experiences, based on a collective purpose. In parallel, relations with suppliers and customers have to be based on transparency and trust, so that they can perpetuate and expand.

Another fundamental factor for creating value is innovation, as well as the whole ecosystem necessary for its viability (human resources, infrastructure, partnerships, etc.). There is a strong correlation between the level of investment in innovation and growth capacity, and it is necessary to achieve a minimum scale for this relationship to materialize - which varies according to each market and the different categories of products offered by the company. If the company delivers top-level products and services and effectively manages the relationship with its stakeholders, it will certainly have a positive return on its image, which can be expressed, for example, through its brand, the company's most evident intangible asset. Consequently, it is extremely important to make good management of intellectual property - in this context, in addition to the brand, there are other rights which, when strategically managed, create competitive advantages for the company.

b) Can you give some concrete examples of the advantages of managing intangible capitals strategically?

JF: In the case of Natura, investment in product innovation is around 2.3% of net revenue, and this investment has had a strong impact on results; for example, approximately 60% of revenues from 2019 come from new products released in the last 24 months. It is important to mention that about one third of the portfolio is renewed annually, due to the accelerated dynamics of the market in which the company operates.

Additionally, managing our human resources effectively has obvious advantages. Knowing the essence of the company - which, in Natura's case, is expressed through the concept of "wellbeing well" - and aligning purposes between the company and its employees provide increasing autonomy and protagonism. Knowledge flows in a multilateral way and collective intelligence is strengthened. From this balanced relationship, decentralized initiatives can accelerate value creation. An example of what we are living today at Natura is the use of agile methodology. Traditionally, it has been applied in technology-related industries, but today we have dozens of agile teams in areas such as Human Resources, Marketing, Internationalization and Innovation. This new way of operating has already brought very important results, such as reduced time to launch new products in the market (and the costs involved in this process).

Finally, the protection of innovative technologies through patents and the practical application of these rights by the company prevent competitors from exploiting, in an inappropriate and unauthorized way, the results of our investments in research and development. Thanks to a diligent management, the "Natura" brand has since 2005 been recognized by the INPI (National Institute of Industrial Property) as a highly renowned brand, guaranteeing that the company has the rights to exclusive use in Brazil, in all product classes and services.

c) As CFO, what are the biggest difficulties / challenges in managing intangibles in your opinion?

JF: An important challenge for companies that are strengthening the internationalization of their brand and their businesses - like Natura - refers to dealing with intellectual property and anticipating possible conflicts between national and international laws - these are situations that may, for example, create difficulties for innovation.

Regarding people management, the challenge is to coordinate the constant process of organizational transformation and keep the employee as the main character. We cannot consider the company's interests exclusively, but we also have to focus on our employees' needs, which are increasingly individualized. Human Resources departments will not do this on their own, but they must lead this journey. In short, its mission is to meet the company's expectations in a harmonious way considering the space employees choose to occupy.

Finally, in the case of innovation, the biggest challenge is to identify the optimal level of investment, seeking a balance between short and long terms, without ever compromising competitiveness in relation to market peers.

d) What message would you leave to other CFOs, from smaller or larger companies, about managing intangibles?

JF: In an increasingly integrated and globalized market, companies that do not invest in innovation are bound to stagnate and reduce their competitiveness (this is true for companies of any size and, at the macro level, it is true even for countries). Another fundamental issue is the importance of fostering a new leadership role, precisely to face the contemporary transformation in the profile and needs of employees. Managers must behave as "people developers" in order to make room for growth and to suppress everything that disrupts the daily lives of teams. This means counting less on command and control; instead, it is necessary to stimulate autonomy and courage to innovate.

Finally, the company must always make sure that innovation and brand achievements are not endangered or misappropriated by competitors. Even if the company, due to its size, is unable to set up a whole department for intellectual property management, it is important to have specialized legal advice.

Andrea Ragazzini CFO Stafer Italy

a) Relevance of Intangibles for a CFO?

AR: Nowadays, on the international scene, the fundamental role that intangible capitals hold for the evolution of organizational systems is becoming increasingly evident. Small and medium enterprises represent a significant expression of this system and, due to their structural configuration, the management of intangible capitals constitutes one of the crucial points for their ability to create value in the short, medium and long term. In this context, the Chief Financial Officer represents one of the most important roles for company development and at the same time, the progressive approach to the management of intangibles represents a concrete step. The importance of intangible capitals for the Chief Financial Officer is determined by the fact that understanding the intangible capitals means knowing and monitoring the main levers of operational and strategic corporate development. Supporting the Governance system through strategic tools such as the Balanced Scorecard and the related indicators, the quality, environment and safety management systems, as well as the strategic positioning linked to objective measurements means offering the company an integrated vision of all the variables that determine the future of the organization. The thought that supports this vision and that represents a real methodology rests on the reflection that companies, and organizations in general, are real communities and therefore report a multivariate series of intangible dimensions to be known for their economic sustainability , social and environmental over time. It is therefore relevant that the integrated vision of the organizational systems starts from the functional places, inside the company, delegated to represent and give expression to the corporate system in its integrity and the Chief Financial Officer, especially in small and medium enterprises, represents one of these fundamental elements.

b) Concrete advantages of managing intangibles?

AR: In order to understand the advantages brought about by the management of intangible capitals it is necessary to make explicit the fact that they represent the most important assets for the value creation process of the company. For the economic, social and environmental sustainability, companies need to know in depth the dimension of human, organizational and relational capital, since they represent the bases to create strategic plans in line with their own identity and operational plans in order to implement the plans themselves. Consequently, it is clear that the main advantages brought by the management of intangibles are the greater awareness of the management systems, the creation of value in the organization, and the real possibility to manage of these variables. Nowadays social systems, of which companies are part, turn their gaze towards a concept of extended sustainability, which contemplates in depth the set of capitals that men need for their own evolution and posterity towards future generations.

c) Difficulties, challenges you see as a CFO in managing intangibles?

AR: Acting and making decisions within organizations, integrating the dimension of intangible capitals into one's own assessments, involves a real change not only in the way of thinking, but also in the way of acting. This means that a Chief Financial Officer, like the other people present within the organizations, faces a challenge, or a change, which starts from the values that underlie the creation of value for the company and that ends with business management practices in a sustainable perspective. The Chief Financial Officer, being one of the leading figures in companies, especially small one, represents one of the key roles for the creation of a solid cultural base, within the company, capable of bringing the business community towards a real path of value creation over time, therefore not only linked to the financial dimension but also to the social and environmental dimension. In fact, companies need people aligned towards an objective and a value system oriented towards a shared concept of community. All of this is part of the "intangible" elements that support all the organization's possibilities of realization and make the difference between a territorial and economic system capable of creating value.

d) A final message to other CFO's?

AR: The economic world as we know it is about to experience a change that starts from people's cultural system and their reference value system. Taking on the role of Chief Financial Officer carries with it a responsibility, not only towards the company but also towards the people who compose it. The concept of economic and financial dimension in the world is rapidly evolving; corporate balance sheets, for several years now, are beginning to embody these principles, sometimes reporting impact analysis of the organization's action, sometimes describing its value creation system, becoming concrete opportunities for all integrated reporting organizations of their own reality. What remains of all this is essentially a concept, namely that companies are complex and multivariate entities, formed by relationships between transversally crossing plans, actions and resources. For this reason, it becomes important that in the first place the Chief Financial Officers approach this reality, expanding their vision and therefore determining a real step forward for the development of companies, people and therefore society.

Mr. Kon CFO of 3M Japan

a) As a CFO, how do you describe the relevance of managing intangible capitals (such as human resources, innovation, relationship, etc.)?

MK: Intellectual capital and human capital are the most important intangible assets for CFO to manage the most innovative company, like 3M and 3M's subsidiaries including Japan. Our company's value driver is to connect between voice of customers and our technologies in our technology plat form. The technology plat form is a kind of data base of specific technologies consisted of four categories; Materials, Processing, Capabilities and Applications. Even though 3M is chemical companies, those categories is not limited to chemical technologies, but to a manufacturing process, the combination of different technologies, and other areas. Our innovative business model encourages engineers to work together and share ideas and knowledge each other to create new things by putting together some of technologies. Basically, our innovative products came from the several existing technologies, with the different combination of them, and it didn't from one big destructive technology. Therefore, maintaining the technology plat form is the key action to grasp the whole new product implementation process which will create future cash flow.

3M's other important factor to maintain the most innovative company is respectful culture, with HR policy; the dignity of human being. Employees must be excited and engaged to deliver excellent results. With that, CFO needs to pay attention on the level of moral and vitality of employees even though those factors can't be measured by monetary index. Management and leaders of a company would be more critical to act as a model of a employees. 3M defines the competency of leaders; 3M Leadership behaviors, which consists of six categories; Play to win, Innovate, Faster Collaboration and teamwork, Prioritize & Execute, Develop Others & Self, and Act with Integrity & transparency. Leaders in 3M are evaluated based on 3M Leadership behaviors about the half of their performance.

b) Can you give some concrete examples of the advantages of managing intangible capitals strategically?

MK: Financial result is history, and nothing happened from historical data. CFO should work closely with business leaders to accomplish the responsibility of accountability. For that purpose, CFO should look at the whole business process with business leaders from time frame prospect. 3M's value driver is to launch new products continuously, which is the most important source of future cash flow. We should not treat research and development operation as a cost center, but a profit center.

Pricing is always the critical factor to keep margin appropriately. CFO sometime makes a mistake to keep the price level by pressuring Sales and Marketing operation, which could be difficult to maintain the price level by negotiating with customers. Value proposition must be the only way to keep appropriate marine level, which will be accomplished through new product implementation.

3M has been managing laboratory's activities by watching the gross margin % instead of volume, resulting in higher profitability than the industrial average.

c) As CFO, what are the biggest difficulties / challenges in managing intangibles in your opinion?

MK: CFO is always asked to explain the performance through numeric measures, KPIs, and some of intangibles are not appropriate showing the real performance though accounting indexes. In addition, not all activities in intangibles will be converted into cash even in the future. In addition, even though it would generate cash in the future, it could be indirect impact. With the defined responsibility, which is not accurate in the current circumstance, CFO is treated as a killer of new idea and opportunity in a company. CFO must initiate actions to change the situation by promoting the new responsibility of CFO and Finance organization.

d) What message would you leave to other CFOs, from smaller or larger companies, about managing intangibles?

MK: Social value is more important than financial value in coming ages, in which a company should place vision, mission and value. A company should describe the future suitable situation of the society as vision in which a company is driving business. Mission must describe a company's responsibility with the output of products and service to realize the vision. Finally, value is the model of behaviors by which employees should act. CFO is the most critical position in the management team in terms of relationship with other CxO and its responsibility. Therefore, CFO should change by yourself to fit you to the social requirement, and intangibles must have been the main category for CFO's role than tangible factors.

Public sector support & investor evaluation

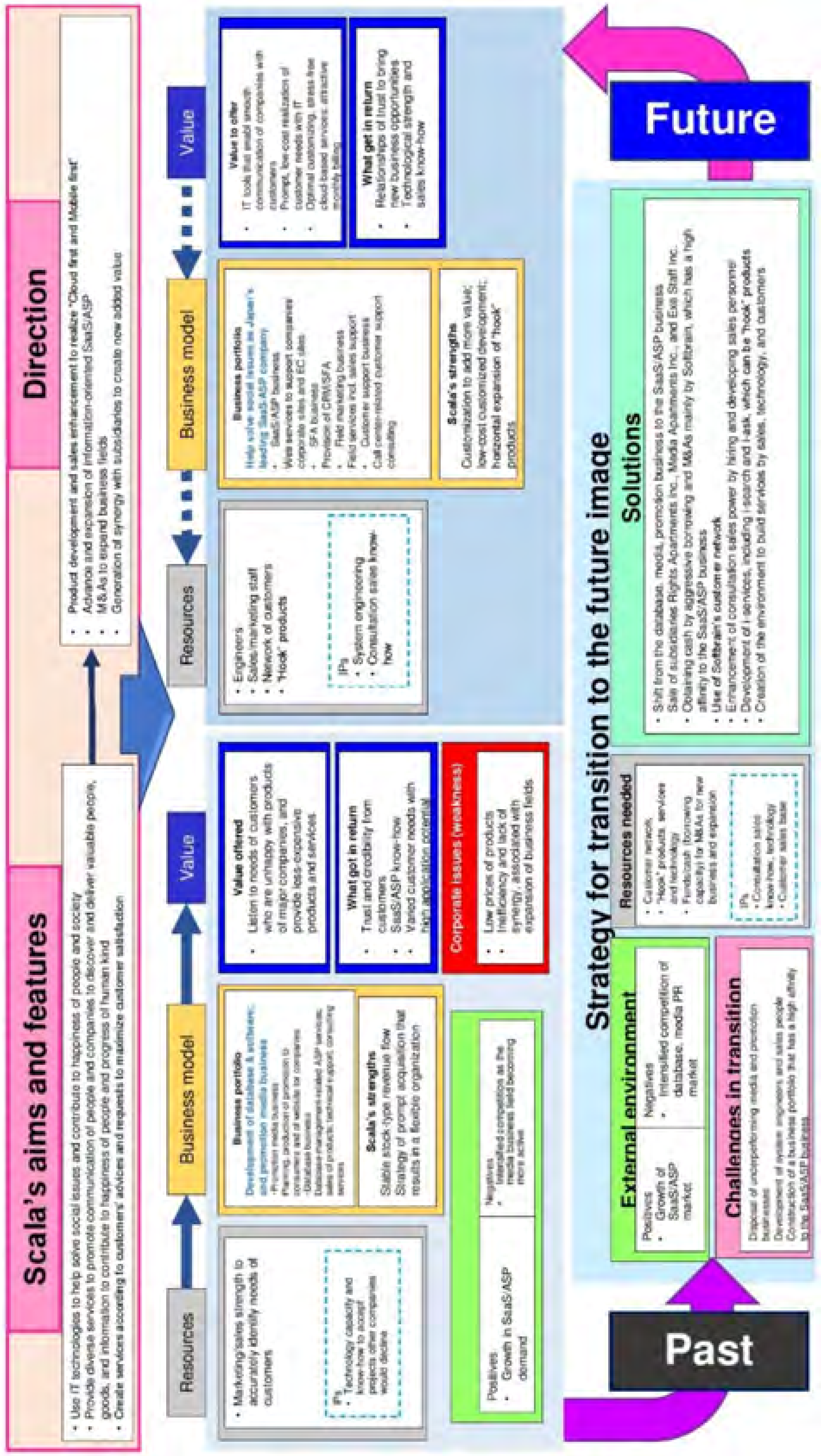
Design Sheet (Japan)

The Corporation Management Design Sheet is produced and publicly released in June 2018 by Japan's Cabinet Office Intellectual Property Strategy Headquarters as a tool to design management by appropriately evaluating a role of intellectual properties (IPs) in the corporate value creating mechanism. It was developed based on the knowledge and insights of experts and business people from various industries in order to visualize an increasing role of IPs as management driving source at the time of transition of the social, economic environment from the 20th century type, in which the market was driven by stable supply of products, to the 21st century type, in which the market was driven by diverse values of users who seek experiences and empathy. The Design Sheet can be described as a condensed framework of cutting-edge knowledge and insights in designing corporate management. This is intended to visualize value creation mechanism which can work as a future management base for sustainable corporate growth. There is an increase in use by companies. The design sheet facilitates obtaining a big picture of time-conscious corporate management and to make people aware of the relationship among resources, business model, and value. In order to appeal to diverse values of users, companies are anticipated to be innovative in flexibly and continuously designing its value creating mechanism and, for that purpose, to appropriately evaluate the role of IPs in the value creating mechanism. Companies that can well organize their management strategy in keeping with the concept of the Management Design Sheet can be viewed as having their strategy being built according to a 21st century type of logic.

Scala's original main business is the promotion media business of planning, production, and website production for corporate promotion activities targeted to consumers. However, due to the intensified competition in the media CM market, the business deteriorated and became loss making. Scala then boldly decided to sell the promotion media business and to shift into the SaaS/ASP business. Initially, without having any packaged software for sale, Scala developed services that satisfied needs of customers and expanded a line of services. Precisely by having to start from scratch, Scala was able to create capability in consultation sales and in engineering to develop products, which has now become Scala's advantages. Such transition is organized in the Management Design Sheet. Reviewing the past, it is clear that Scala has necessary items in place, demonstrating its consistent, logical business strategy evolving around the provision of value to customers.

From GCC Management™ Analysis Report: Scala, Inc. [4845] available at
https://j-phoenix.com/wp-content/uploads/2019/05/4845_scala_j-phoenix_research_report_20190726_%E8%8B%B1%E8%A8%B3_final_2.pdf

JPR-Scala Business Management



BNDES Approach to Evaluating Intangibles

Created in 1952 to contribute to the development of Brazil, the Brazilian Development Bank (BNDES) saw the intellectual capital approach as an opportunity to expand its knowledge regarding its clients and create a culture within the company which stimulates people to use more than the traditional financial tools for evaluating its portfolio.

At the end of the 2000s, BNDES created a working group focused on structuring an approach that would allow the bank's staff to capture information regarding the competencies and capabilities of companies in their operations analysis. At that time, the evaluation of BNDES' clients in terms of intellectual capital was performed on a case-by-case basis, mostly depending on the tacit knowledge of each technician.

As a result, the Business Evaluation Methodology (MAE, for its Portuguese acronym - Metodologia de Avaliação de Empresas) was created, which sought to systematize and structure the evaluation of intangible assets of BNDES' clients. MAE is an instrument for knowledge management and operations support, which is based on a roadmap for assessing intangible assets, competitiveness and company strategy. It enables the qualitative evaluation of companies in BNDES' portfolio, based on a collegial analysis process, considering aspects such as innovation, socio-environmental responsibility and practices, corporate governance, human resources policy, among others. Through MAE, BNDES attempted to bridge the gap between theory and practice with regard to evaluating intangible assets.

Since the implementation of MAE, BNDES has evaluated around 140 companies. Although this number represents a small percentage of the Bank's clients, the methodology has proven to be of great importance to boost the institutional knowledge on clients; additionally, it enables BNDES to map and monitor the evolution of the Brazilian market in terms of intellectual capital.

Methodology

MAE consists of 28 questions regarding Intangible Assets and Competitive Analysis. For each question, there are 5 parameters (from 1 to 5), and the company must fit in one of these levels. Level 5 reflects the benchmark in each question, whereas level 1 represents a company that has virtually no capabilities/practices regarding that specific question. The methodology seeks to evaluate 7 intangible "capitals", as well as the Market Structure in which the company operates (which will not be discussed in this article).

MAE QUESTIONNAIRE STRUCTURE

STRATEGIC CAPITAL

1. Strategic Planning
2. Strategy History
3. Current Strategy - Consistency and Viability
4. Diversification

RELATIONAL CAPITAL

5. Customers
6. Suppliers
7. Experience and Reputation
8. Brand

SOCIAL AND ENVIRONMENTAL CAPITAL

9. Social and Environmental Responsibility
10. Social and Environmental Management
11. Contribution to Local and Regional Development
12. Social and Environmental Risks and Liabilities

CORPORATE GOVERNANCE CAPITAL

13. Corporate Structure and Succession Process
14. Transparency and Audits
15. External Control and Board of Directors

PROCESSES AND INNOVATION CAPITAL

16. Operational Efficiency
17. Management Systems
18. Innovation Management
19. Technology Training

>>

>>

HUMAN CAPITAL

20. HR Policies
21. Qualification of Managers
22. Corporate Environment

FINANCIAL CAPITAL

23. Financial Management
24. Liquidity and Financial Flexibility
25. Regularity and Allocation of Results

MARKET STRUCTURE

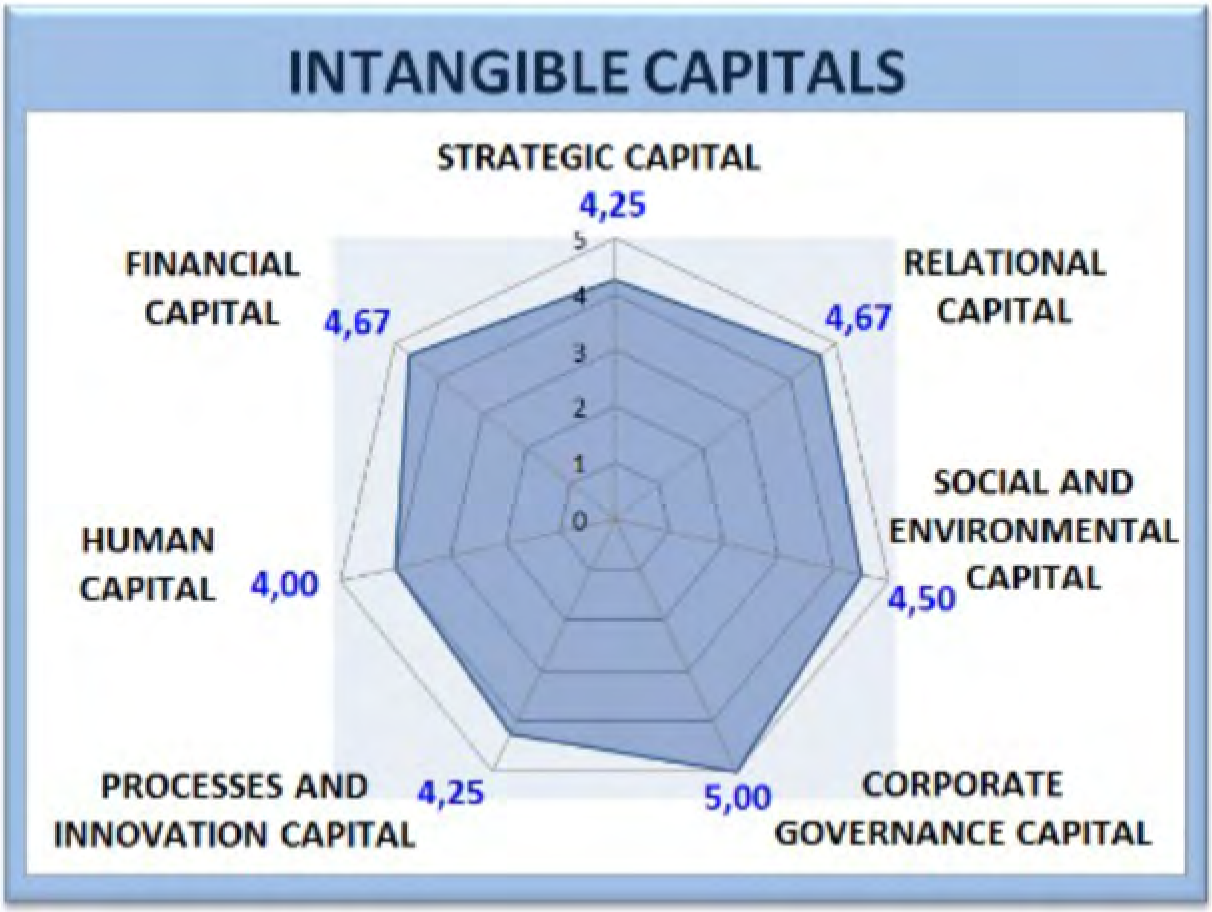
26. Competitive Positioning
27. Market Power in Relation to Clients
28. Market Power in Relation to Suppliers

Real Cases

The following examples are real cases in which MAE was used to evaluate BNDES's clients in terms of intangibles. Two cases were selected without using the real names of the companies; Company A is a highly qualified company in terms of intangibles, whereas Company B still has many opportunities for improvement. Both cases are discussed below:

Company A

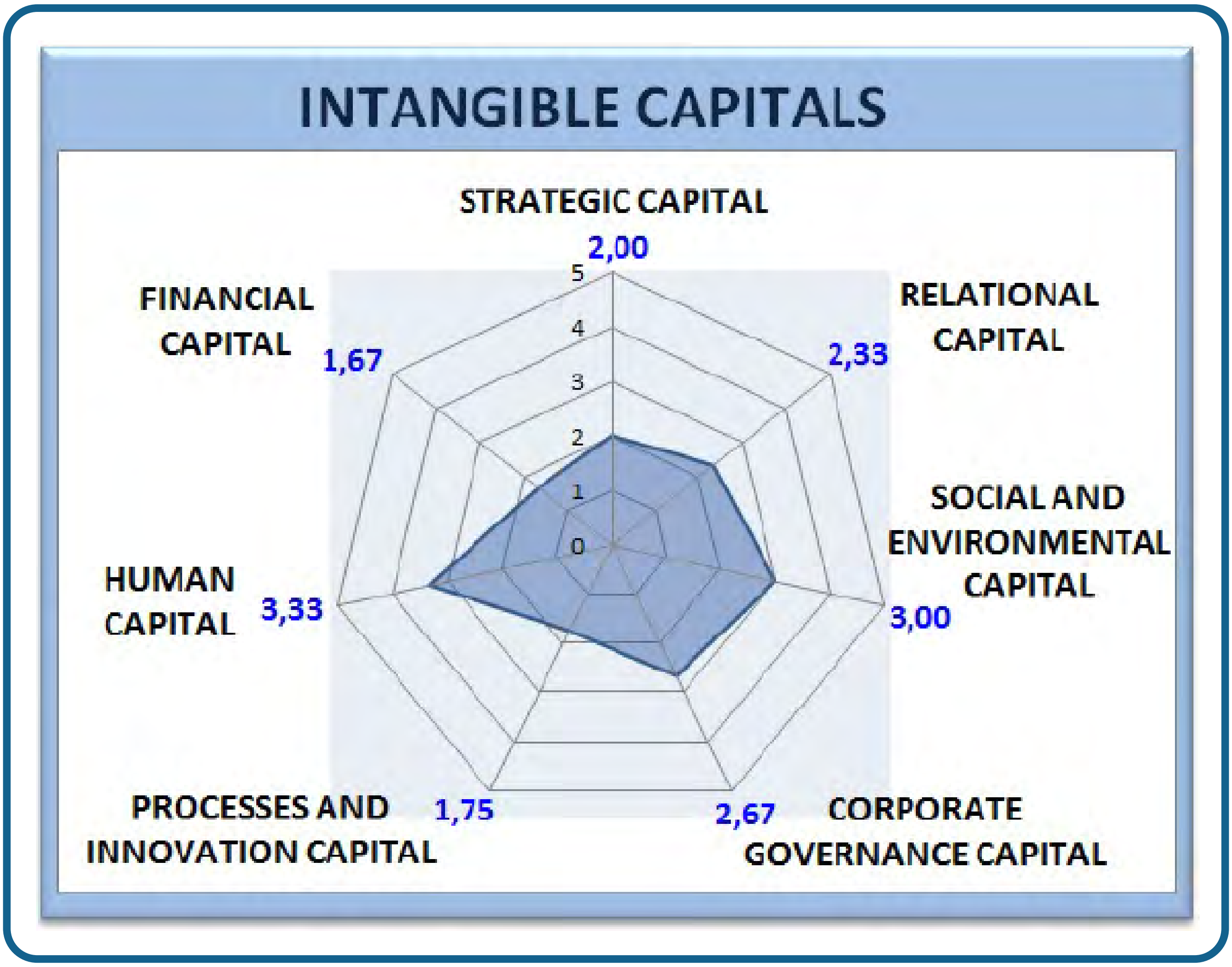
Company A is part of the cellulose industry. Using MAE as a methodology to evaluate its intangibles, the analysis group realized that the company has important capabilities, processes and resources that make it an important player in the market. The radar graphic created at the end of the evaluation is shown below:



As one can see in the graphic, Company A has highs scores in all areas, especially regarding its Corporate Governance Capital. For this Capital, some of the company's practices and capabilities which justify this score are: great level of transparency; good structure for handling corporate matters; being part of some major stock exchanges and respecting some of the high-level corporate governance practices. Regarding the other Intangible Capitals, some important issues were considered, such as: being a major player in the industry and having a great level of efficiency; having well-structured policies and practices regarding Social and Environmental Responsibility; and taking the matter of innovation as a strategic pillar, with appropriate investments and focus on partnerships. Undoubtedly , the analysis group identified some possibilities for improvement and possible risks to the company (such as the low level of diversification in terms of businesses and clients), but, in general, the company was considered to be a very good model of an institution which cares about its intangibles aspects and develops processes and capabilities which continuously reinforce its potential.

Company B

Company B is part of the shipbuilding industry. Using MAE as a methodology to evaluate its intangibles, the analysis group was able to identify some of the company's strengths, but they also detected many possibilities for improvement, which made the company's score very low, as shown in the graphic below:



To reach this score, the analysis group considered many aspects, such as: lack of mechanisms to evaluate the organizational climate and low investment in training; few relevant projects with social impact; financial fragility; a merely "top-down" approach in terms of formulating the corporate strategy; among many other issues. The company also presented some important capabilities and good practices, such as good efficiency in terms of its processes and the development of policies regarding Quality, Safety, Health and Environment Protection. However, since the company lacked many other good practices in terms of its intangibles, its score was fairly low.

These two cases attempted to show how MAE works and what its outputs are. It is important to reinforce that not only is it a methodology which allows BNDES to understand its clients better, but it also gives the opportunity for the companies to understand its strengths and weaknesses: at the end of the evaluation, a member of the analysis group gives a feedback to the company and discusses the results, which allows the clients to identify its flaws, know its potential and evolve in terms of intangibles.

Next Steps - the new methodology for evaluating intangibles

After being used for years, MAE has recently faced many challenges. Although the methodology has had much success and has delivered some important results to BNDES, new scenarios in Brazil have demanded different and innovative instruments. MAE was focused on bigger companies that were already BNDES's clients, and it became clear that smaller companies were the ones who needed to be looked at in a more thorough way, especially when it comes to evaluating intangibles. Many small companies have had difficulties to become BNDES's clients due to the traditional credit analysis, but these companies usually have a great potential regarding intangibles that should be taken into account. If that could be properly evaluated, maybe these companies could have some flexibility and become new clients, because not only would the traditional credit analysis be considered, but also a new methodology for evaluating intangibles. Based on this philosophy, a new methodology was created and it was called Intangibles Evaluation Methodology (MAI, for its Portuguese acronym -Metodologia de Avaliação de Intangíveis).

The Intangibles Evaluation Methodology (MAI) is under development and validation, and it is focused on smaller companies from knowledge-intensive sectors (which usually require a great deal of intangibles). The process of evaluation has also changed; whereas MAE was a more thorough process (and also more complex and time-consuming), MAI is supposed to be a faster and more objective evaluation.

For this purpose, some changes were made, such as:

- The questionnaire focuses on less intangible capitals (the more important ones for the knowledge-intensive sectors and smaller companies);
- Questions are binary ("True" or "False" answers), with an option to select "Not Applicable" when that specific question does not make sense within the reality of the sector or the evaluated company. This is a big difference from MAE, whose questions with parameters were more subjective and complex;
- For each question, there are examples of indicators that can be used to help verify whether the company meets the criteria in that specific question. These indicators help to guide the evaluator when answering the questionnaire, making the process less subjective;
- The tool has algorithms that facilitate answering the questionnaire and generating graphics, scores and written highlights.

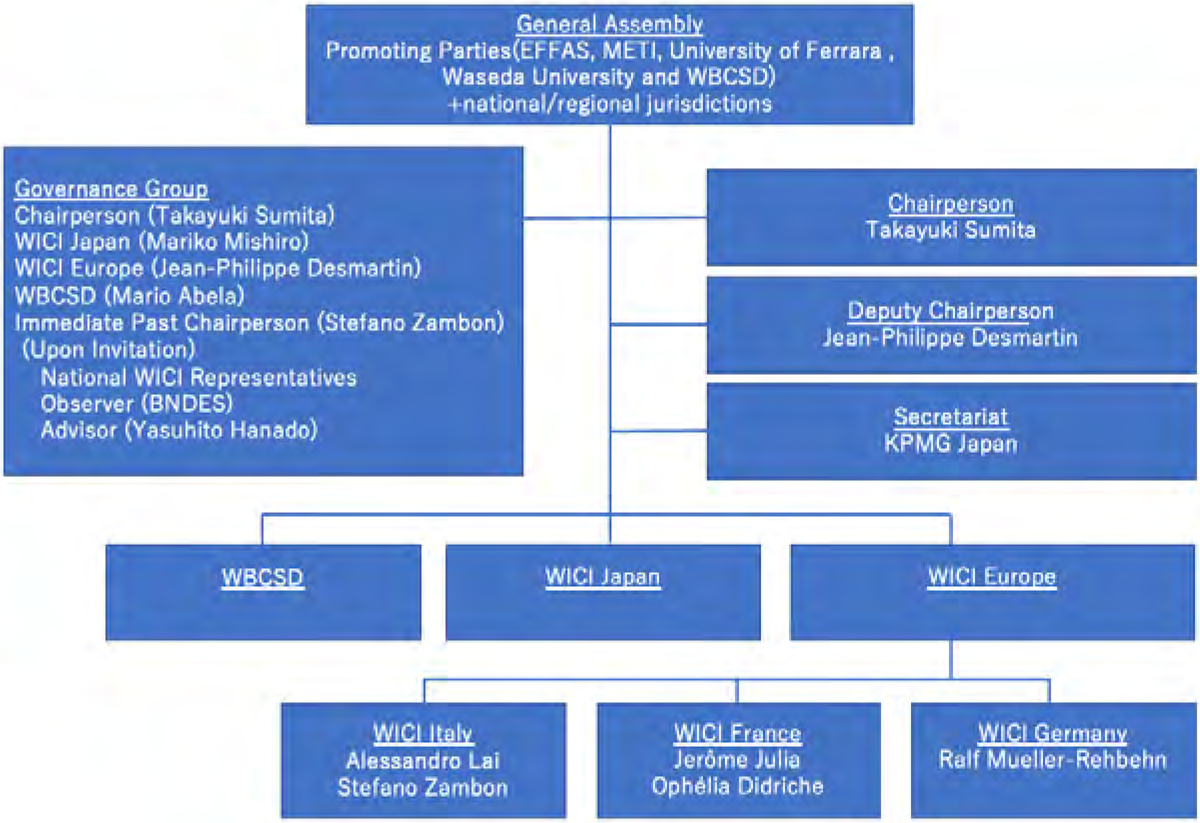
Although still under development, MAI is a project with great expectations. This initiative seeks a greater alignment between the evaluation of intangibles and BNDES's current needs and strategic orientations, and hopefully smaller companies will have an extra tool that may help them show their true potential.

Appendix

About WICI

WICI (the World Intellectual Capital/Assets Initiative) recognizes the need for corporate reporting that integrates the communication of narrative and quantified information on how organizations create value over the short, medium and long term through the creation, management, combination and utilization of intangibles. WICI was formed in October 2007, and its participants include organizations representing companies, analysts and investors, the accounting profession and academia, who collaborate together to promote better corporate reporting by recognizing the role of intangibles/intellectual capital in the sustainability of an organization's value generation.

Find out more *http://www.wici-global.com/*



WICI Framework

WICI Intangibles Reporting Framework aims to foster and facilitate reporting on how organizations create and/or identify, manage, combine and utilize their unique intangibles in order to generate value and achieve business sustainability. The WICI Framework is intended to help organizations to make decisions and allocate resources in a more effective and efficient way.

Find out more *http://www.wici-global.com/framework*

Other relevant resources

Capitalism without capital - the rise of the intangible economy
The End of Accounting
IIRC Framework
EFRAG Intangibles Literature Review
CFO Leadership in <IR>

Graphic Design and layout

mercurio GP

Finance & Sustainability Communication
www.mercuriogp.eu

W I C I