As of June 26, 2010

Concept Paper on WICI KPI in Business Reporting ver.1

1. Background and Purpose

The World Intellectual Capital Initiative (WICI) is a private/public sector collaborative aimed at improving corporate information - with a focus on non/extra-financial information - for more effective decision making. WICI's primary goal is to facilitate the development of a global business reporting framework for measuring and reporting overall corporate performance to shareholders and other stakeholders.

One of WICI's primary activities in working toward this goal is facilitation of and collaboration on the development of common idea on key performance indicators (KPIs) as one of the important elements of reporting. KPIs may be financially derived and/or non/extra-financial in nature, and may include a wide range of market-oriented, industry-specific, and company specific indicators.

The purpose of this document is to present a conceptual framework for the development of KPIs for inclusion in the WICI framework, and for the disclosure of such KPIs by companies and industries in the context of their impact on the value creation potential and/or sustainability of the company, sector and/or industry.. This will enable enhanced reliability, relevance, transparency and potential comparability of information relevant to management and potentially to shareholders and other stakeholders.

This document is also the first step of dynamic process through which WICI framework of business reporting with KPIs will evolve as a cumulative effort of business reporting practice, analysis of it and creation of improved ideas.

2. KPIs in Business Reporting –Expected Benefits

The current financial reporting model alone does not provide sufficient information to optimize the ability of users to judge the value creation potential of a company, sector/industry and to foresee the sustainability of its future cash flows. This challenge can be addressed through the disclosure of non-financial data/information, including KPIs and narrative disclosures on companies' strategy and value creation processes, in the context of corporate performance.

However, the substance of narrative descriptions can vary extensively and they are often vague and subjective. Therefore, it is difficult for this information to be comparable, credible and substantive. To help address this challenge, WICI is developing a comprehensive framework for business reporting, including both quantitative and narrative disclosures, which will help to enhance the relevance and transparency of the information disclosed by companies. This framework includes the following elements for business reporting:

- An overarching framework of elements disclosed;
- Necessary elements and related definitions, including narrative descriptions as well as general and industry-specific KPIs which are frequently used;
- XBRL taxonomies to better enable preparers and users to produce, consume and analyze the related information

We have identified the following challenges with currently existing disclosure frameworks and/or their requirements:

- Specific interest initiatives require company disclosure of certain indicators based on their own needs (lack of common uses/definitions) and may not reflect any shared interests (and thereby understanding) among relevant producers and consumers;
- The real implication of disclosed indicators cannot be easily understood due to the lack of adequate explanation of their context (lack of contextualization);
- Most initiatives mandatorily require companies to disclose indicators as if one-size-fits-all;
- Most initiatives focused on non-financial information do not tie the disclosure of such information to the value creation processes and corporate performance, thereby simply raising disclosure cost without adding value;
- The above elements and considerations have generally required companies to respond in a defensive manner, just by "ticking the box", resulting in boilerplate disclosures that do not communicate relevant information related to company strategy.

The WICI framework is being developed with a view to addressing these challenges. Accordingly, it is a broad information framework collaboratively developed by and used by market participants regardless that it is regulatory or voluntary, and is intended to be flexible enough to be relevant to diverse stakeholders. It is also intended to establish best-practices for the disclosure of narrative information, as well as common definitions for the most frequently used KPIs, to maximize the value of this information when disclosed in conjunction with traditional financial and other corporate performance reporting.

3. Definition of WICI-KPIs

3-1 KPIs are provided as numerical figures (metrics) related to critical factors of value creation, and they support the explanation of business strategy linking it to future financial or economic performance.

3-2 WICI-KPIs have different attributes from those indicators required by civil society*[1] to achieve its own objectives and purposes, although these indicators might overlap with some WICI-KPIs.

3-3 WICI-KPIs are informative examples of frequently used indicators which are included in the WICI business reporting framework. They are expected to help a company, sector and/or industry explain its value creation potential.

4. Expected attributes of KPIs

4-1 KPIs shall be presented to reinforce the narrative description of a company's own value creation mechanisms, which are closely linked with its business strategy.

4-2 Both financial and non-financial information including KPIs shall be accompanied by an explanation of the company's corporate value creation mechanism and strategy, as well their potential impact on current and future economic/financial performance.

4-3 KPIs are important elements in making visible and assessing the implementation of the value creation model/story of a company on a given time line of past-present-future.

4-4 KPIs shall be presented as numerical figures, which may improve the consistency of the KPI over time and the comparability for users and enhance credibility of the related narrative explanations. KPIs are not limited to those that represent directly measured data,

[1] These indicators are also referred to as 'social license to operate' indicators or 'civil society indicators.' This concept was used in the ECRA (European Combined Reporting Alliance foe ESG) position paper to the European Commission dated 12th of February 2010..

but they may also include those quantified through rating methods based on qualitative data.

4-5 KPIs disclosed externally will likely be a subset of those used in a company's internal decision making process, including those that are relevant to a user's assessment of the company's value creation potential, by striking a balance between transparency and confidential information.

4-6 Since every company has its own way of creating value and utilizing resources, the same KPIs are not applicable to all companies in general or in a specific industry. Therefore, WICI does not intend to define a set of KPIs to be disclosed on a mandatory basis. On the other hand, WICI believes it is possible to identify some frequently used KPIs as informative examples to guide companies, and these are included in the WICI framework as WICI-KPIs. WICI does not expect companies to follow a "tick-the-box" type of approach to WICI-KPIs, rather to use those KPIs that are most relevant to their specific business model needs and to also extend the WICI framework to meet their individual needs and also be available for other market participants (companies and other consumers).

4-7 A company may add, expand and present their own indicators in order to describe their corporate value creation model appropriately. If a company hopes to utilize their own KPIs, it should also explain the reason and clarify their definition for users.

4-8 Disclosure of too many KPIs is also problematic, because it distorts and undermines the strategic and substantive significance/implication of each KPI, while potentially misleading users. Therefore, every company should choose a certain number of real 'key' indicators for its own value creation mechanism. On the other hand, WICI-KPIs, which include a wide-range of indicators for companies to choose from, recognizing that what is relevant for one company to disclose may be very different from another company.

4-9 Companies are required to disclose the same KPIs consistently if their corporate strategy/value creation model is not revised. When it is revised, the selected KPIs should also be changed accordingly.

4-10 WICI-KPIs are the list of frequently used KPIs to meet the current business/economic environment and situation. Therefore, they shall be modified as needed over time in response to significant changes in the industry specific and/or general business environment.

5. Categories of KPIs

5-1 According to their relevance, KPIs can be categorized into three classes: general KPIs, industry-specific KPIs, and company-specific KPIs. As a first step, WICI intends to develop and set up industry-specific KPIs, followed by a process of singling out common KPIs among these, based on the results of their application.

5-2 From the viewpoint of the nature of critical resources for company value creation, which are, in many cases, intangible assets, intellectual assets, or intellectual capital, KPIs are classified in three intangible categories: human capital, relational capital, and organizational capabilities. WICI-KPIs cover all of these categories. Tangible categories may also exist apart from these.

5-3 On the basis of the main elements of value creation, KPIs can be classified into several types, such as those related to leadership, innovation, selection and concentration, coexistence in society, external negotiation power/relationships, teamwork/organizational knowledge and process, and risk management/governance. Factors related to ESG (Environment, Social and Governance) are also part of these elements. WICI-KPIs shall essentially focus on the value creation mechanism of companies, sectors and industries.

5-4 KPIs may include those related to social or environmental issues. However, WICI believes that these types of indicators may be included not because they refer to social issues per se, but because they may be relevant to a specific company's value creation mechanism (e.g. in market, customer or general public reputation).

6. WICI Vision on Company Selection and Use of KPIs

6-1 WICI presents frequently used KPIs as examples or reference in order to facilitate and substantiate the explanation by companies of their own value creation mechanism/model.

6-2 WICI's work is intended to avoid misunderstanding and raise the relevance and comparability of disclosed information through standardizing definitions, methods of measurement and terminologies. To further this purpose, WICI recommends that, where possible, companies disclose WICI-KPIs in the XBRL format which provides an internationally standardized method for communicating framework concepts.

6-3 WICI encourages companies, where possible/appropriate, to utilize metrics which can be subject to an external assurance process in order to raise the credibility, objectivity and materiality of the explanation of economic performance as a result of value creation.

6-4 The number of disclosed KPIs by a company may vary, depending on many factors including;

- Potential for a large volume of disclosures to overwhelm consumers/users
- Hierarchical nature of WICI framework enabling users to 'peel the onion' or 'drill down' on concepts
- Context of the business culture where the company is operating
- Those concepts actually used by management to assess corporate performance
- Ability of information users to consume WICI disclosures within the changing nature of the supply chain (from human to machine assisted consumption)
- Industry and market practices
- Consistent use of concepts across periods
- Balance of concepts

7. Expected Impact

WICI expects the standardization and selective disclosure of WICI-KPIs by companies to:

7-1 Identify and increase the communication of more relevant corporate information by encouraging companies to disclose KPIs related to their value creation processes, while avoiding "tick-the-box" disclosures. This will be beneficial both for a company itself and for the consumers of its disclosures;

7-2 Provide users with significant information for analysis by encouraging companies to disclose verifiable KPIs related to their strategic business domains;

7-3 Improve understanding of the implications of disclosed KPIs by helping companies to show the connection between KPIs and their value creation mechanisms and resulting economic performance, instead of presenting KPIs independently;

7-4 Over time evidence suggests that despite the initial setting up costs, the potential for decreasing the cost for disclosure and internal management related to indicators by focusing on the most critical performance indicators that drive economic performance, while helping companies better to communicate their intentions and strategy by encouraging focused disclosure thus reducing uncertainty surrounding company activities potentially reducing stock price volatility, debt and equity costs;

7-5 Provide companies needed flexibility in the explanation of their economic substance and business model, while enhancing the comparability of disclosed information;

7-6 Provide skillful investors with significant forward-looking information to judge and forecast corporate performance;

7-7 Enable stakeholders to more easily and appropriately evaluate companies' performance, resulting in a positive contribution to the sustainable growth of firms and society as a whole through collaboration between companies and stakeholders

7-8 Enable market participants to collaboratively develop / extend / maintain the WICI Taxonomy framework thereby providing a sustainable market reference for these highly relevant information concepts.