

Value Measurement & Reporting Collaborative (VMRC)

The “New Paradigm Initiative”

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- **Intangibles and the Measurement of Value**
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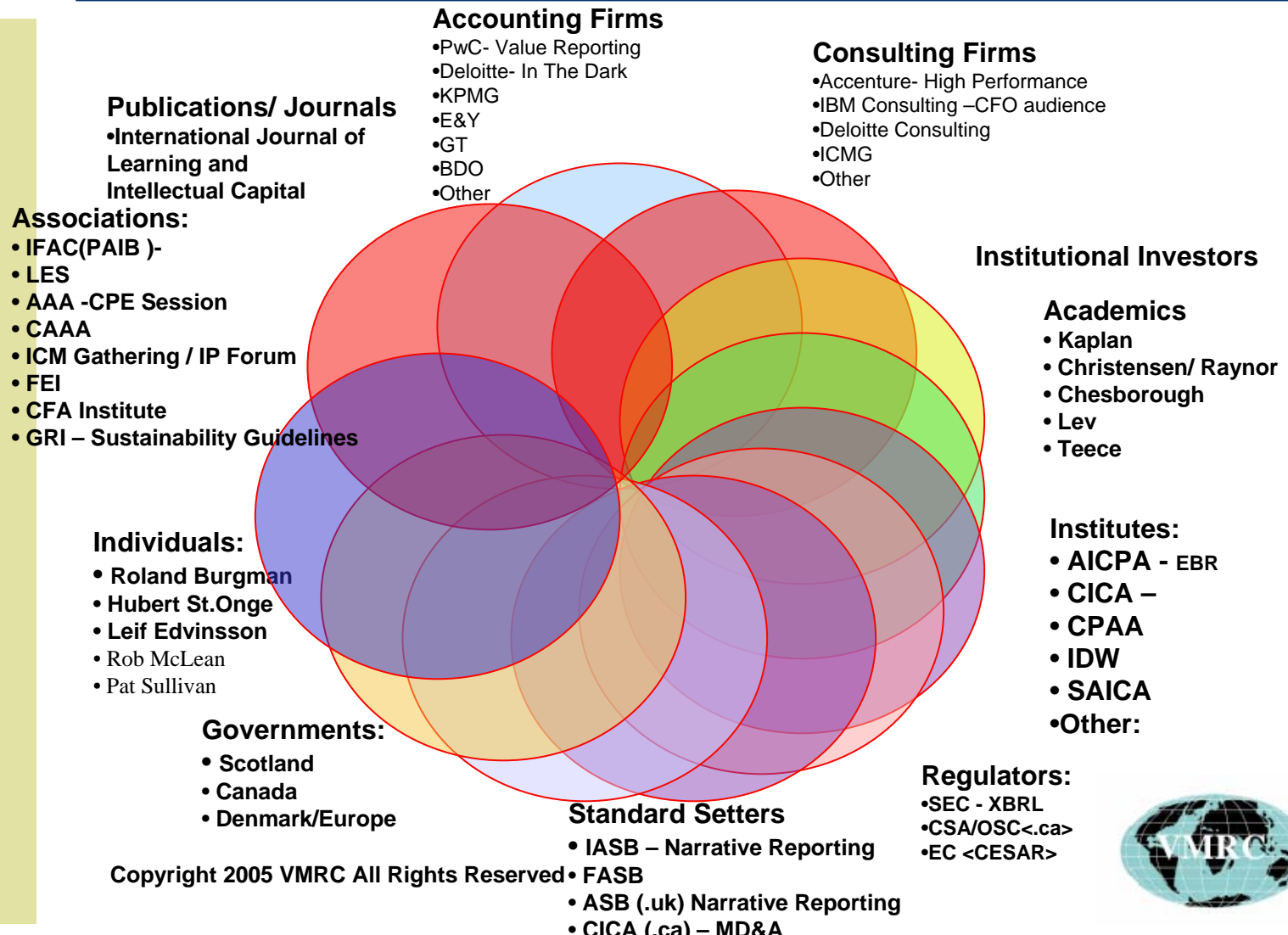


The Problem

- **Intangibles have emerged as a major source of value for organizations**
- **The valuation community has learned it cannot measure the value of intangibles using accounting**
 - Accounting is a transaction-based discipline
 - We often want to measure value where there is no transaction
- **This led to a wider discourse on “what is value?” and, “how can we measure it?”**



Stakeholders in Intangibles Measurement – A North American Perspective



Is Something Missing?

YES

1. Agreement on “what is value” in a business context
2. Agreement on how value is measured
 - For whom?
 - Why?
 - What do we want to measure?
 - How should we measure it?



VMRC

- **Formed in 2001, VMRC is a collaborative of multi-national accounting bodies whose goals are:**
 - To develop a framework of market-driven principles and criteria that characterize value measurement and reporting on a global basis
 - To communicate the need for value measurement and reporting on a consistent basis to the business and financial community
 - To create an environment that encourages innovation in disclosures



VMRC New Paradigm Initiative (NPI)

- **To encourage the emergence of one or more new intangibles value measurement paradigms**
 - To identify problems/issues that a new value measurement paradigm must address
 - To create and disseminate criteria for assessing existing value measurement approaches and techniques
- **Assess current value measurement approaches and techniques**
- **Results sought:**
 - Short term: to recommend current value measurement solutions for specific management problems or issues
 - Long term: to create a new intangibles measurement paradigm that satisfies the range of valuation problems or issues of importance



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Key Characteristics of Intangibles

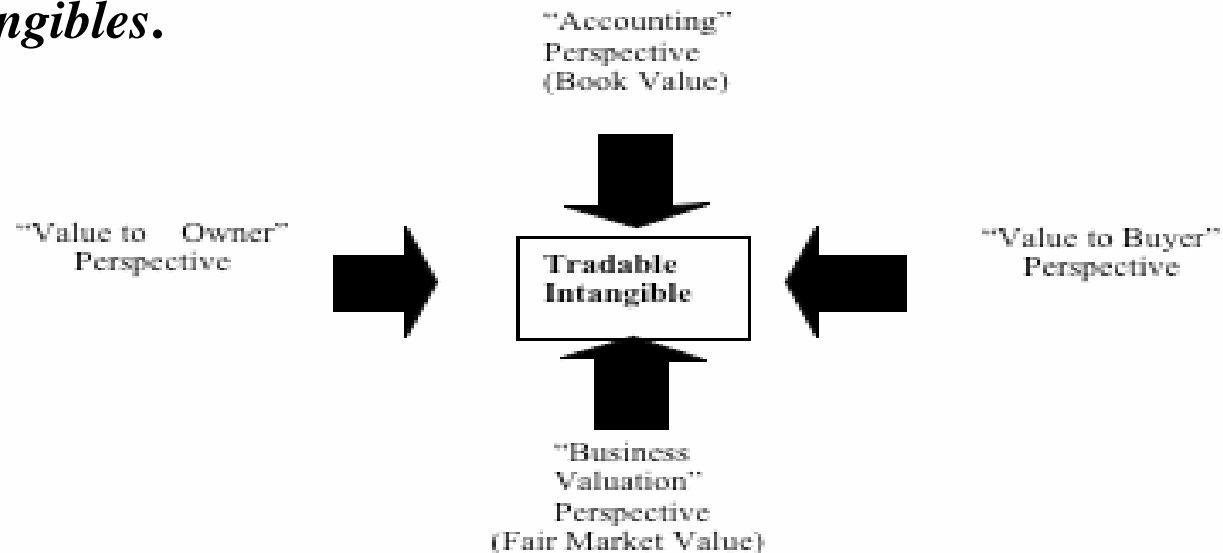
- **Two key differences between intangibles and tangibles:**
 - **Context-dependency**: the value potential of intangibles depends on the context in which that value will be realized;
 - **Multiple simultaneous value streams**: intangibles are capable of generating more than one value stream simultaneously.

These characteristics make it difficult to apply traditional valuation methods (those developed for tangible assets) to intangibles.



Perspectives on Measuring Value

Because the value of tradable intangibles is context dependent, it is essential to explicitly consider the “perspective” from which we are attempting to measure value. “Fair market value”, which is typically the perspective used for valuing *tangibles*, is in many cases precisely the *wrong perspective* for measuring the value of *intangibles*.



List of Measurement Approaches Identified by VMRC 11

Accounting for the Future	Value Streams	Nash
APQC Perf. Measurement	Indicators	APQC
Balanced Scorecard	Indicators	Kaplan, Norton
Brand Valuation	Market Cap	Brand Finance
Business IQ	Capitals	Sandvik
Calculated Intangible Value	Intangibles	NCI Research (see Andriessen)
Celemi Monitor	Capitals	Celemi
Citation-weighted patents	Intangibles	B. H. Hall (et. al.)
Cognos Scorecards/ Dashboards	Indicators	Cognos
Customer Value Measurm't	Capitals	SMS
Customer Value Measurm't	Capitals	NTF Group (AU)
Dolphin Navigator	Indicators	AICPA
Economic Value Added	Market Cap	Stern Stewart
Enhanced Business Reporting	Indicators	AICPA
Enterprise Capital Model	Capitals	St. Onge, Armstrong
Future Value Management	Mkt. Cap	Burgmann, Accenture
Global Reporting Initiative	Indicators	GRI



List of Measurement Approaches Identified by VMRC (Cont'd)

Hermes Principles Ltd.	Market Cap Value streams	Hermes Pensions Mgt.
Holistic Value Approach	Capitals	Roos
Human Resource Acc'tg	Capitals	Various
Human Capital Index	Capitals	Watson Wyatt
Inclusive Value Methodology	Intangibles	M'Pherson
Inside Out	Intangibles	ICAEW
Intangible Assets Monitor	Intangibles	Sveiby
Intangibles Scoreboard	Intangibles	Lev
Intangibles Valuation	Intangibles	Sullivan
Intangible Value Framework	Intangibles	Allee
Intangibles Value Stream Modelling	Value Streams	Sullivan, McLean
IC Evaluation	Capitals	Celemi
IC Monitor	Capitals	Nordic Industrial Fund



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Intangibles Value Stream		
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List of Measurement Approaches Identified by VMRC (Cont'd) 14

IC Rating	Capitals	IC Sweden
IC Reporting	Capitals	Denmark Ministry of Industry
IC Audit	Capitals	Brookings Institute
IC Benchmarking System		
IC Dynamic Monitor	Intangibles	Bounfour
IC Monitor	Capitals	Stam
IC Report	Capitals	MERITUM project
IC Statement	Capitals	Mouritsen
IPM Benchmarking	Capitals	Sullivan, McLean, McCullough
IP Score	Intangibles	Danish Patent Office
Investor Assigned Mkt. Value Market Cap		Standfield
Invisible Balance Sheet	Capitals	Sveiby
IValuing Factor	Intangibles	Standfield
Intellectual Capital Index	Capitals	Roos, et. al.
Jenkins Report	Indicators	AICPA



List of Measurement Approaches Identified by VMRC (Cont'd)

Key Performance indicators	Indicators	KPMG(Bray)
Konrad Group		Indicators, Konrad Group
Knowledge Audit Cycle	Capitals	Marr, Schiuma
Knowledge Capital	Capitals	Lev
Market to Book Ratio	Market Cap	Various
Market Value of Intangibles	Market Cap	Sveiby
MD&A Guidelines	Indicators	EYI, Low
Measures that Matter	Indicators	EU
Measuring and Accounting Intellectual Capital (MAGIC)	Capitals	EU
MeyerMonitor	Indicators	Meyer Monitor
Patent Assets Monitor	Indicators	Siemens
Patent Value Predictor	Intangibles	Patent Value Predictor
Performance Prism	Indicators	Cranfield, Accenture
PB Views	Indicators	PerformanceSoft
QRP Scorecard	Indicators	QRP



List of Measurement Approaches Identified by VMRC (Cont'd)

Real Options	Value Streams	PL-X Systems (and others)
SAP Value Measurement	Indicators	SAP
Shareholder Value Measurement	Market Cap	Various (see CICA)
Skandia Navigator	Capitals	Edvinsson
Social Responsibility Reporting	Capitals	Various
Stakeholder Accounts	Indicators	Denmark
Sustainable Value Measurement	Indicators	Ekos
Technology Factor	Indicators	Dow, A.D. Little
Tobin's Q	Market Cap	Tobin
Tomorrow's Company	Indicators	RSA London
Total Value Creation	Value Streams	Anderson, McLean
21st Century Annual Rpt.	Indicators	ICAEW
Unseen Wealth	Intangibles	Brookings Institute
Value-added Intellectual Coefficient	Intangibles	Pulic



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Value Chain Scoreboard	Indicators	Lev
Value Creation Index	Value Streams	E&Y
Value Dynamics	Intangibles	Arthur Andersen
Value Explorer	Indicators	KPMG (Andriessen)
Value Extraction	Value Streams	ICM Gathering
Value Networks	Capitals	Verna Allee
Value Reporting	Indicators	PWC
Weightless Wealth Toolkit	Intangibles	Andriessen



Five Value Measurement Approaches – How They View the Problem

Intangible Assets	Indicators	Market Cap	The Capitals	Value Streams
<p style="text-align: center;">Parsing Out “Goodwill”</p>	<p style="text-align: center;">Accounting measurement is insufficient for management of the enterprise</p>	<p style="text-align: center;">Enterprises are not managing the gap between market and book value</p>	<p style="text-align: center;">Enterprises are not managing major “capitals” that account for the majority of their value</p>	<p style="text-align: center;">Value must be measured in context and comprises a series of multiple simultaneous value streams</p>



How Each Defines the Measurement Problem

Intangible Assets	Indicators	Market Cap	The Capitals	Value Streams
<p>Measure and disclose fair value of intangibles</p>	<p>Set goals and track performance using a broad framework of goal-oriented metrics</p>	<p>Decompose market cap into current and future growth value components, and create system for tracking drivers of future growth</p>	<p>Frameworks for defining and measuring customer, structural, human, and other “Capitals”</p>	<p>Models the potential of future value streams</p>



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Management Systems vs. Measurement Frameworks

Measurement System	Measurement Framework
<ul style="list-style-type: none">• Backed by an integrated, internally consistent “model”• Ability to relate inputs and outputs through causal linkages• Constituent elements of model are non-arbitrary <p>Examples:</p> <ul style="list-style-type: none">- Predictions of planetary movement- Double-entry accounting	<ul style="list-style-type: none">• Discrete and standalone (but may be organized in a logical framework)• May indicate correlations (but not causal linkages)• Selection of elements of framework may be arbitrary <p>Examples</p> <ul style="list-style-type: none">- Key performance indicators- Political risk assessments

Adapted from: Lev, B., *Intangibles*, Brookings Institute Press, 2001



Tradable vs. Non-Tradable Intangibles

	Tradable Intangibles	Non-Tradable Intangibles
Multiple Simultaneous Value Streams	Most IP and similar intangibles	Most human And organizational Capital intangibles
Single Value Streams	Most Contract-based intangibles	



The Breadth of What Intangibles Value is Measured

Approach	Individual Intangibles	Groups of Intangibles	Organizations
Intangibles Valuation (Accounting)	X	X	X
The Capitals (IC Sweden)			X
Indicators (IP Score)	X	X	
Market Capitalization			X
Value Streams	X	X	



The Differing Standards for Value Measurement

Approach	Value Internal to the Enterprise	Value in Trade	Value Related To Market Capitalization
Intangibles Valuation (Accounting)	X	X	X
The Capitals (IC Sweden)	X		
Indicators (IP Score)	X	?	
Market Capitalization			X
Value Streams	X	X	



Summary of Preliminary Findings

- **Each value measurement approach focuses on a different set of intangibles**
 - Each approach focuses on a different breadth of intangibles
 - Each approach focuses on a different scope of intangibles
 - Each approach focuses either on tradable or non-tradable intangibles
- **All value measurement approaches (except Accounting) recognize the importance of context and each has developed its own way for dealing with context.**
- **No value measurement approach comprehends the needs of all parties or groups interested in value measurement.**



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Overview of VMRC Schedule

