

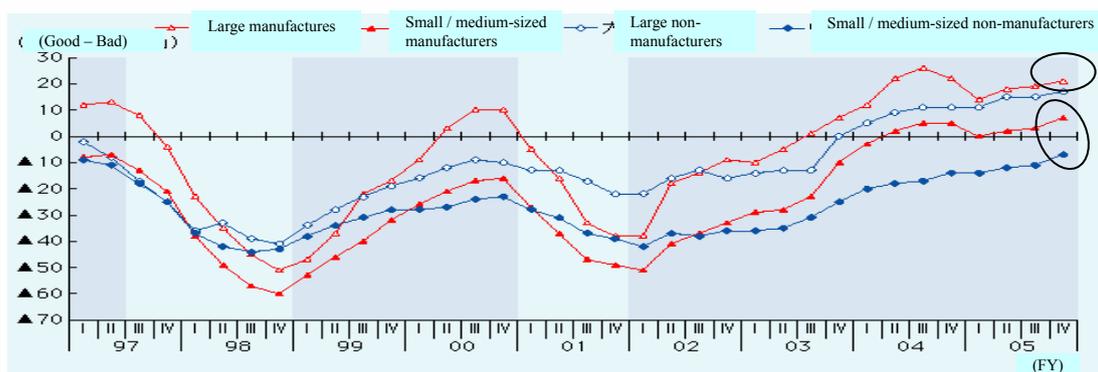
Chapter 1: Current status of SME management

1. Management tasks of SMEs

The period of Japan's economic expansion that started in February 2002 reached the post-war record of 58 months in November 2006, surpassing the previous spell of economic growth known as "Izanagi economic boom". SMEs have seen gradual improvement in their business conditions, showing signs of overcoming the excess of three factors, namely debt, capital equipment and employment.

However, compared to large companies, SMEs suffers some time lag in experiencing economic recovery, with some variations between regions and industries. The situation should not necessarily be viewed optimistically.

In regard to fundraising, the smaller a company is, the more dependent it becomes on business loans. Many SMEs therefore seek stable supply of funds from financial institutions, which, in turn, tend to examine their qualitative attributes such as market trends, technological capacity and leader's management enthusiasm, in addition to fiscal data.

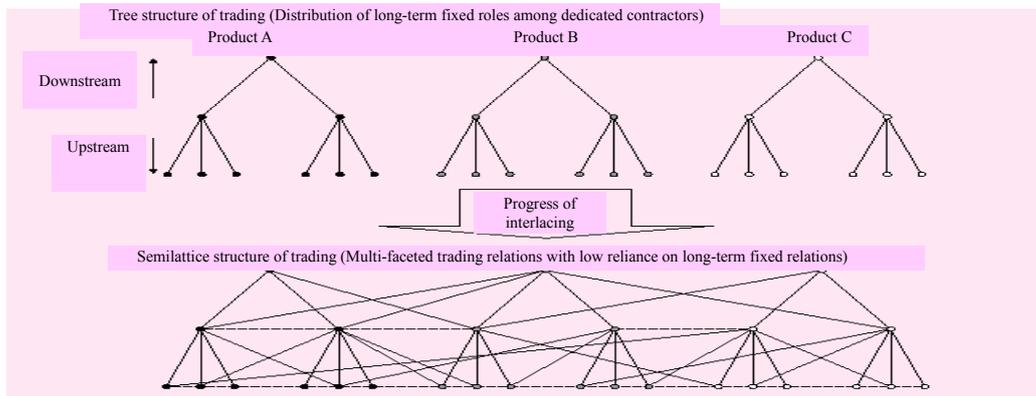


Reference: "Corporate Short-Term Economic Outlook Survey" by the Bank of Japan

Source: Page 8, SME White Paper FY2006

A more macroeconomic perspective reveals two major structural changes that are about to strike Japanese society and economy. One is the increasing ties with the East Asian economy, and the other is the arrival of the aged society with population contraction. These two changes would significantly affect the management of SMEs.

The deepening ties with the East Asian economy translate into intensified competition on the global scale. In Japan, offshore moves by manufacturers have undermined the traditional network of subcontractors, and diluted business ties with large-scale companies.

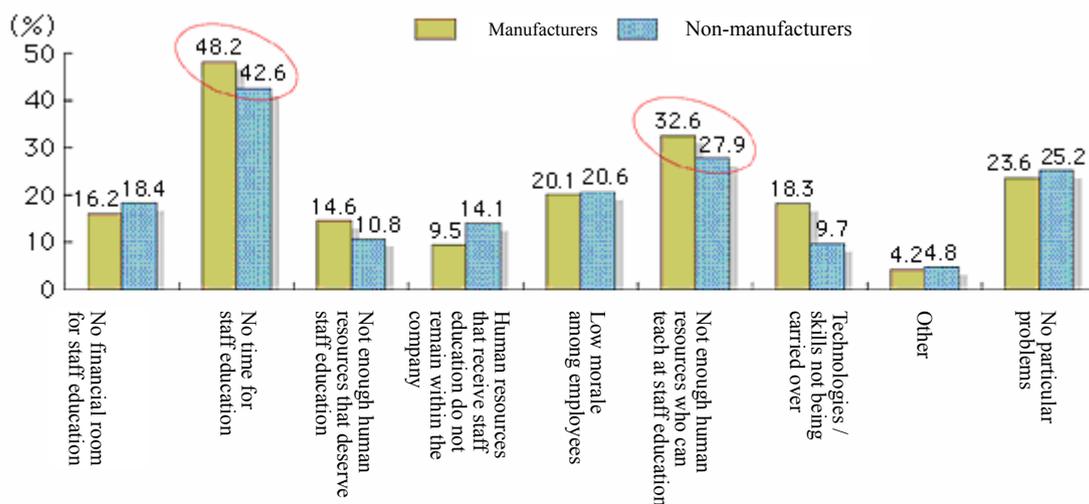


Reference: Compiled by the Small and Medium Enterprise Agency based on "Concentration of the engineering industry in modern Japan" by Hironobu Oda
 Notes
 1. Solid lines indicate vertical association, while broken lines indicate horizontal association.
 2. The thickness of each line represents the level of management / sales links and dependence between the companies.

Source: Page 111, SME White Paper FY2006

Faced with the need to find new clients, SMEs are beginning to improve their technological development capacity or adjusting their business formats, so as to provide added values.

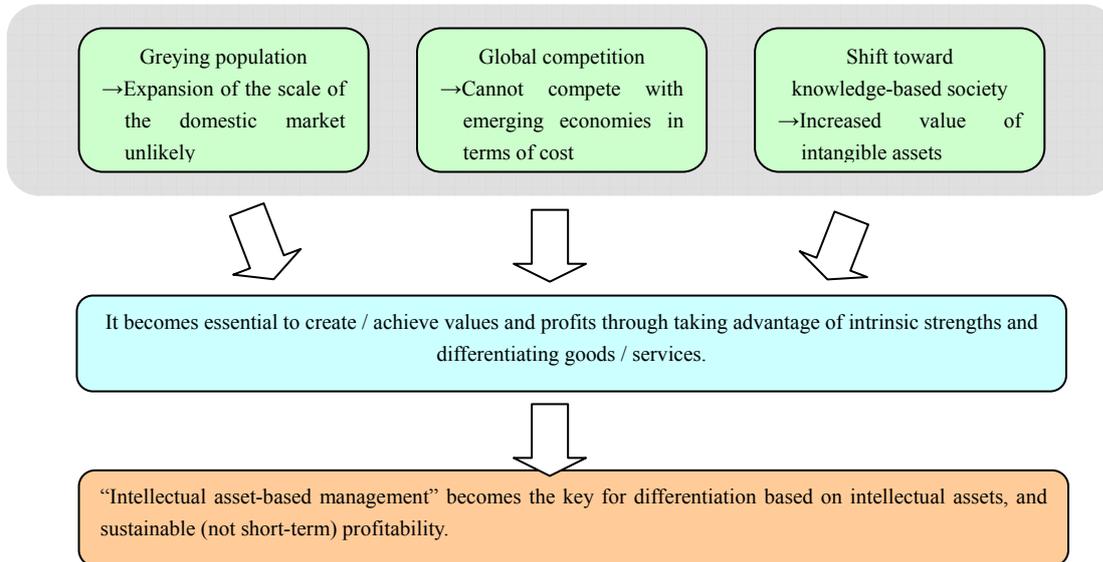
The nation's dwindling childbearing rate and graying population means there is not much hope for expanding the scale of the domestic market. The nature of competition is shifting from volume-based differentiation to quality-based differentiation. Yet, as the Dankai generation of Japanese baby-boomers starts to reach the retirement age on masse, many SMEs are facing the tasks of smoothly carrying over skills to a younger generation, and visualizing "implicit knowledge".



Reference: Human Resource Utilization Survey (December 2004) by the Small and Medium Enterprise Agency
 Note: The total of individual figures exceeds 100 because samples were allowed to make multiple choices.

Source: Page 191, SME White Paper FY2006

Amidst these changes, which may be interpreted as a shift toward a knowledge-based society, SME operators must make best use of their accumulated intangible assets in differentiating themselves from competitors.



2. Current status of SME's intellectual asset-based management

With so many challenges, is it difficult for Japanese SMEs to survive competition in the tough business environment? In reality, many SMEs remain profitable by tapping into unique strengths, i.e. “intellectual assets” accumulated over many years of sales activities, including negotiation skills, customer / local networks, location advantage, customer trust and tradition, so as to sustain and further enhance business performance. See the actual cases of companies, examined in Chapter 3 of this manual. (See Page 22 onwards for specific cases.)

Data Recovery Center is one example of small and young venture businesses that effectively utilize limited intellectual assets to achieve strong results. The company initially started out offering various services, using staff with expert knowledge on PC troubleshooting.

However, when competition intensified with a surge of new market entrants in recent years, the company adopted the strategy of specializing in data recovery service, which has a high margin of profit and few competitors. It then actively reinforced intellectual assets through renaming itself, promoting the new business domain name throughout the market, and



forging partnership with overseas businesses to enhance technical capacity. These efforts have led to steady growth in business performance each year.

Asahi Golf Co., Ltd. is an example of a winner company that has accurately identified intellectual assets such as sales channels developed through many years of sales activities, and corporate trust generated through healthy business transactions, and drawn up and implemented strategies despite the overall contraction of its industry's market scale.

The golfing gear wholesale industry, to which the company belongs, has been in a tough business environment due to external factors such as dwindling golfing population and stagnant economy, combined with a general trend of bipolarization (manufacturers and retailers) within the distribution industry, undermining the function of wholesalers. In addition, since brand names significantly affect end users' purchase intention in this industry, there is a general difficulty for wholesalers to introduce their own brands.



In view of these factors, Asahi Golf drew up a strategy that does not rely on the introduction of company brands with high profit margin. Armed with sales routes to specialist golf stores

Chapter 2: Basic knowledge for intellectual asset-based management

1. What are intellectual assets?

1) Intellectual assets

Intellectual assets represent “intangible assets, other than those described on conventional balance sheets, or not-clearly-visible management resources that do not show in financial statements, including human resources, technologies, skills, intellectual properties (patents, brands, etc.), organizational strength, management philosophy, and networks of customers, which form the source of each company’s competitive edge”.



For example, the following items, which are often described as the source of the strength of Japanese companies, are also considered to be intellectual assets:

- Attention to detail, skills and know-how, as seen in the “Suriawase” integration approach applied in the manufacturing stage
- Fast pace of developing solution-type goods / services through communication with customers, and organization / system that enable the speed (including the development of next-generation products upon request from business clients)
- Presence of high-level consumers who can provide high-level feedback, and connection with such consumers (high-quality network)

- Goods / services / strength of corporate brand, substantiated with quality, presence of mid- to long-term stability, and trust based on trading relations over a moderate period of time
- High-level employees' motivation / capacity, and recruitment or organizational systems that facilitate their application
- Intellectual creativity supported by a wide array of engineers

Although intellectual assets are the source of corporate values, it is necessary, in many cases to take note of the facts that (1) intellectual assets themselves do not always have exchange value, that (2) they cannot be traded on their own, and that (3) the company does not necessary own or dictate all of its intellectual assets. This is why the value of individual intellectual assets cannot be easily determined in absolute terms. It should be also noted that strategies and processes applied to intellectual assets create mid- to long-term values.

2) Categorization of intellectual assets

As explained before, intellectual assets, in many cases, create values not by themselves but through connection with other intellectual assets, as well as their suitable utilization and management. For this reason, categorizing individual intellectual assets does not have a decisive meaning. Yet, taking a stocktake of intellectual assets a company has when compiling an Intellectual Asset-Based Management Report, facilitate systematic summary of information, and helps the Report's readers to grasp the content easily. Shown above is categorization according to the MERITUM Project¹.

【Three categories of intellectual assets according to the MERITUM project】

Human capital	Capital that employees take with them when they retire
Examples: Innovative ability, imagination, know-how, experiences, flexibility, learning ability, motivation, etc.	
Structural capital	Capital that remains within the company when employees retire
Examples: Organizational flexibility, databases, culture, systems, procedures, document services, etc.	
Relational capital	All capital associated with the company's external relations
Examples: Corporate image, customer loyalty, customer satisfaction, relationship with suppliers, negotiating power with financial institutions, etc.	

Compiled based on Page 10, "Accounting of Intellectual Assets" by Chitoshi Koga

3) Intellectual assets and intellectual properties

"Intellectual property" is a concept similar to intellectual asset. There are several definitions, and some researchers use the term almost as a synonym to intellectual asset. The Basic Law on Intellectual Property defines intellectual property and intellectual property rights as follows:

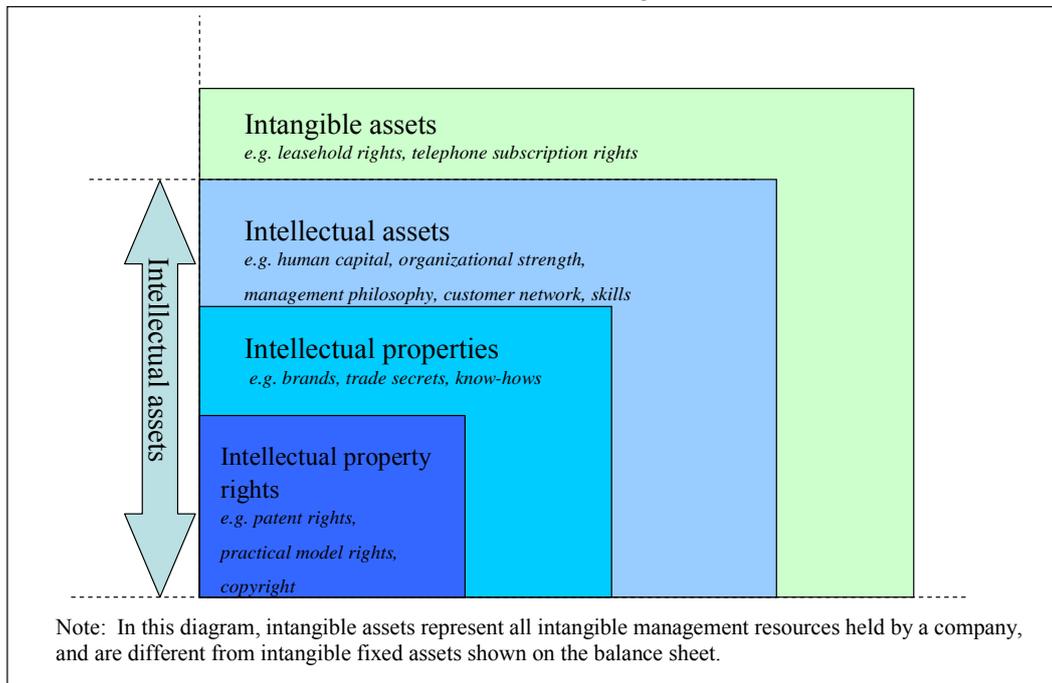
¹ MERITUM Project: A 30-month project (1998 – 2001) involving 6 European countries (3 Scandinavian countries, Denmark, France and Spain) and 9 research institutions with the aim of preparing for knowledge-based economy

[Basic Law on Intellectual Property (excerpts of Article 2, Law #122 of 2002)]

- "Intellectual property" refers to inventions, devices, new varieties of plants, designs, copyright materials and other property that is produced through creative activities by human beings (including discovered or uncovered laws of nature or natural phenomena that offer industrial application), as well as trademarks, trade names and other marks that are used to indicate goods or services in business activities, and trade secrets and other technical or business information that is useful for business activities.
- An "intellectual property right" refers to a patent right, a utility model right, a plant breeder's right, a design right, a copyright, a right that is stipulated by law on other intellectual property or right concerning an interest that is protected by law.

This manual defines the concept of "intellectual asset" not as a synonym to "intellectual property", but as a broad concept that encompasses some intellectual properties and other not-clearly-visible management resources that form a company's strength, such as human resources and customer network. The relationship between intellectual property rights, intellectual properties, intellectual assets and intangible assets may be summarized as below, although there are some variations.

[Categorization of intellectual property rights, intellectual properties, intellectual assets and intangible assets]



As explained, this manual uses the term “intellectual assets” as a broad concept that encompasses intellectual properties. In intellectual asset-based management, intellectual properties form an important element. Strategically managing and utilizing intellectual properties is an important theme for SMEs.

For companies whose “strength” for competition lies in intellectual properties (rights), implementing “intellectual property-based management” while strategically managing / utilizing intellectual properties, is almost the same as implementing “intellectual asset-based management” as described in this manual.

The Organization for Small & Medium Enterprises and Regional Innovation has produced the Intellectual Property Strategy Manual for SMEs and Venture Businesses, defining strategic use of intellectual properties by SMEs as one of the key themes. Companies who consider intellectual properties as the source of competitive edge are recommended to make use of the Intellectual Property Strategy Manual in addition to this Manual.

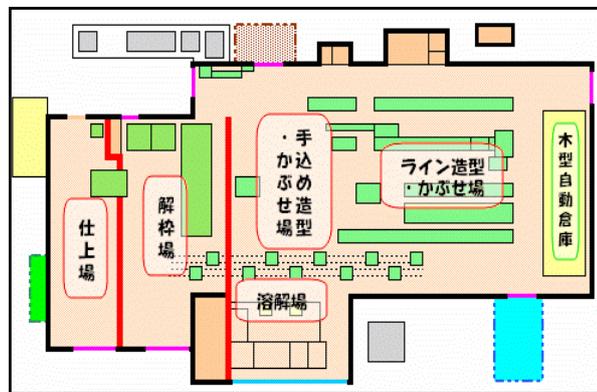
<http://www.smrj.go.jp/keiei/chiteki/index.html>

2. What is intellectual asset-based management?

Intellectual assets represent intangible resources for generating corporate values. The key to successful business management lies in not only having such assets but also effectively making use of them. This is why it is important to implement “intellectual asset-based management”, which involves maintaining, managing, reinforcing and improving existing intellectual assets, and combining them for application to business operations, so as to create values.

In other words, intellectual asset-based management signifies a style of business management that firmly identifies own company’s strengths (intellectual assets) and utilizes them to improve business performance.

For example, making effective use of “intellectual assets” enables transformation of existing tangible assets into “competitive assets”. Casting company Cast K.K., established in 1889, closed its Tokyo plant, which operated over 100 years, and moved the base to Shirakawa amidst touchy industry conditions. At the time of the transfer,

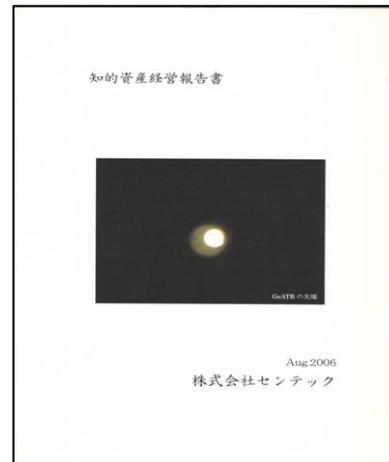


the company made full use of experiences and know-hows it accumulated over the years in various aspects ranging from plant siting of facilities to be introduced and their layout.

It was thought that the transfer of technologies and skills was difficult in the labor-intensive casting industry. Yet, the new plant has reflected experiences and know-hows of skilled workers to address the dust issue and streamline production processes. The company also led others in the industry in compiling a database of casting approaches, so as to establish the organizational knowledge base of accumulated skills and know-how, and enable operations by young employees, dispatched workers and other non-skilled workforce. These efforts to secure production capacity that meets customer needs while sustaining high quality, and invite customers to inspect the “plant that epitomizes know-how” have helped the company win new contracts one after another and enjoy improvement in business performance.

Details of the management approach may be disclosed in an Intellectual Asset-Based Management Report. This helps gain empathy from employees, financial institutions, business associates and other stakeholders, and consequently reinforces partnership with these parties. In intellectual asset-based management, disclosure of information has a particular significance.

Sentec Corp., Ltd. (See Page 24, Chapter 3) is a group of engineers, many of them from research laboratories of major manufacturers. It has continuously won contracts to produce prototypes of various precision instruments, such as automatic viscosity analyzer, from universities and laboratories of private-sector enterprises as “THE” prototype developer of the industry.

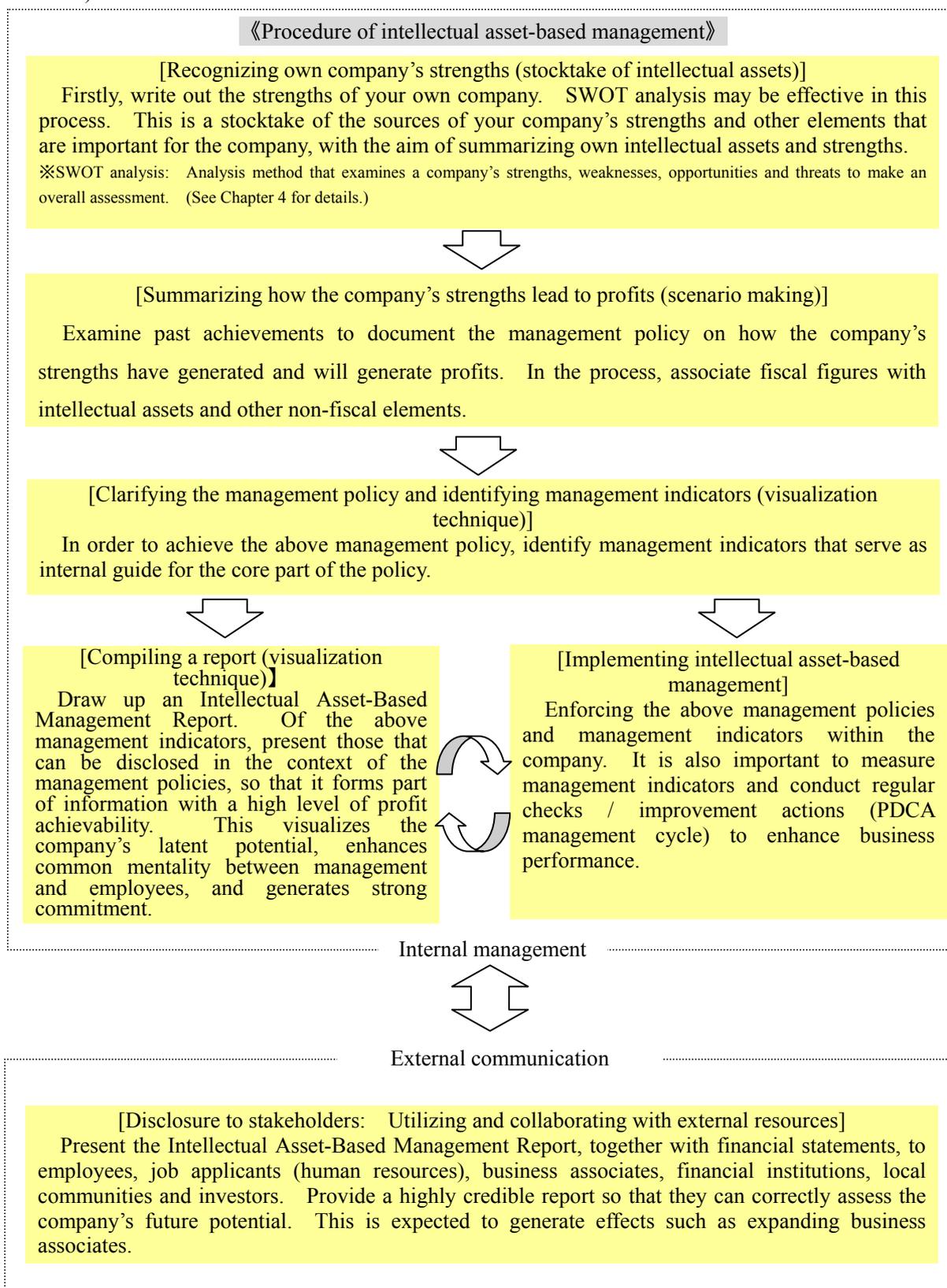


However, the company previously relied heavily on orders from existing customers for prototype production, and suffered fluctuations in order volume. The small-scale setup handling small-lot production also limited its growth potential.

In 2006, Sentec produced and released an Intellectual Asset-Based Management Report, which re-examined its strengths accumulated since establishment, and explained how its technological know-hows, customer relations, partners, human resources, organizational strength and other intellectual assets should be combined to provide values to customers. As a result, major manufacturers and trading companies that saw the report started approaching the company for new contracts, while associated financial institutions and employees (persons with job offers) were able to deepen their understanding of the company, thereby reinforcing the partnership.

In implementing intellectual asset-based management, continuity is another important factor. Just as corporate strategies and tactics change to adapt to a different environment, existing intellectual assets and values generated by intellectual asset-based management also change according to changes in the time and environment. It is therefore essential to review, improve and put them into practice on a continuous basis. Continuous compilation and disclosure of the Intellectual Asset-Based Management Report is strongly recommended, as it has the significance of showing the “changing” and “unchanging” elements of the company to stakeholders.

The standard procedure of intellectual asset-based management is as follows (See Chapter 4 for details):



3. Significance and benefits of intellectual asset-based management

1) Significance of intellectual asset-based management at SMEs

(Partial excerpts from page 9 of the SMRJ Interim Report of the SME Intellectual Asset-Based Management Forum)

- With the development of SME accounting increasing their fiscal transparency, it should be noted that SME's advantages lie in areas not reflected in financial data, much more so than the case of large corporations. For this reason, SME operators must make more management efforts to acknowledge and utilize their unique intellectual assets as the source of their competitive edge than ever before.
- SMEs generally have less management resources than large corporations, and need to overcome various difficulties when starting new business activities. They must therefore seriously consider how they can take maximum advantage of their business assets while utilizing external resources. It is necessary to draw in the capacities of internal and external stakeholders appropriately to operate business according to the approach of Intellectual Asset-Based Management.
- In many SMEs, the management policy is often only in the minds of proprietors, rather than being presented fully to employees and external parties. Yet, sharing the management policy with employees and maintaining dialog with financial institutions / business associates have a great significance in so far as opinions of these parties can be reflected to improving the management.

2) Benefits of intellectual asset-based management

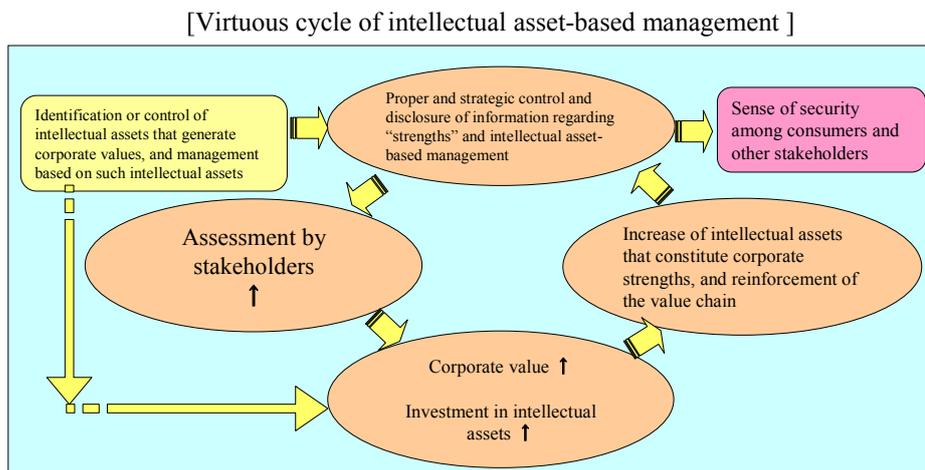
- Facilitating optimum use of limited management resources. The management style may also give fresh "inspiration" to proprietors on the strength of their businesses
- Enhancing trust from business associates and clients
- Improving employees' awareness, work motivation and sense of unity
- Helping the company secure human resources that empathize with its management policy and business strategies

■ Gaining advantage in terms of fund-raising from financial institutions

■ Allowing the company to appeal its future growth potential to prospective shareholders prior to going public

■ Reaffirming the company's positioning

Implementation of intellectual asset-based management is also expected to set off a positive cycle as shown below:



Source: Page 33, Interim Report by the Subcommittee on Management and Intellectual Assets, partially revised for SMEs

3) Utilization of the Intellectual Asset-Based Management Report

(1) Utilization as an internal management tool

Compiling management policies / strategies, which exist only in the mind of the proprietor, into a report, helps summarize the proprietor's business approach, and clarify the business vector.

More specifically, the following types of benefits are anticipated:

- Identifying the company's positioning through comparison with competitors
- Systematically grasping the company's competitive edge
- Effectively distributing management resources
- Recognizing opportunities / threats and sharing them in documents, so as to examine the

framework of internal control from a risk management perspective

(2) Utilization as an external communication tool

Identifying own company's intellectual assets, compiling them into a report along with substantiating indicators and disclosing the report, will help enhance the company's credibility among stakeholders. More specifically, the following types of benefits are anticipated:

- Presenting the company's future potential to shareholders and financial institutions
- Enhancing the sense of credibility among clients, suppliers, associate companies and other business partners
- Conveying the company's superiority to employees to boost their loyalty
- Presenting the company's positive qualities to job applicants

This manual contains a workbook section for use as a template for compiling an Intellectual Asset-Based Management Report. In essence, different companies should adopt different report formats according to their intellectual assets, disclosure target and objectives. Therefore, the workbook does not necessarily have to be covered in its entirety. Although details are to be explained later, the following are main issues to be noted in compiling the report:

■ Business secrets

Intellectual assets that provide the source of competitive edge are often business secrets with a deep association with the company's management strategy. When a Report is disclosed to external stakeholders, there is a risk of information leakage to competitors and other unintended parties. When compiling a Report, full attention must be paid to expressions and other details on sensitive information that may contain leakage risk, considering the possibility of direct and indirect information leakage.

■ Disclosure target and objectives

The content of Intellectual Asset-Based Management Reports varies significantly according to their disclosure target and objectives. In other words, preparing a Report to suit its target and objectives will lead to effective report compilation. The target and objectives of four sample companies, described in Chapter 5, are as detailed on Page 82—Page 85. The report preparation may become even more effective by narrowing down disclosure target and limiting the means of information disclosure.

For example, when targeting financial institutions for fund-raising purposes, it is essential to disclose fiscal data along with the Report. Presenting a risk management system in place for

addressing future uncertainties, could give added credibility to the company.

This is why it is important to disclose information in line with the target and objectives.

■Proprietors

Human assets such as proprietors and employees form a key element of intellectual assets. At SMEs, in particular, the proprietor's abilities and capacity are highly significant in terms of not only internal management but also communication with external parties, from the perspective of effectively utilizing limited management resources.

Yet, information described in a Report tends to be subjective, as it is the proprietors themselves compiling the Report. Efforts must be made to provide past achievements, actual figures and other information that readers can view objectively, and clearly state management philosophy, policies and strategies so as to deliver the proprietors' underlining business approach.

■Use of the Report

The aforementioned benefits of an Intellectual Asset-Based Management Report are the benefits obtained as a result of continuously implementing intellectual asset-based management and improving the quality of business management. It should be kept in mind that directing all interest and energy to compiling the Report may undermine the fundamental significance of improving management quality through intellectual asset-based management.

《Intellectual assets as seen by stakeholders》

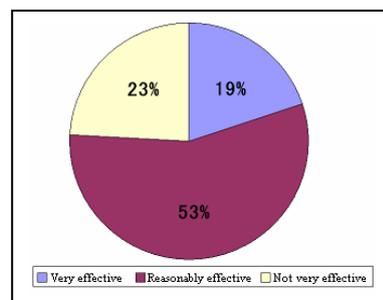
Previous sections touched on the concept of intellectual assets from the companies' perspectives, as the means of addressing their needs to “present the company’s true capacity” (as a communication tool) and to “effectively make use of the company’s true capacity” (as a management tool). This section examines how intellectual assets should be viewed (assessed) from the perspective of stakeholders.

There is no denying that it is essential to analyze not only assets that appear on financial statements but also invisible “intellectual assets” in order to learn the true extent of the company’s capacity. In today’s intellectual society, as industrial structures undergo change, there is a growing emphasis on intellectual assets as the source of competitive edge.

Let us examine this concept from the standpoint of stakeholders who surround businesses.

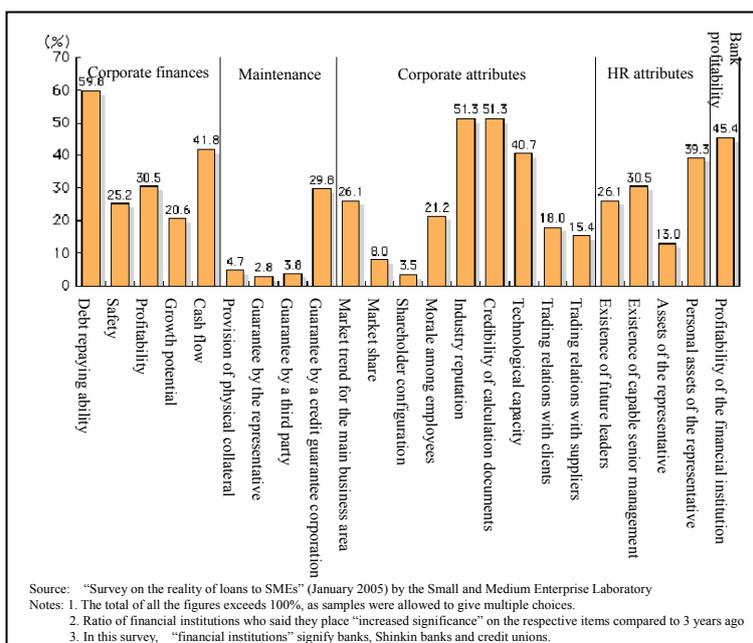
1. Capital market (shareholders)

According to a survey by IR Japan covering buy-side analysts and investors (123 corporate respondents) on the effectiveness of guidelines for disclosing intellectual assets², over 70% have a positive view despite some concerns for the strain on such a practice on businesses.



2. Financial institutions

According to a survey by the Small and Medium Enterprise Agency³, factors to be examined with a greater emphasis compared to 3 years ago in screening SMEs seeking a loan, include those related to intellectual assets, such as “industry reputation (51.3%), “technological capacity (40.7%)” and “capacity of the representative, etc. (45.4%)”.



Although neither the capital

²IR Japan “Survey on Intellectual Assets and Corporate Values” (2005), page 26

³Small and Medium Enterprise Agency “SME White Paper 2005” (2005), page 91

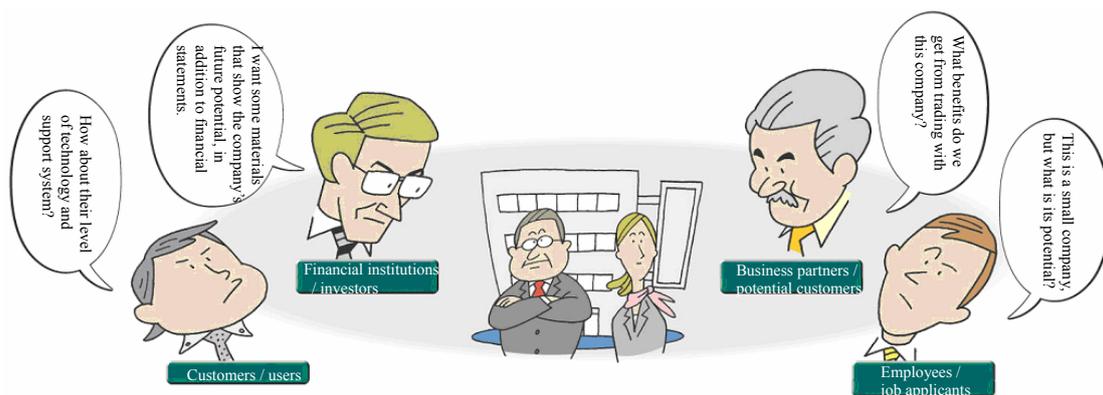
market nor financial institutions have established clear standards on specific indicators to be used in the screening process, they are gradually moving toward a business loan system that focuses on companies' growth potential. In other words, there is a growing emphasis on the assessment of intellectual assets in the phase of arranging business capital.

3. Suppliers, clients (customers) and other business associates

Previously, business associates have been viewed as the “parties that provide stable supply of same items at as low cost as possible” or “parties that buy same items at as high price as possible and make due payments”. However, as competition intensified both at home and abroad, the positioning of suppliers and subcontractors are redefined as business partners, and companies can no longer survive competition unless the partners provide value-added goods and services. There is also an increasing need to examine the latent capacity of clients as well. In other words, business trading now involves discerning the ability of business associates as to whether they deserve partnership.

4. Employees and job applicants

The future potential of a company is examined based not only on the current fiscal status but also on “intellectual assets” including the stance of senior management. An employee of a company that produced an Intellectual Asset-Based Management Report said, “My family and friends, who read the Report thought my company was interesting.” This is a good example showing that implementing and disclosing information on intellectual asset-based management leads to building a good reputation among employees, their families and friends, and therefore enhancing motivation among employees.



In view of the rising attention of stakeholders on intellectual asset-based management, the Kinki chapter of the Japanese Institute of Certified Public Accountants and the Osaka Chamber of

Commerce and Industry prepared a “checklist on the assessment of non-fiscal information (intellectual asset-based management)”, and made it available on the website since October 2006. (<http://www.osaka.cci.or.jp/Jigyuu/hizaimujouhou/index.html>)

The checklist, based on the Ministry of Economy, Trade and Industry’s guidelines for the disclosure of intellectual asset-based management, converts “intellectual asset information” (e.g. future business potential, capacity of the proprietor), which cannot be easily detected in financial reports, into numerical figures. It is a recommend system, designed as a new relation-development tool that utilizes non-fiscal information of financial institutions and SMEs.

Chapter 3: Cases of 17 companies that effectively utilize intellectual assets

The number of Japanese companies that produce and disclose an Intellectual Asset-Based Management Report remains just over ten companies as of January 2007, including large corporations.

However, many SMEs “consciously utilize distinctive strengths as the source of their competitive edge, and generate outcome” without producing an Intellectual Asset-Based Management Report.

This Chapter introduces the cases of SMEs that already implement a form of intellectual asset-based management, and deliver actual results, although not compiling an Intellectual Asset-Based Management Report. (The cases of companies that have already produced and disclosed an Intellectual Asset-Based Management Report are also included at the end as reference.)

The common factors among such companies include having a clear corporate vision and management philosophy, and utilizing their existing “strengths (intellectual assets)” to resolve “tasks” in the given “background” circumstances and generate results. What is required is awareness on business “background”, “tasks” and “strengths (intellectual assets)”, and the rest should fall into place.

The cases of intellectual asset-based management, introduced in this Chapter, portray a particular (or several) implementation instance(s) for each company at a particular period, for use as references. Be reminded that the instances given are only part of the companies’ management practices.

Case 1: Asahi Golf Co., Ltd. (wholesale of golfing equipment)

Case 2: **Ichikawa Shoji** (food manufacturing, Japanese restaurant operation)

Case 3: Uematsu Electric Co., Ltd. (design, manufacturing and sales of on-board low-voltage electromagnetic systems)

Case 4: Kurodaseiki Co., Ltd. (precision pressed parts processing)

Case 5: Suntechno Co., Ltd. (wholesale of timber, construction metal and woodwork machines)

Case 6: Think Laboratory (manufacturing of gravure cylinder systems and electronic devices)

Case 7: Starway Co., Ltd. (Consultation of packing recycling systems, and courier service)

Case 8: Data Recovery Center (data recovery service)

Case 9: Trade Corporation (grocery sales to wholesale markets nationwide)

Case 10: Japan-Ion Corporation (manufacturing and sales of bathroom sterilization / purification devices, etc.)

Case 11: Hakuho-do (manufacturing of makeup and design brushes)

Case 12: Harima Sangyo (joinery manufacturing and installation)

Case 13: Footmark Co., Ltd. (planning, manufacturing and sales of swimming, aged care and healthcare equipment)

Case 14: Honyaradoh Co., Ltd. (planning and manufacturing of health-related miscellaneous merchandizes)

Case 15: Yasujima (manufacturing of vacuum dryers)

Case 16: Yamazaki Bun-eido (mail-order and retailing of office supplies)

Case 17: Sentec Corp., Ltd. (manufacturing of various precision instruments)

Reference cases: Companies that have compiled an Intellectual Asset-Based Management Report

* Note that the description of“(1) Management Stance” and“(2) Selection and Concentration” in each case is in line with the “Guidelines for the disclosure of intellectual asset-based management” by the Ministry of Economy, Trade and Industry, cited on Pages 68 and 69.

Ichikawa Shoji

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The company used its original technology to perfect the local delicacy “Misodare” source, which won the Monde Selection Award. The media campaign that ensued has generated consumer support and attracted purchase orders from wholesalers.  
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Corporate profile

[Business name] Ichikawa Shoji

[Address] 1716 Oaza Ishibashi, Matsuyama City, Saitama Prefecture

[Representative] Hiromichi Ichikawa

[Establishment] May 1976

[Capital] 10,000 thousand yen

[No. of employees] 5

[Annual sales] 95 million yen (April 2006 term)

[Business description] Food manufacturing, Japanese restaurant operation

[URL] <http://r.gnavi.co.jp/g493100/>

Management philosophy

Spreading Japan’s food culture to the rest of the world

Business description

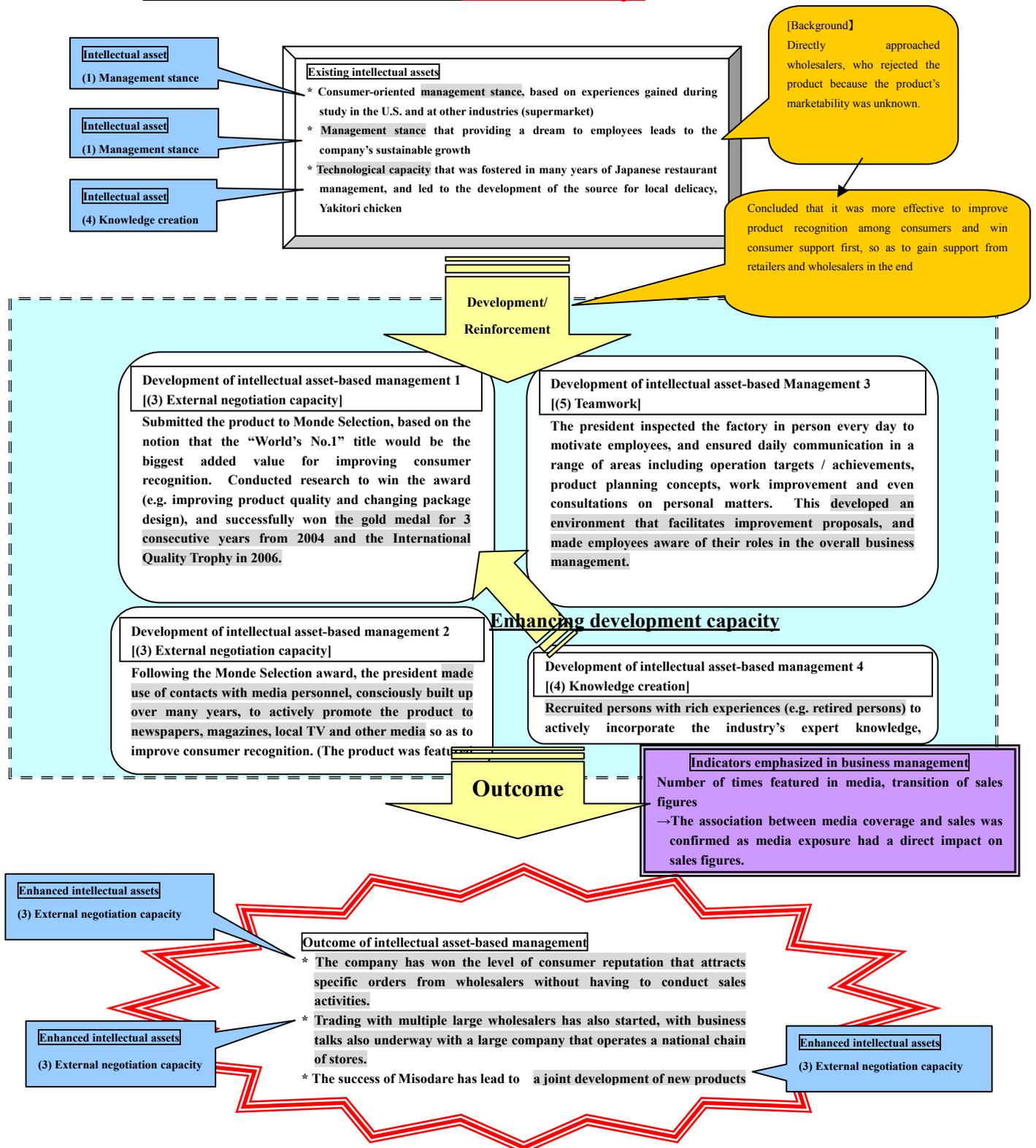
Established in 1976, Ichikawa Shoji opened a Japanese restaurant called “Genrokujyaya” in Higashi Matsuyama City, Saitama Prefecture, one of Japan’s three most famous towns for Yakitori skewered chicken. The company started manufacturing and selling Misodare sauce, an essential part of Higashi Matsuyama’s version of Yakitori chicken, in 1985.

No significant business expansion is foreseen with the main business of Genrokujyaya restaurant, due to the recent proliferation of the campaign to eradicate drink driving, a factor affecting suburban-style catering establishments as a whole. In contrast, the Misodare business, which started in 1985 in response to a request from the local association of Yakitori businesses, led to the acquisition of a manufacturing patent in 1999, and was selected as one of Saitama Prefecture’s best brands.

In 2004, the product was submitted to the Monde Selection International Institute for Quality, and awarded a gold medal. It went on to win the gold medal for three successive years, to be awarded the International Quality Trophy in 2006.

President Ichikawa became involved in the management in 1998 to succeed his father, who founded the business. Taking charge of the food production division, he contributed to the Monde Selection success and fostered Misodare into the company’s main product. Since assuming the post of company president in 2005, he has set out future visions including building a new factory to increase the capacity of Misodare production, developing new products such as frozen Yakitori chicken based on newly-developed freezing technology, and opening a restaurant adjacent to the new factory, so as to provide customers with an entertainment factor of being able to inspect the production facility. The company has compiled a business plan, which contains the analysis of its strengths and weaknesses, and is actively presenting the plan to financial institutions and public organizations.

■ Use of intellectual assets at Ichikawa Shoji ■



Sentec Corporation

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The company has summarized accumulated intellectual assets and disclosed the information as an Intellectual Asset-Based Management Report, successfully gaining new clients and expanding loans from financial institutions.  
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Corporate profile

[Business name] Sentec Croporation

[Address] 2-16-1 Ominemotomachi, Maikata City, Osaka

[Representative] Yoji Hasebe

[Establishment] December 1986

[Capital] 20,000 thousand yen

[No. of employees] 8

[Annual sales] 84 million yen (March 2006 term)

[Business description] Manufacturing of various precision instruments

[URL] <http://www.sentech.jp/index.html>

Management philosophy

We seek to become the No.1 company in terms of customer satisfaction, backed with solid technological capacity fostered through carefully identifying customer's technological needs and implementing a site-oriented approach. Our fundamental philosophy is to pursue straightforward technological development.

Business description

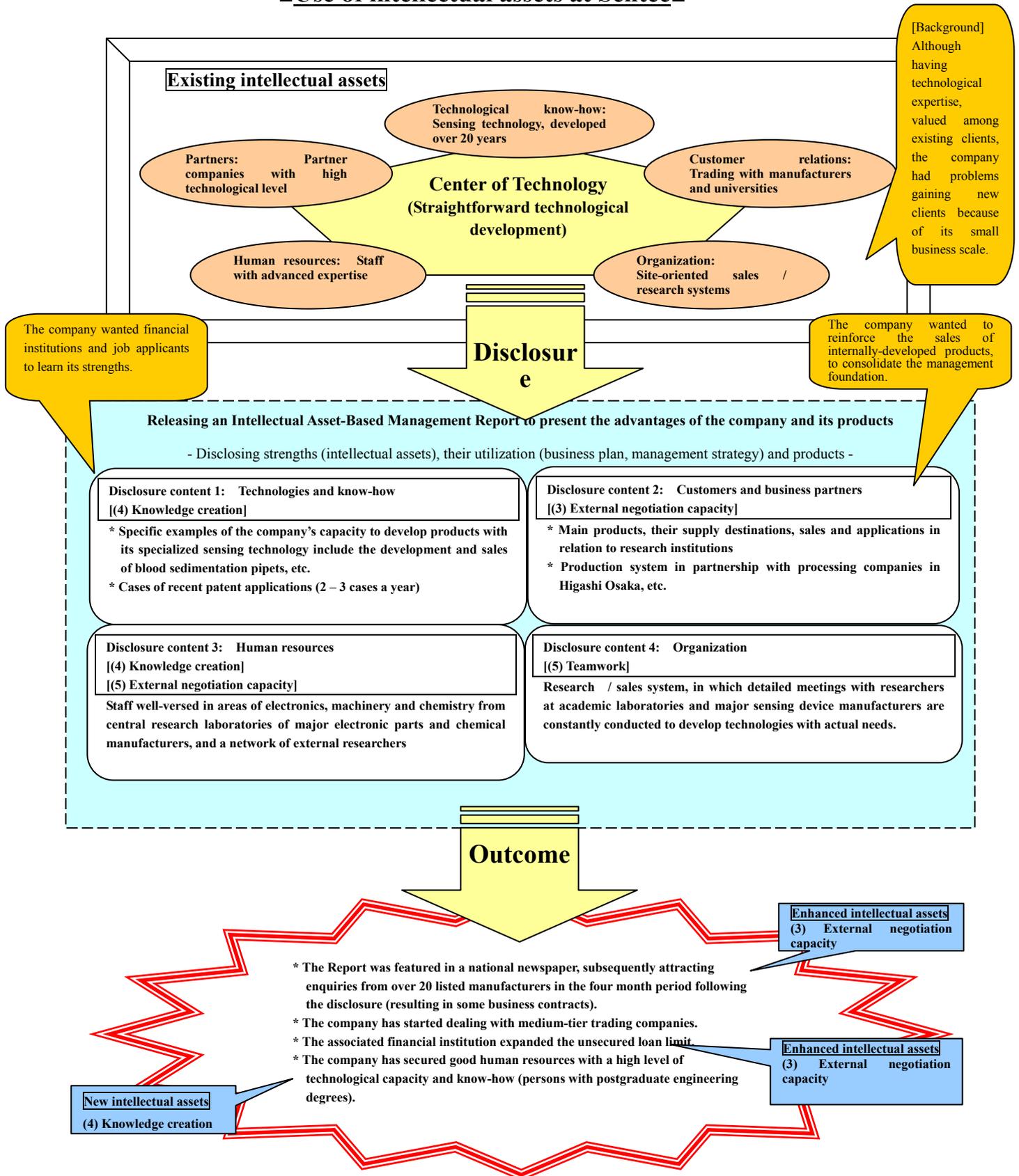
Since initial establishment as a sole-trader business in 1982, the company has taken advantage of the President's technological capacity and human network to manufacture specialized equipment including precision instruments (e.g. automatic viscosity analyzer), fixed-quantity dispensers and nozzle cleaners.

Despite its small business scale, the company features engineers with expert knowledge in electrical, mechanical and chemical technologies, recruited from research laboratories of major electronics parts manufacturers and major chemical manufacturers. It has worked on accumulating advanced technologies through networking with researchers at a major sensing device manufacture, etc., and built a system that can swiftly meet a request for specialized development work with a high level of difficulty.

As a result, the company has won numerous contracts with research institutes of Japanese universities (Tokyo University, Kyoto University, Osaka University, Riken, etc.) and laboratories of large corporations (KOBELCO Research Institute, Mitsubishi Chemical Corporation, etc.), to become one of Japan's largest manufacturers in the field of specialized sensing devices (automatic viscosity analyzer, fluorescent sensor, etc.).

Also, in a bid to secure technological superiority, Sentec is integrating various sensing technologies to build a system of broader technological application, and submit two to three patent applications each year to maintain the technological edge. In recent years, it has focused on developing products that address technological needs, identified in the course of exchange with customers, and released LED lighting circuits, Cool-Plates, robots and other internally-developed products. The current sales breakdown (FY2006 results) is development work on commission representing 51% (28% for corporate clients and 23% for university clients) and internally-developed products accounting for 49%.

■ Use of intellectual assets at Sentec ■



Chapter 4: Intellectual Asset-Based Management Manual

1. Procedure of intellectual asset-based management

1) Recognizing the company's strengths (stocktake of intellectual assets)

(1) Confirming past achievements

Confirm the company's management philosophy, policies and strategies from past to present, and examine investment records and business achievements based on these elements. Also, summarize corporate profile currently presented to stakeholders.

In confirming past achievements, put together not only fiscal figures but also management philosophy, policies, strategies and resulting investment results to portray the history of business development.

(2) Examining strengths and weaknesses

Identify the company's management status and intellectual assets from past to present, and use tools such as SWOT analysis to define own strengths, weaknesses, opportunities and threats. Such analysis clarifies what kinds of strengths have been accumulated as intellectual assets. Also, identifying weaknesses and developing countermeasures may turn them into future strengths or use as intellectual assets.

Furthermore, summarizing profiting opportunities and threats could shed light to the direction as to how intellectual assets should be utilized to generate profits.

Simply listing around three strengths of the company, instead of undergoing complex analysis, still represents the first step toward confirming the company's strengths.

[SWOT analysis]

Strength	Opportunity
Weakness	Threat

(3) SWOT analysis

(A SWOT sheet is included on Pages 44– 47.)

Intellectual assets are the source of corporate strengths, but there is always a risk that the “strengths” that a company currently has could easily turn into “weaknesses”. This occurs when intellectual assets are not sufficiently recognized, left unattended as obsolete properties, or recognized / utilized with insufficient efforts to maintain and enhance them, thereby allowing competitors to build up an edge. To avoid such situations, the first step should be to accurately recognize / assess intellectual assets that generate the company's strengths, and analyze their threats and vulnerability (risk analysis).

SWOT analysis is an effective ways of identifying a company's current status. It analyzes a company's Strengths, Weaknesses, Opportunities and Threats for comprehensive assessment.

The analysis of strengths and weaknesses mainly deal with internal factors (internal environment analysis), while the analysis on opportunities and threats examines external factors (external environment analysis).

The first task is to conduct analysis within the company is to identify individual SWOT elements. It is important to maintain the perspective of examining how the company appears in the eyes of stakeholders (particularly disclosure targets). For this purpose, interviewing disclosure targets and third parties may be effective.

Cross SWOT analysis may be used to explore future business developments.

Cross SWOT analysis combines strengths, weaknesses, opportunities and threats identified in the SWOT analysis to pinpoint management tasks.

More specifically, management tasks are categorized into “taking advantage of strengths to seize opportunities”, “overcoming weaknesses to seize opportunities”, “taking advantage of strengths to avert the effect of threats” and “overcoming weaknesses to avert the effect of threats”, so as to clarify desirable future strategies and help the proprietor sort out management ideas. In addition, the results may be shared with senior executives and key stakeholders to establish recognition on future directions.

[Cross SWOT analysis]

	Strength ○○○○○○○○ ○○○○○○○○ ○○○○○○○○ ○○○○○○○○	Weakness ○○○○○○○○ ○○○○○○○○ ○○○○○○○○ ○○○○○○○○
Opportunity ○○○○○○○○ ○○○○○○○○ ○○○○○○○○ ○○○○○○○○	Taking advantage of strengths to seize opportunities	Overcoming weaknesses to seize opportunities
Threat ○○○○○○○○ ○○○○○○○○ ○○○○○○○○ ○○○○○○○○	Taking advantage of strengths to avert the effect of threats	Overcoming weaknesses to avert the effect of threats (or opting to not take any action in view of costs)

Showadenki, to be described in Chapter 5, defines the Shoeikai group of 22 business partners as the target for disclosing its Intellectual Asset-Based Management Report.

The company cites the relationship with Shoeikai group and other business partners as one of the factors that helped it build the current position as a market leader in the blower machine industry. Part of its SWOT analysis is included in the Report, so as to share the company’s future direction and achieve future growth together with disclosure targets.



[Cross SWOT analysis by Showadenki]

Cross SWOT		External environment	
		Opportunity	Threat
		(1) Increase in capital investment within Japan (2) Increase in requests for non-standard specifications and short delivery cycle (3) Enhanced environmental awareness	(1) Entry by overseas competitors into the Japanese market (2) Competition from new Japanese entrants who have expanded into the industry (3) Manufacturing sector's offshore move, resulting in the use of local companies
Internal environment	Strength	<p>Key success factor for creating customer values: "Environmental hospitality (consideration)"</p> <p>1. Further expanding the service range from general-use machines to special order products in product lot specified by the end user (Addressing diverse needs) 2. Further reinforcing the production system from conducting systematic production to facilitating the production of a single unit of special-order item (Taking advantage of Showadenki's strengths to shift to the [Order] -> [Design] -> [Production] workflow) 3. Complying with user-requested delivery cycles (Achieving production with minimal delivery cycle)</p>	
	Weakness		
	(1) Established system for small-lot multi-type production (2) Sharing of internal information (3) Proliferation of management		
	(1) Young workforce with an insufficient level of technological application skills and flexibility (2) Uneven spread of sales channels (3) Lack of the sense of crisis		

2) Summarizing how the strengths can lead to profits (scenario development)

(1) Scenario development from past to present

Use an easy-to-understand scenario to present to stakeholders as to what management philosophy was behind the company's establishment, what management policies / strategies were adopted in developing the business in the past, and what investments were conducted before the company has reached the current status. Then, describe the resulting business achievements.

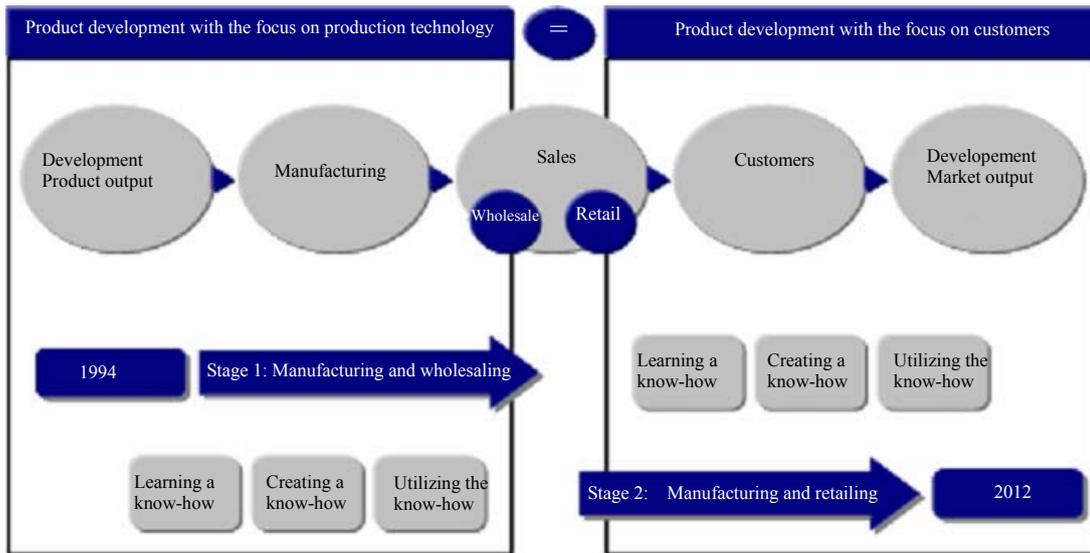
The focus should be placed on summarizing how not only financial and other tangible assets but also invisible intellectual assets have been accumulated and utilized.

It is desirable to visually present the information, e.g. using objectively substantiating indicators, diagrams and photographs, so that the information is convincing to disclosure targets.

(2) Scenario development from present to future

Draw up a scenario of value creation that generate future profits, putting together processes of combining intellectual assets, identified in management analysis, and creating new values, while also paying attention to future management policies and strategies. Ensure that the information is consistent with "past to present" management policies and strategies, and if not, explain how they will be changed.

Changing management policies itself is not a problem. It is important to show that the company has a clear perception as to why and how the policies have been changed in relation to the value creation scenario based on the use of intellectual assets.

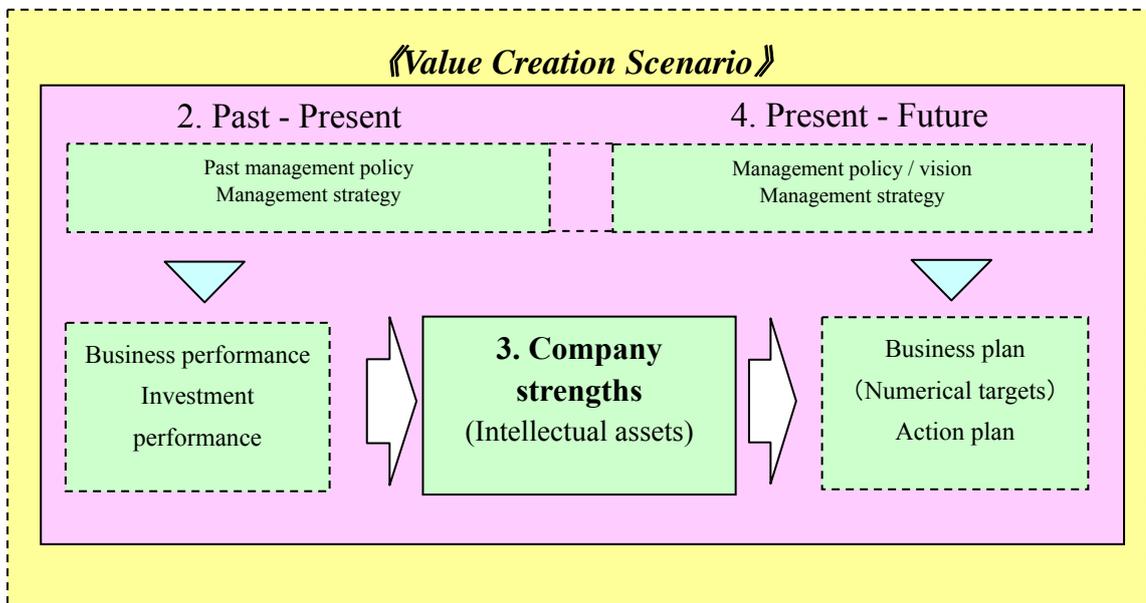


(3) Drawing up a business plan that reflects intellectual assets

The business plan to be included in the Report should pay considerations to making the following coordination:

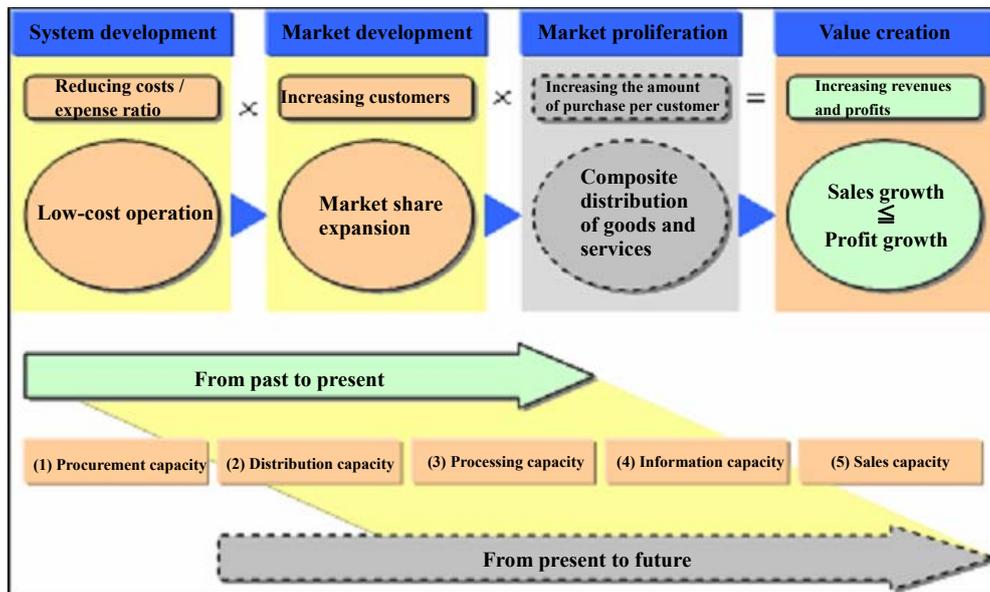
(1) Coordination of company strengths (intellectual assets)

An Intellectual Asset-Based Management Report must present the “past to present” phase on past business developments and the “present to future” phase on future business developments as a consistent “scenario of value creation”.



In other words, it is important to describe intellectual assets, the source of value creation, with focus on “how they have been created and accumulated”, and ensure consistency with future plans on “how the accumulated assets will be maintained and reinforced (attained)”.

[Example of Haruurarakansyobo]



(2) Coordination of fiscal and non-fiscal targets

The second coordination required is between fiscal and non-fiscal targets.

Traditionally, the focus of a business plan has been on numerical targets defined for business performance. However, in an Intellectual Asset-Based Management Report, the focus is on “invisible management resources that do not appear on financial statements” from the perspective of seeking sustainable business growth.

Yet, since the Report is used as a communication tool for gaining the understanding of stakeholders and boosting their sense of confidence in the company, it is desirable to also touch on quantitative targets showing what values will be generated as a result of qualitative growth.

As the content of this Report varies depending on disclosure targets, it is up to each company to decide whether fiscal figures should be included. If they are included as part of the business plan, fiscal (qualitative) targets and non-fiscal targets should be associated with each other.

3) Clarifying management policies and defining control indicators (visualization technique)

(1) Defining control indicators

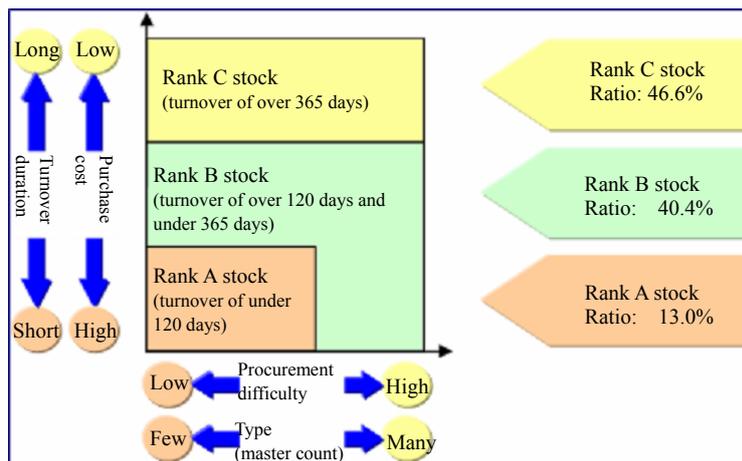
In implementing intellectual asset-based management according to the value creation scenario of utilizing own intellectual assets and generating future profits, it is necessary to define “internal control indicators” as in-house guide, and manage the company through controlling the indicators, rather than according to instinctive sense.

Intellectual asset-based management takes advantage of each company’s unique strengths, and has its significance in facilitating a different approach to competitors’. Indicators that internally control the process should therefore be different from company to company.

For example, the new and secondhand comics book wholesaler Haruurarakansyobo cites

“procurement capacity” as one of its strengths that helped the company establish its position as a market leader, and defines the monthly procurement volume and procurement cost as control indicators (although detailed procurement volume, cost transition and other control indicator data are not disclosed in the Report). In addition, with comic cafes and comic rental stores as main clients, the company is expected to not only “supply new comic books that customers want” but also “provide all titles of comic series that customers want”. For them, the “procurement capacity” covering secondhand comic books directly leads to competitive edge. In order to establish this “market-oriented” business model, the company must have the capacity to procure both new and secondhand books. At the same time, having too much low-turnover stock undermines business efficiency. This is why the breakdown of stock items, categorized by rank, is used as a control indicator for balancing procurement and inventory (See the diagram below). More specifically, the company has used customer sales data and accumulated experiences / know-how to establish an inventory control system that combines procurement difficulty and turnover duration (purchase cost), and regularly checks indexed inventory makeup.

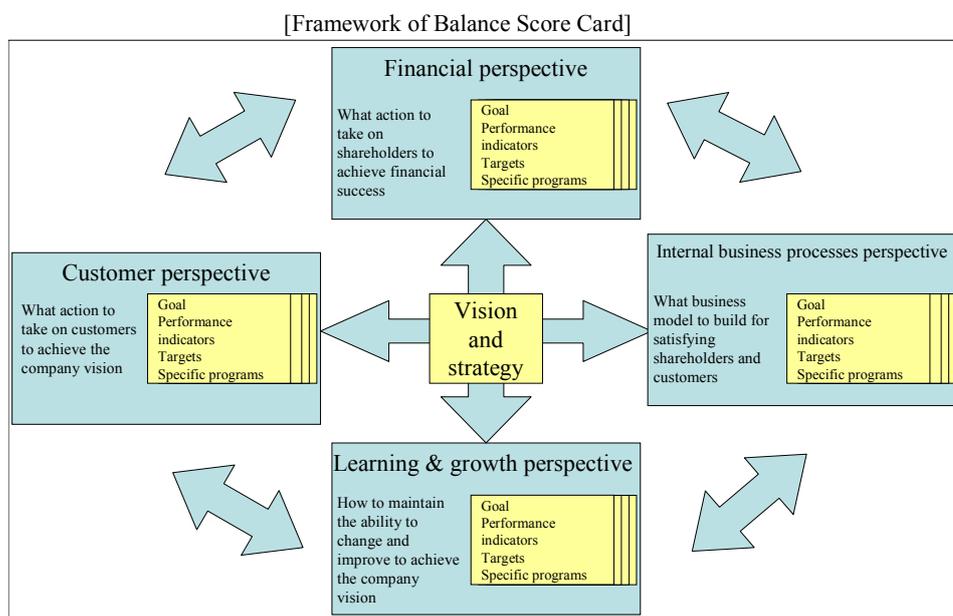
[Inventory ratios by rank at Haruurarakanasyobo]



(2) Management of intellectual assets

In intellectual asset-based management, it is essential to identify how intellectual assets, policies and strategies relate to actual business activities and lead to business results. This section introduces BSC (Balance Score Card), a management tool for systematically sorting these elements.

BSC balances and incorporates the financial perspective, traditionally emphasized in business management, as well as three non-fiscal perspectives (“internal business processes”, “customer” and “learning & growth”) into business targets, and visualize them in numerical figures to control and improve management and individual performances.



Source: Interim report by the Management and Intellectual Asset Subcommittee, New Growth Policy Committee, Industrial Structure Council, page 63 (partially revised),
Original sources: Robert S.Kaplan and David P.Norton, "Using the Balanced Scorecard as a Strategic Management System", Harvard Business Review (Jan.-Feb 1996) p.76

BSC normally uses a “strategy map” diagram to visualize the goal. The following is the procedure for preparing the map and drawing up specific action plans:

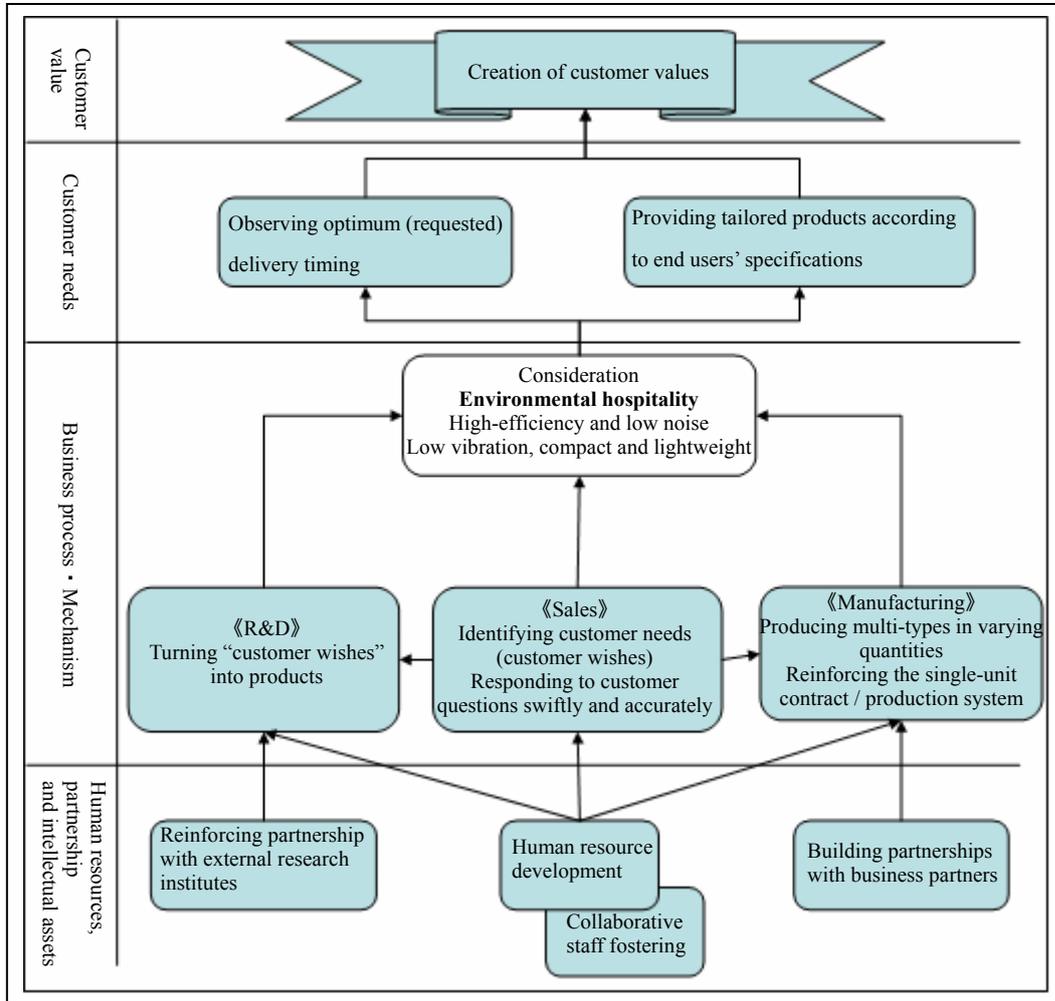
- (1) Drawing up a management strategy (incorporating specific management policies)
- (2) Defining KPI (key performance indicators)
- (3) Drawing up an action plan

In intellectual asset-based management, this BSC procedure can be used to clarify the scenario of value creation, so as to share common recognition with stakeholders on intellectual assets, generated from past business developments. This method also facilitates the sharing of future vision and strategies.

Showadenki uses the BSC framework as the strategic map for achieving the management policy of “customer value creation”, and features the “diagram of customer value creation” in its Intellectual Asset-Based Management Report, with the aim of advancing and expanding its

business in cooperation with employees and business partners.

[Showadenki: Diagram of customer value creation]



In BSC, the process of setting KPI has just as much importance as drawing up the strategy map. Indicators are defined for individual strategy targets to gauge their progress in numerical figures (scores). See pages 37 and 38 for commonly used KPI examples. The important perspective in setting indicators is to establish with clear association between the indicators and business themes, defined as the company’s management policies and strategies.

In the case of Showadenki, the strategy targets of “observing the optimum delivery timing” and “providing tailored products according to end user specifications” were defined for the management policy of “customer value creation”. The mechanisms of “Bee Dash Project” and “IS KOUBOU” are used to manage business operations according to the indicators, while implementing various improvements. For example, in regard to the target of “observing the optimum delivery timing”, the company has established a mechanism for continuously controlling numerical indicators to gauge “holding time of products in stock” from the customer need perspective, “response time to customer queries” and “time required to provide technical information” from the business process / mechanism perspective, and “number of participants and

time spent for the collaborative staff development program on employees and business partners”, implemented in partnership with an external consultant.

[Examples of KPI at Showadenki (excluding those in the financial perspective)]

Perspective	Item	KPI	Unit
Customer	Observing the optimum (requested) delivery timing	Delivery timing observation rate	%
	Providing tailored products according to end user specifications	Number of tailored products supplied	Case
		Rate of tailored products supplied	%
Business process	Turning “customer wishes” into products	Number of new products developed/ Number of queries to the IS	Case
	Identifying customer needs / providing responses swiftly	Time required to respond to queries to the IS Workshop	Hour
	Reinforcing the multi-type varying-quantity production system / single-unit contract & production system	Productivity of each product	Unit
		Value of products in stock	Yen
Learning and growth	Reinforcing partnership with external research institutes	Number of projects formed (completed)	Case
	Joint HR development	Number of joint HR development cases, and number of participants	Case
	Fostering partnerships with business partners	Number of companies involved in Bee Da Company	Company

BSC can help “visualize” elements of corporate management, as a tool that offers two features: One is the use of a diagram called the Strategy Map, which analyzes management policy / strategy from four perspectives. The other feature is the use of KPI for controlling the progress of action plans, based on individual strategies, in terms of objective numerical figures.

In compiling an Intellectual Asset-Based Management Report, KPIs may be effectively utilized as an intellectual asset-based management indicator to provide data substantiation to stakeholders. However, the disclosure target of such a Report should be kept in mind in the process.

In terms of the aforementioned usages of an Intellectual Asset-Based Management Report, if the Report is to be disclosed within the company as a “management tool”, particularly among senior executives, defining and utilizing strategy-related indicators as much as possible will help them make correct business decisions.

If the Report is to be disclosed to internal and external stakeholders as a “communication tool”, some indicators, although they may help ensure objectivity, could lead to leakage of business secrets. For example, among “typical intellectual asset indicators” listed on pages 41–43, the “flexibility of shipment prices (as indicator for external negotiation capacity / relationship)” (Indicator (3) – 5) and “flexibility of procurement costs to adapt to changes in the raw material market” (Indicator (3) – 6) are very important indicators as a management tool for internal use. However, as a communication tool, listing such data in a Report that suppliers, clients or even competitors may read could bring a business disadvantage to the company. Full considerations must be made on how or whether such indicators should be disclosed.

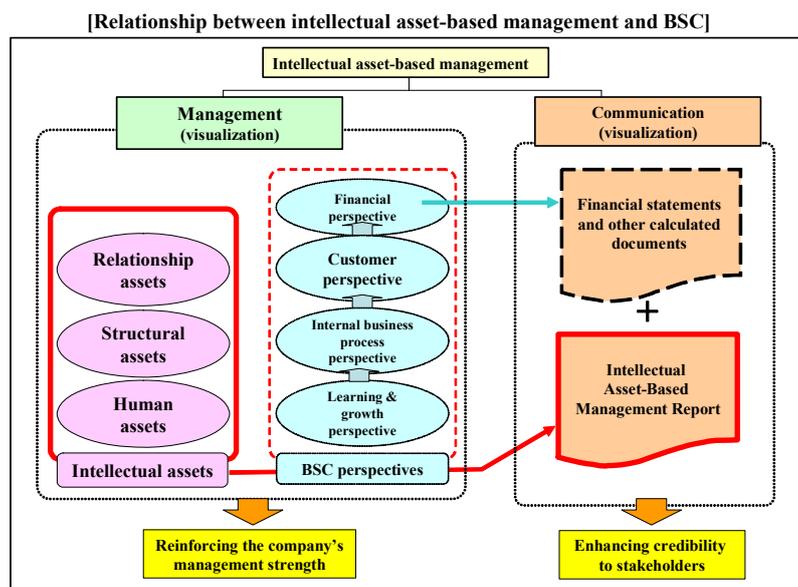
It is essential, as a step of intellectual asset-based management, to explore substantiating indicators for continuously managing and objectively disclosing “intellectual assets”, which represent company strengths that cannot be easily seen. For stakeholders, seeing how the

proprietor selects indicators helps gauge the company's management perspective / stance. In this sense, this process is an effective way of "visualizing" business management.

(3) Relationship between intellectual asset-based management and BSC

As explained earlier, BSC is a very effective method to use when promoting intellectual asset-based management from the management perspective. There are various views on the relationship between intellectual asset-based management and BSC, but the stance of this manual is as described below:

In BSC, the aforementioned Cross SWOT analysis is often conducted to identify a management task (strategy theme), and its strategy goals from the said four perspectives are defined and described in the Strategy Map.



Source: Reference materials for the "Accounting Guideline Utilization Seminar" by Shigeru Akaiwa (Certified Public Accountant and Tax Agent)

Intellectual asset-based management, on the other hand, is aimed at accurately identifying intellectual assets (human assets, structural assets, relationship assets) that represent the company's strengths, and drawing up a business plan with emphasis on these elements, so as to reinforce the management capacity.

From the communication perspective, the traditional tool for having stakeholders recognizes the company's management status was financial statements and other calculated documents. An Intellectual Asset-Based Management Report presents aspects of the company that do not clearly show in financial statements, so as to enhance the company's credibility among stakeholders.

What intellectual asset-based management and BSC have in common is the process of setting control indicators. The former uses them to control intellectual assets (company strengths) within the company, and also as substantiating indicators for use in communication with external parties. The latter uses indicators slightly differently for monitoring the company's strategy targets. Yet, BSC's approach to defining KPI (key performance indicators) can be adopted when setting indicators for intellectual asset-based management.

In intellectual asset-based management, it is also necessary to direct emphasis on identifying,

utilizing and disclosing intellectual assets that have been overlooked in the conventional BSC approach (e.g. human assets such as the proprietor's stance, ability and human network, or relationship assets such as association with business partners).

Some suggest that strategy targets that KPI cannot be defined in BSC, cannot have their progress examined and should therefore be reconsidered / redefined. A similar logic can be applied to intellectual asset-based management. With some indicators not suitable for disclosure to stakeholders as a communication tool, there is significance in "visualizing" indicators (including describing them in text), as explained on the next page.

[Examples of key performance indicators (KPI)]

Perspective	Indicator	Description (calculation formula)	Unit
F i n a n c i a l	Rate of sales increase	$(\text{Current year's sales} / \text{previous year's sales} - 1) \times 100$	%
	Gross income to net sales	$\text{Gross income} / \text{net sales} \times 100$	%
	Net sales	Net sales	Yen
	Operating income to net sales	$\text{Operating income} / \text{net sales} \times 100$	%
	Ordinary income to net sales	$\text{Ordinary income} / \text{net sales} \times 100$	%
	Cost of sales to net sales	$\text{Cost of sales} / \text{net sales} \times 100$	%
	Net interest cost to net sales	$(\text{Interest paid} - \text{Interest received} - \text{Dividend received}) / \text{net sales} \times 100$	%
	Earnings before amortization to net	$\text{Earnings before amortization} / \text{net sales} \times 100$	%
	Cost of labor to net sales	$\text{Cost of labor} / \text{net sales} \times 100$	%
	Net sales growth	$\text{Current year's net sales} / \text{previous year's net sales} \times 100$	%
	Average selling price	Average selling price	Yen
	Cost of sales	Cost of sales	Yen
	Cash flow per share	$\text{Cash flow} / \text{Number of shares issued}$	Yen
	Share of main products in net sales	$\text{Sales of main products} / \text{net sales} \times 100$	%
	Rate of procurement cost decrease	$(\text{Current year's procurement cost} / \text{Previous year's procurement cost} - 1) \times 100$	%
	Cost savings	Cost savings	Yen
	Rate of labor cost decrease	$(\text{Current year's labor cost} / \text{Previous year's labor cost} - 1) \times$	%
	Gross profit ratio	$\text{Gross profit} / \text{net sales} \times 100$	%
	Net sales of priority products	Net sales of priority products	Yen
	Rate of target achievement	$\text{Actual result} / \text{target} \times 100$	%
Required operating capital	$\text{Current assets} - \text{Current liabilities}$	Yen	
Inventory turnover rate	$\text{Cost of goods sold} / \text{Average inventory}$	Time	
C u s t o m e r	Training time per employee	Training time per employee	Hour
	Sales manual compilation	Sales manual compilation	
	Development of a sales order management system	Development of a sales order management system	
	Introduction of a sales support	Introduction of a sales support system	
	Rate of quality improvement	Rate of quality improvement	%
	Customer satisfaction score (based on a survey)	Customer satisfaction score (based on a survey)	Point
	Number of product introduction sessions organized	Number of product introduction sessions organized	Session
	Number of CS (customer satisfaction) activities proposed	Number of CS activities proposed	Case
	Number of business cards and greeting cards received	Number of business cards and greeting cards received	Card
	Rate of customer increase	$(\text{Current year's customer count} / \text{Last year's customer count} - 1) \times 100$	%
	Number of improved products	Number of improved products	Product
	Ratio of specific sales orders	$\text{Value of specific sales orders} / \text{Net sales} \times 100$	%
	Number of complaints	Number of complaints	Case
	Number of customer information	Number of customer information cards	Card
	Number of customers managed	Number of customers managed	Customer
	Number of participants at product introduction sessions	Number of participants at product introduction sessions	Participant
	Net sales of priority products	Net sales of priority products	Yen
	Number of product introduction postcards sent	Number of product introduction postcards sent	Postcard
	Number of event visitors	Number of event visitors	Visitor
	Ratio of repeat customers	$\text{Number of repeat customers} / \text{Total number of customers} \times$	%
	Number of pages for manuals	Number of pages for manuals produced	Page
	Number of clients' data items	Number of clients' data items	Item
	Number of customer request forms collected	Number of customer request forms collected	Form
	Import sales to net sales	$\text{Ratio of import earnings} / \text{Net sales} \times 100$	%
Rate of shipments made within N days of receiving the order	Rate of shipments made within N days of receiving the order	%	

Source: "How to prepare a balance score card for a small company" by Kazuhiko Ito and Katsumi Uemiya, partially revised

[Examples of key performance indicators (KPI)]

Perspective	Indicator	Description (calculation formula)	Unit
Business processes	Customer satisfaction	Score from survey results	Point
	Number of product development	Number of product development projects	Case
	Number of benchmarking sessions conducted	Number of benchmarking sessions conducted	Session
	Sales of priority products to net sales	$\text{Sales of priority products} / \text{net sales} \times 100$	%
	Ratio of new products	$\text{Sales of new products} / \text{net sales} \times 100$	%
	Rate of increase in per-customer earnings	$(\text{Current year's per-customer earnings} / \text{Previous year's per-customer earnings} - 1) \times 100$	%
	Rate of increase in customer share	$(\text{Current year's customer share} / \text{Previous year's customer share}) \times 100$	%
	Reduction of procurement spending	$(\text{Current year's procurement spending} / \text{Previous year's procurement})$	%
	Event sales	Event sales	Yen
	Increase of per-customer earnings	$(\text{Current year's per-customer earnings} / \text{Previous year's per-customer earnings} - 1) \times 100$	%
	Increase of customer share	$(\text{Current year's customer share} / \text{Previous year's customer share}) \times 100$	%
	Number of complaints	Number of complaints	Case
	Value of business equipment damaged	Value of business equipment damaged	Yen
	Net sales per employee per hour	$\text{Net sales} / \text{Total hours worked, Average hourly wage} / \text{Labor share} / \text{Gross profit}$	Yen
	Number of suggestions made at product development meetings	Number of suggestions made at product development meetings	Case
	Number of hits at the company website	Number of hits at the company website	Hit
	Number of hearing sheets	Number of hearing sheets	Sheet
	Number of cases involving monthly regular visits	Number of cases involving monthly regular visits	Case
	Number of customers responding to offers	Number of customers responding to offers	Customer
	Ratio of priority products in sales	$\text{Sales of priority products} / \text{net sales} \times 100$	%
	Number of specific products sold	Number of specific products sold	Unit
	Number of team meetings	Number of team meetings	Meeting
	Product turnover rate	$\text{Cost of goods sold} / \text{Average inventory}$	Time
	Training manual compilation	Training manual compilation	
	Customer management system	Customer management system	
	Sales management system	Sales management system	
	Development of a process management system	Development of a process management system	
Quality of training courses	Quality of training courses		
Learning & growth	Number of CS (customer satisfaction) activities proposed	Number of CS activities proposed	Case
	Number of training participants	Number of training participants	Participant
	Ratio of specific sales orders	$\text{Value of specific sales orders} / \text{Net sales} \times 100$	%
	Number of OJT participants	Number of OJT participants	Participant
	Number of individual interviews	Number of individual interviews	Interview
	Average score in roleplay exercise	Average score in roleplay exercise	Point
	Number of improvement ideas	Number of improvement ideas submitted	Case
	Rate of increase in the sales of specific products	$(\text{Current year's sales of specific products} / \text{Previous year's sales of specific products} - 1) \times 100$	%
	Number of successful cases	Number of successful cases	Case
	Number of visits	Number of visits	Visit
	Number of specific products sold	Number of specific products sold	Unit
	Employee satisfaction (survey score)	Employee satisfaction (survey score)	Point
	Number of pages for general meeting minutes	Number of pages for general meeting minutes	Page
	Number of cases cited in know-how documents	Number of cases cited in know-how documents	Case
	Rate of achievement in the skills improvement plan	Rate of achievement in the skills improvement plan	%
	Work manual compilation	Work manual compilation	
	Ratio of IT costs in the cost of administration	Ratio of IT costs in the cost of administration	%
	Number of trainings regarding specialized skills	Number of trainings regarding specialized skills	Training
	Number of IT trainings conducted	Number of IT trainings conducted	Training
Number of people recruited	Number of people recruited	Person	

(Some duplicate indicators)

4) Compiling a report (visualization techniques)

(1) Compiling an Intellectual Asset-Based Management Report

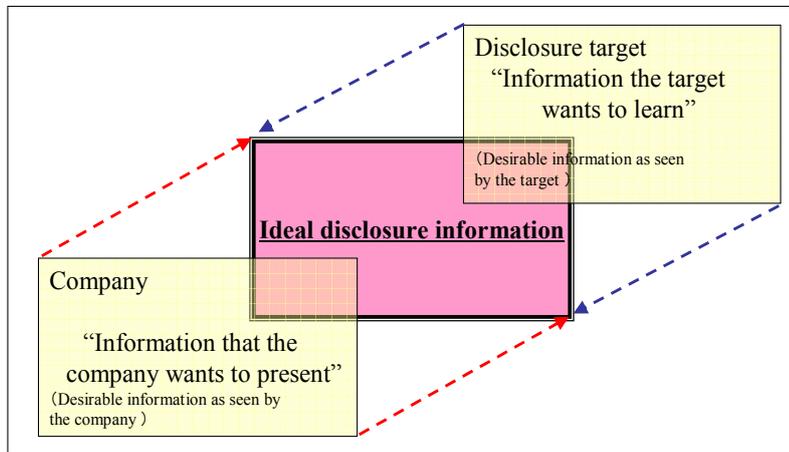
All companies undertake their business in association with various stakeholders including employees, business associates, financial institutions and customers. It is therefore important to implement intellectual asset-based management through sharing a sense of values in value-creation scenarios with stakeholders, rather than trying to implement it entirely within the company. The exercise becomes efficient and continuous when the proprietor and employees work together in implementing intellectual asset-based management while gaining empathy from stakeholders.

An Intellectual Asset-Based Management Report that combines the scenario of value creation (qualitative information) and substantiating indicators (quantitative information), represents a presentation of credible information to stakeholders, and helps gain their empathy for the business management.

The information a company wants stakeholders to know is often different from the information that the disclosure target wants to learn, as shown in the diagram below. This must be kept in mind in clarifying “disclosure objectives” and “disclosure target”, and exploring specific details as to what information should be disclosed via which media. It is desirable to compile a report that reflects the information that the company wants to present as well as the information that the disclosure target wants to learn at the same time.

The proprietor tends to focus more on information the company wants to present. When a report is compiled internally, there is a risk that the disclosure targets cannot sufficiently gain information they want the company to present. For this reason, the proprietor must have a third party check a prepared report for examination. If there are supporters assisting report compilation, the supporters must rectify pitfalls of the proprietor preparing such a report, and assist report compilation from the perspective of what information the disclosure target is seeking.

[Ideal disclosure information]



Source: Interim report by the Management and Intellectual Asset Subcommittee, New Growth Policy Committee, Industrial Structure Council, page 37

(2) Examination and approval of the Report

When the workbook, introduced later in this manual, or other tools are used to prepare an Intellectual Asset-Based Management Report, it is necessary to examine it in light of the pre-defined disclosure policy on “what” the Report should convey to “whom”. Also, in view of the possibility that an unintended third party may read it, the report should be checked for the merits and demerits of disclosing the contained information from the risk management perspective, in consideration to business secrets and other information that may compromise business operations if leaked.

In addition, the Report should be checked not only by members who prepared it but also by SME management consultants, tax agents, certified public accountants, tax attorneys, solicitors and other specialists, as well as management instructors at chambers of commerce and industry, SME business supporters, financial institutions and other third parties, so as to ensure the disclosure of objective information.

(1) Focuses in examining a Report

A Report must be examined with focus on the following aspects, while efforts should be made within the company to share internal control indicators and substantiating indicators for value-creation scenario:

- Is the value-creation scenario consistent with the management policy?
- Are the value-creation scenario, internal control indicators and substantiating indicators sufficient for the scenario to be convincing and effective?
- Are there any issues relating to business secrets and competition?
- Is the content of the report consistent with other disclosed information (business reports,

etc.)?

- Is the quantitative information cited as indicators accurate?
- Is there sufficient reference information provided?

Etc.

(2) Approval by the proprietor (Check points by the proprietor)

Once the value-creation scenario, internal control indicators and substantiating indicators are examined, the proprietor must give a final approval.

The proprietor must check the following aspects in this process:

- Effectiveness and credibility of the value-creation scenario
- Business secrets and competition-related issues
- Consistency with the disclosure policy
- Whether the Report is effective for the intended target
- Whether the Report can achieve its disclosure objectives

Etc.

At many SMEs, the proprietor is the only person who has the overall view of company operations. Since many of such companies do not have in-house specialists, the compilation of a Report may require commissioning the work to an external party or receiving support from experts. Yet, at the same time, it is the proprietor who must assume the final responsibility. Even if external support personnel / organizations are used in implementing intellectual asset-based management the proprietor must conduct practical checks in person.

(3) Examples of typical KPI

It is effective to use KPI (key performance indicators) that substantiate the value-creation scenario to enhance its credibility. Yet, different companies have different intellectual assets, and therefore require different Report content and presentation according to disclosure targets and objectives. Each company should select and create its set of indicators to use. KPI may be selected from a list of indicators shown in pages 37 and 38, or newly created to suit each company's needs.

In October 2005, the Ministry of Economy, Trade and Industry compiled guidelines on the disclosure of intellectual asset-based management. The guidelines include a list of typical intellectual asset indicators, available online at the following URL. (See the guidelines for details.)

http://www.meti.go.jp/policy/intellectual_assets/index.htm

(1) Management stance / leadership

Extent of sharing and proliferating the management stance and goal

- (Indicator (1)-1) Extent of proliferating the management vision, etc. within the company
- (Indicator (1)-2) Dissemination of information by the proprietor to external parties (external PR activities)
- (Indicator (1)-3) Method of fostering future leaders (average age of the presidents of

subsidiaries)

(2) Selection and concentration

Selection and concentration status regarding goods / services ((2)-1 ~ (2)-3), technologies ((2)-4), customers / market ((2)-5), etc. Since different business models have different characteristics in selection and concentration, it is desirable to describe the company's business model (its basic structure, sales makeup for BtoB and BtoC sectors) as a premise.

- (Indicator (2)-1) Advantages of the main business area (sales ratio, profit ratio, profit rate)
- (Indicator (2)-1-1) Ratio of the main business area in net sales (sales ratio)
- (Indicator (2)-1-2) Ratio of the main business area in operating income
- (Indicator (2)-1-3) Operating income rate of the main business area
- (Indicator (2)-2) Weighted average of the competitors of priority goods / services
- (Indicator (2)-3) Achievements of the review on deficit-making divisions
- (Indicator (2)-4) Extent of R&D concentration
- (Indicator (2)-5) Differentiation in the market
- (Indicator (2)-6) Employee assessment system

(3) External negotiation capacity / relationship

Negotiation capacity and strength of relationship with upstream and downstream stakeholders, i.e. clients, customers ((3)-1 ~ (3)-5), suppliers ((3)-6) and fund providers ((3)-7)

- (Indicator (3)-1) Weighted average of market share in priority goods and services in the main business area
- (Indicator (3)-2) Customer satisfaction
- (Indicator (3)-3) Change in per-customer earnings
- (Indicator (3)-4) New customer earnings to net sales (for corporate customers), growth rate of new memberships (for individual customers)
- (Indicator (3)-5) Flexibility of shipment prices to adapt to cost changes (price adaptability)
- (Indicator (3)-6) Flexibility of procurement costs to adapt to changes in the raw material market (negotiation ability)
- (Indicator (3)-7) Fundraising

(4) Knowledge creation / innovation / speed

Efficiency in creating new values and speed of business management

- (Indicator (4)-1) Cost of R&D (or capacity development) to net sales
- (Indicator (4)-2) Ratio of the cost of externally-commissioned R&D
- (Indicator (4)-3) Number of intellectual properties held and their period of validity (period of economic significance)
- (Indicator (4)-4) Employee turnover rate (average age of employees and its comparison against the previous year's figure)
- (Indicator (4)-5) Ratio of new products

(5)Teamwork / organizational strength

Organizational (general) strength, individual skills and other status of organizational unity

- (Indicator (5)-1) System of internal improvement proposals and number of improvement proposals implemented
- (Indicator (5)-2) Number of cross-sectional projects
- (Indicator (5)-3) Employee satisfaction
- (Indicator (5)-4) Incentive system (annual salary system, etc.)
- (Indicator (5)-5) Ratio of employee outflow

(6)Risk management / governance

Risk recognition and assessment, status of risk management, disclosure and governance

- (Indicator (6)-1) Compliance system
- (Indicator (6)-2) Number of press releases regarding risk information, and speed of press releases regarding problems
- (Indicator (6)-3) Status of risk distribution
- (Indicator (6)-4) Risk of takeover
- (Indicator (6)-5) Compensation claims in on-going litigations
- (Indicator (6)-6) Leakage risk of business secrets (number of business secrets and ratio of core employees handling them)

(7)Symbiosis with society

Status of local / social contributions

- (Indicator (7)-1) Environment-related spendings / investments
- (Indicator (7)-2) Number of SRI (social responsibility investment) funds used
- (Indicator (7)-3) Corporate image surveys / ranking

《SWOT Sheets》

(See pages 26—28 for SWOT Sheet description.)

1. External environment sheet

External environment (microeconomic) Industry, competition, customer needs (of prospective customers), etc.		
No.	Description	Basis

External environment (macroeconomic) Politics, economy, laws, technological innovation, etc.		
No.	Description	Basis

2. Opportunities / Threats sheet

Analyze the external environment factors identified above, and divide them into opportunities and threats.

Opportunities	Threats
Neither opportunity nor threat	

Identify opportunities and threats particularly regarding customers and competitors.

	Opportunities	Threats
Customers		
Competitors		

3. Internal environment (strengths and weaknesses) sheet

(Examine the company in terms of human resources, goods, funds, information, know-how, speed, organizational strength, IT environment, operation bases, patent and other intellectual properties, association with customers / communities / business partners, credibility, tradition and brand.)

Strengths		
No	Description	Basis

Weaknesses		
NO	Description	Basis

4. Cross SWOT sheet

Based on the analysis on external and internal environment factors, write down future measures in the Cross SWOT sheet.

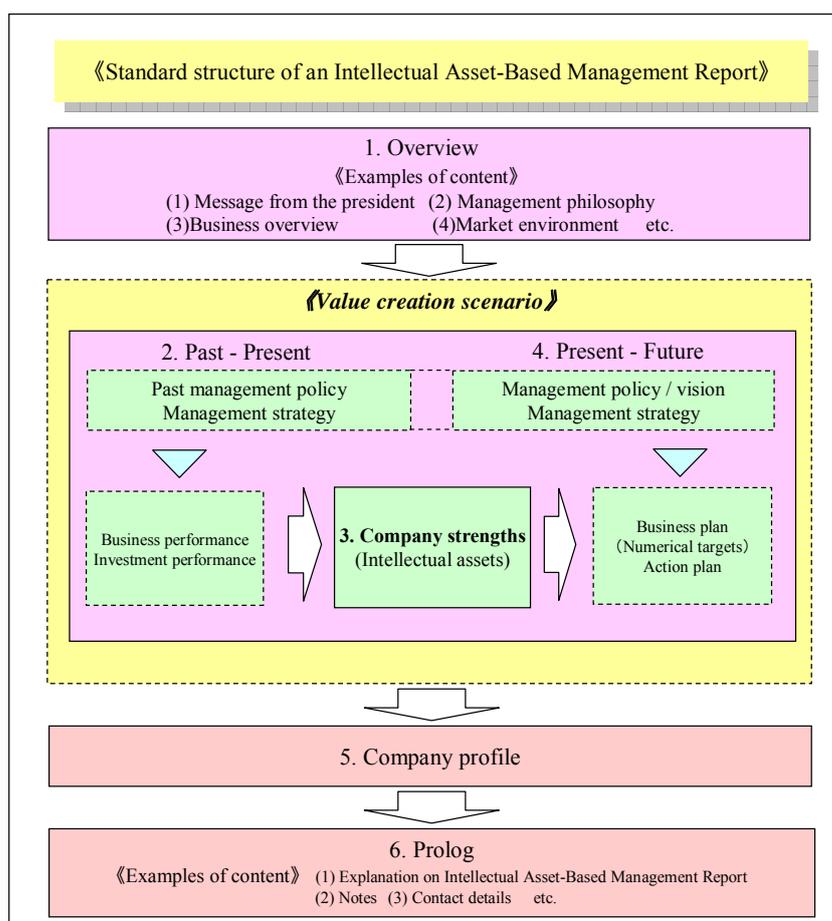
<div style="text-align: center;"> <p>Internal environment</p> </div> <div style="text-align: center;"> <p>External environment</p> </div>	<p>Strengths</p>	<p>Weaknesses</p>
	<ul style="list-style-type: none"> • • • • • • • • • 	<ul style="list-style-type: none"> • • • • • • • • •
<p>Opportunities</p>	<p>How to take advantage of strengths to seize opportunities</p>	<p>How to overcome weaknesses to seize opportunities</p>
<ul style="list-style-type: none"> • • • • • • • • • 		
<p>Threats</p>	<p>How to take advantage of strengths to avert the effect of threats</p>	<p>How to overcome weaknesses to avert the effect of threats</p>
<ul style="list-style-type: none"> • • • • • • • • • 		

2. Intellectual Asset-Based Management Report Workbook

1) Standard Report structure

By nature, every company has a different set of intellectual assets and uses them differently. The structure of an Intellectual Asset-Based Management Report also varies significantly according to its disclosure target and objectives. The four model companies, introduced in Chapter 5, use largely different Report structures and content based on the disclosure objectives, target and their stance on disclosing the Report.

This workbook is based on a standard Report structure (See below) due to the nature of this manual, and does not necessarily have to be filled out in all sections. In the value creation scenario section, management policies, visions and strategies are described separately for “past – present” and “present – future”, which does not necessarily have to be changed.



2) Basic Report items for the four model companies

The Reports of the four model companies, introduced in Chapter 5, have the following structure:

[Basic items of an Intellectual Asset-Based Management Report
(in the case of the four model companies)]

Basic item	Structural element	Haruurarakanasyobo	Page	Value Planning	Page
		Books (new and secondhand) wholesaler		Ladies fashion retailer	
1. Overview	(1)Message from the president	Message from the president	3	Message from the president	3
	(2)Management philosophy	Management philosophy	4	Management philosophy	4
				Management policy	5
	(3)Business overview	Business overview	5	Business overview	6•7
(4)Market environment	Target market	6	(Management policy)	5•13	
2.Past – present (past business developments)	(1)Management strategies and policies	Managenet strategy	7•8	Management strategy and concept	8~11
	(2)Business results (actual performance)	Business results	13	Business results	12
3.Advantages (intellectual assets)	(1)Company strengths	Our strengths	9~12	Concept and mechanism	8~11
4.Present – future (future business developments)	(1)Management strategies and policies	Management strategy	17	“33-200 strategy”	13•14
	(2)Business plan	Business plan	19	Business plan for successful strategy	15
5.Company profile	(1)Company overview	Company overview	20	Company overview	17
	(2)Other	Management team Organizational structure / business partners	21 21•22		
6.Prolog	(1)Explanation on the Intellectual Asset-Based Management Report	Significance	22	What is an Intellectual Asset-Based Management Report?	18
	(2)Notes	Notes	22	Issues to be noted when using this brochure	18
	(3)Contact details	Contact details	22	Contact details	18
	(4)Other			Symbiosis with society	16

[Basic items of an Intellectual Asset-Based Management Report]
(in the case of the four model companies)

Basic item	Structural element	Cast		Showadenki	
		Casting manufacturer	Page	Blower manufacturer	Page
1. Overview	(1) Message from the president	Message from the president	3	Message from the president	3
	(2) Management philosophy	Management philosophy	4	Management philosophy	4
				ISO policy	5・6
	(3) Business overview	Business description	6～8	Business overview	7
(4) Market environment	Environment surrounding the business	9・10	Environment analysis(1)	22	
2. Past – present (past business developments)	(1) Management strategies and policies	Past business policies	11・12	Corporate culture to be handed down	8
		Selection and concentration	13・14	Past business developments	9～17
	(2) Business results (actual performance)	Past business results	15・16	Business results	12
3. Advantages (intellectual assets)	(1) Company strengths	Business strengths	17～28	Source of intellectual assets	18～21
				Environment analysis(2)	23
4. Present – future (future business developments)	(1) Management strategies and policies	Future vision	29	Value creation toward the future	22～26
		Direction of management strategy	29～31		
	(2) Business plan	Business plan to be initiated	32	Future management policy	27・28
5. Company profile	(1) Company overview	Company overview	33	Company overview	35～38
	(2) Other	Corporate history	5	Awards and media coverages	33・34
6. Prolog	(1) Explanation on the Intellectual Asset-Based Management Report	What is an Intellectual Asset-Based Management Report?	34	What is an Intellectual Asset-Based Management Report?	39
	(2) Notes	Notes	34	Issues to be noted when using this brochure	39
	(3) Contact details	Contact details	34	Contact details	39
	(4) Other			KPI list	29～32

1.Overview

(1)Management philosophy

* If the company already has its own management philosophy or vision defined, write it down as it is.

Q1 What is the dream the company seeks to achieve through corporate management?

(Corporate vision)

Q2 What are aspects that the company is always aware of in business administration?

(Code of conduct)

Q3 Do you convey the corporate vision (Q1) and code of conduct (Q2) to parties inside and outside the company?

YES

NO

Q4 If you answered YES in Q3, how do you convey such information to whom and at what frequency?

- By way of () at the frequency of () to employees
- By way of () at the frequency of () to financial institutions
- By way of () at the frequency of () to investors
- By way of () at the frequency of () to business associates
- By way of () at the frequency of () to other parties ()

Q5 If you answered NO in Q4, what is the reason you do not distribute such information?

We recognize the need to do so, but have not got around to doing it.

We do not believe it necessary to distribute such information.

(Reason:)

《Management Philosophy Sheet》

(Company name: _____) has the management vision of

(Q1 : Management vision)

and implements

(Q2 : Code of conduct)

to achieve the management vision.

How do you convey the vision and code of conduct at what frequency to spread the information?

(Q3 · Q4 : Method of proliferation)

* If the company already has a defined method of disclosing an Intellectual Asset-Based Management Report, write it down as well.

(2) Business overview (business characteristics)

Q1 What are the company's main lines of business (products / goods / services)? List them in the order of sales, and give their brief description. (The description should be given in comparison to products by competitors and other products within the company.)

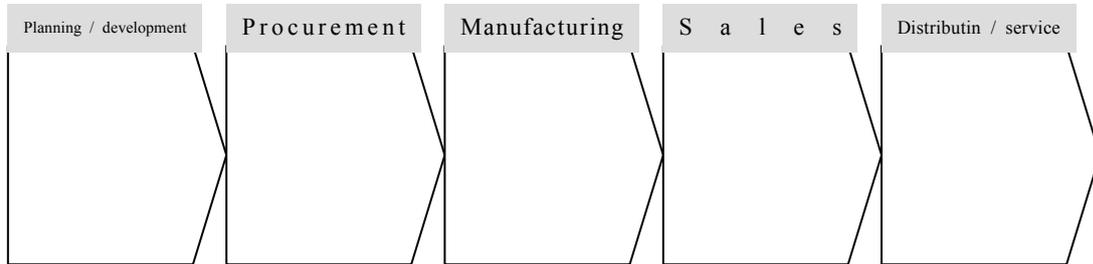
Business area (Products, goods or services)	Description (Main customers and 4P ⁴)	Annual sales (ratio) ⁵
(1) _____ Business operation (manufacturing, sales, service) started in _____	Main target: Product: Price: Place: Promotion:	[] million yen ()%
(2) _____ Business operation (manufacturing, sales, service) started in _____	Main target: Product: Price: Place: Promotion:	[] million yen ()%
(3) _____ Business operation (manufacturing, sales, service) started in _____	Main target: Product: Price: Place: Promotion:	[] million yen ()%
(4) _____ Business operation (manufacturing, sales, service) started in _____	Main target: Product: Price: Place: Promotion:	[] million yen ()%
(5) _____ Business operation (manufacturing, sales, service) started in _____	Main target: Product: Price: Place: Promotion:	[] million yen ()%

⁴ Characteristics: Description of the business area in the framework of 4Ps in marketing (Product, Price, Place, Promotion)

⁵ Ratio: Ratio of the applicable business area (products, goods or services) against the company's overall sales

Q2 Describe the workflow of the main business area (from procurement to sales to customers).
 (Examples of description content: What is being handled, which division (business partner) is doing the implementation)

* The diagram below is an example of workflow for manufacturers. Use a workflow that suits your company and business type.



For each step of the workflow, examine whether your company has advantages over competitors.
 (Examine not only goods / services handled, but also the work mechanism [workflow] itself.)

(1) Planning and development

[Advantages]

(2) Procurement

[Advantages]

(3) Manufacturing

[Advantages]

(4) Sales

[Advantages]

(5) Distribution and services (incl. post-sales service)

[Advantages]

Q3 What is your company's main line of business, cited in Q1? Has it changed over time?

[Past: At the time of business inauguration or () years ago]
 The () division had the highest sales (profit), accounting for ()% of overall sales.
 [Present]
 The () division has the highest sales (profit), accounting for ()% of overall sales.
 [Reason for the change (reason for no change)]

()

Q4 What is the business area that your company intends to focus on or expects to become the main line of business?

[Main business area in () years' time]
 The () division is expected to claim the largest portion of sales (profit), accounting for ()% of overall sales (profit).
 [Focal business area in () years' time (if different from the main business area)]
 The () division is expected to be the focal business area, accounting for ()% of overall sales (profit).
 [Background for the above intentions]

()

Q5 What has been the contribution of the main business area, cited in Q3, over the last 3 years?
 (Fill out the table below.)

(Unit: yen · thousand yen · million yen)

	3 years ago (term)	2 years ago (term)	Last year (term)
(1) Net sales (overall)			
(2) Net sales (main business area)			
(3) (2)÷(1)(%)			
(4) Operating income (overall)			
(5) Operating income (main business area)			
(6) (5)÷(4)(%)			

(3) Market environment (external environment analysis)

* Use SWOT sheets (External Environment Sheet) on pages 44 and 45 when providing information on the market environment. (See pages 26–28 for description.)

Q1 Which industry does your company belong to? Are there industry organizations?

Industry:()
Industry organization:()and
its membership()companies

Q2 How many competitors are there that conduct the same business as your company’s main line of business? What is your company’s market share?

- There are () competitors, and our market share is ()%.
- There are () competitors, but our market share is unknown.
- The number of competitors is unknown, but our market share is ()%.
- There are no other companies undertaking similar business, and we have a monopoly.
- The number of competitors and our market share are both unknown.

*The industry organization, identified in Q1, may have information such as the market size and its membership.

Q3 List factors that represent opportunities (business chances) for market expansion in the industry your company belongs to.

(1)
(2)
(3)
(4)

Q4 List factors that represent threats (with potentially adverse business effects) brining market contraction in the industry your company belongs to.

(1)
(2)
(3)
(4)

Q5 List factors that represent opportunities (business changes) bringing market expansion to your company in the industry.

(1)
(2)
(3)
(4)

Q6 List factors that represent threats (with potentially adverse business effects) bringing market contraction to your company in the industry.

(1)
(2)
(3)
(4)

*It is effective, in terms of setting corporate strategies, to use SWOT analysis to identify the market environment (external analysis) as well as company strengths (internal analysis) in 3-(1).

《Market Environment (external environment) Sheet》

Our company belongs to the

(Q1 : Industry)

[] industry.

(Q2 : Industry scale and market share)

This industry is estimated to be worth () billion yen (according to), and our company has a market share of ()% (as of).

Or

(Q1 : Industry)

[] industry.

(Q2 : Industry scale and market share)

This industry is said to have () companies nationwide (prefectures / regions) (as of) (according to), and our company is a (long-established / medium-tiered / venture) company established in ().

This industry is currently expected to

(Q3 : Opportunities)

expand its market with business opportunities such as

().

At the same time, it faces the need to address

(Q4 : Threats)

().

In the given situation, our company has

(Q5 : Opportunities)

opportunities such as

()but

(Q6 : Threats)

is under intensified competition (forced to accept market contraction) in aspects such as

(), and

is determined to implement countermeasures.

2.Past – Present (past business developments)

Q1 Which of the following frameworks do you use in describing the company scenario?

- By year (e.g. according to fiscal year, anniversaries)
- By event (e.g. according to proprietor change, organizational restructuring, duration of mid- / long-term management programs)
- By lifecycle (e.g. Business creation stage -> Growth stage -> Maturity stage)
- Other ()

*The lifecycle example is shown below in this workbook.

Q2 In each of the stages, how have customers and market needs changed?

1) Business establishment stage (~ , under President [])

2) Growth stage (~ , under President [])

3) Maturity stage (~ , under President [])

Q3 What management policies / strategies have you drawn up to address the market changes cited in Q2?

1) Business establishment stage (~ , under President [])

2) Growth stage (~ , under President [])

3) Maturity stage (~ , under President [])

Q4 What investments have you made to achieve the policies / strategies cited in Q3? What outcome have you obtained?

*If specific figures are not available, provide description of initiatives only.

1) Business establishment stage(_____ ~ _____, under President [_____])

Facilities (including investments in computer software for operation / customer management)

[Initiative description and investment amount : _____]

[Outcome : _____]

Human resources (initiatives for improving organizational strength, e.g. providing staff training to improve the skills of individual workers)

[Initiative description and investment amount : _____]

[Outcome : _____]

R&D (including product development and technology / know-how development)

[Initiative description and investment amount : _____]

[Outcome : _____]

Network (including the development of a network with clients, suppliers or other companies)

[Initiative description and investment amount : _____]

[Outcome : _____]

Other (_____)

[Initiative description and investment amount : _____]

[Outcome : _____]

2) Growth stage(_____ ~ _____, under President [_____])

Facilities (including investments in computer software for operation / customer management)

[Initiative description and investment amount: _____]

[Outcome : _____]

Human resources (initiatives for improving organizational strength, e.g. providing staff trainings to improve the skills of individual workers)

[Initiative description and investment amount: _____]

[Outcome : _____]

R&D (including product development and technology / know-how development)

[Initiative description and investment amount: _____]

[Outcome : _____]

Network (including the development of a network with clients, suppliers or other companies)

[Initiative description and investment amount: _____]

[Outcome : _____]

Other (_____)

[Initiative description and investment amount: _____]

[Outcome : _____]

3) Maturity stage(_____ ~ _____ , under President [_____])

<input type="checkbox"/>	Facilities (including investments in computer software for operation / customer management)	
	[Initiative description and investment amount:]
	[Outcome :]
<input type="checkbox"/>	Human resources (initiatives for improving organizational strength, e.g. providing staff trainings to improve the skills of individual workers)	
	[Initiative description and investment amount:]
	[Outcome :]
<input type="checkbox"/>	R&D (including product development and technology / know-how development)	
	[Initiative description and investment amount:]
	[Outcome :]
<input type="checkbox"/>	Network (including the development of a network with clients, suppliers or other companies)	
	[Initiative description and investment amount:]
	[Outcome :]
<input type="checkbox"/>	Other (_____)	
	[Initiative description and investment amount:]
	[Outcome :]

Q5 Have there been any main goods and services that your company discontinued development, marketing or supply for?

YES

(Description of the discontinuation: _____)

NO

Q6 If you answered YES in Q5, what criteria did you apply in deciding the discontinuation (e.g. sales, profitability, number of years the business was operated for)

1) [_____] division (_____ ~ _____)
[Business description]
[_____]
【Factors and criteria for discontinuation】
2) [_____] division (_____ ~ _____)
[Business description]
[_____]
[Factors and criteria for discontinuation]

Q7 Fill out the table below based on your responses in Q2 – Q6, profits gained and assets gained.
 (Unit: Yen / thousand yen / million yen)

	3 years ago (term)	2 years ago (term)	Last year (term)
(1) Net sales			
(2) Ordinary income			
(3) $(2) \div (1) (\%)$			
(4) Gross assets			
(5) Net assets			
(6) $(5) \div (4) (\%)$			

Q8 What are the trends of figures (3) (Ordinary income to net sales) and (6) (equity ratio) from Q7?

- Ascending No change Descending

Q9 If you answered “Ascending” in Q8, what is the biggest growth factor? Is the positive factor something that will continue to be effective in the future?

Q10 If you answered “No change” in Q8, what is your view on the absence of fluctuations?

- It shows business stability. It shows business stagnation.

Q11 If you chose “business stability” in Q10, what is the biggest stabilizing factor? Is the factor something that will continue to be effective in the future?

Q12 If you chose “business stagnation in Q8, what is the biggest stagnating factor? How do you plan to resolve the negative factor?

《Past – Present (past business developments) Sheet》

(Q1~4 : Stocktake of past – present developments) Our company has conducted investments according to the following strategies and policies, and achieved outcomes as shown below (or “developed a mechanism”, etc.).

Stage	Strategy / policy	Investment (Content / amount)	Outcome (Mainly non-financial)
Business establishment stage (~)			
Growth stage (~)			
Maturity stage (~)			

(Q5~6 : Review of non-profitable business areas) In addition to the current main line of business, we took on the () business in the past. However, we discontinued the division in () from the perspective of () and has since concentrated management resources on the current line of business.

(Q7 : Financial results) We have conducted business and investments under the above strategies and policies, to register business performance as detailed below in recent years (Copy Q7):

(Unit: Yen · thousand yen · million yen)

\	3 years ago (term)	2 years ago (term)	Last year (term)
(1) Net sales			
(2) Ordinary income			
(3) (2)÷(1)(%)			
(4) Gross assets			
(5) Net assets			
(6) (5)÷(4)(%)			

3. Company strengths (accumulated intellectual assets)

(1) Company strengths (internal analysis)

*Use the SWOT Sheet (internal environment sheet) on page 46 to summarize company strengths. (See page 27–28 for description.)

Q1 What are the “distinctive strengths” your company has accumulated through business operations?

1-(2) List all strengths from the perspectives of management resources including “human resources”, “material resources”, “financial resources” and “information resources” as well as association with stakeholders (trust), organizational strength, technologies, know-hows and traditions, based on your company’s business characteristics, flow of main business areas and information identified in 2-Q4 (past investments).

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

Q2 What are the “weaknesses that should be addressed” in your company’s business operations?

List all weaknesses from the perspectives of management resources including “human resources”, “material resources”, “financial resources” and “information resources”, as well as association with stakeholders (trust), organizational strength, technologies, know-hows and traditions.

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

Q3 Do you have a business model (profit-making mechanism) that takes advantage of the strengths listed in Q1 (and complements the weaknesses listed in Q2)?

(Provide a flow-chart or other diagram describing the business model, if available.)
--

(2) Stocktake of intellectual assets

Conduct a stocktake of your company's strengths, identified in (1), by function (business flow) from the perspective of intellectual assets.

	Planning / development	Procurement	Manufacturing	Sales	Distribution / service
A. Human assets					
B. Structural assets					
C. Relationship assets					

(3) Exploring substantiating indicators

(2) Do the company strengths (intellectual assets), identified in (2), have substantiating indicators or diagrams that aid the understanding of a third party?

	Planning / development	Procurement	Manufacturing	Sales	Distribution / service
A. Human assets					
B. Structural assets					
C. Relationship assets					

[Three categories of intellectual assets]

Human capital	Capital that employees take with them when they retire
Examples:	Innovative ability, imagination, know-how, experiences, flexibility, learning ability, motivation
Structural capital	Capital that remains within the company when employees retire
Examples:	Organizational flexibility, databases, culture, systems, procedures, document services
Relational capital	All capital associated with the company's external relations
Examples:	Corporate image, customer loyalty, customer satisfaction, relationship with suppliers, negotiating power with financial institutions

See Chapter 2 (Basic knowledge for intellectual asset-based management, page 6).

《Company Strengths (accumulated intellectual assets) Sheet》

Our company has the following intellectual assets accumulated through business operations thus far.

(1) Strength: [] (intellectual asset)

(Intellectual asset : Provide the intellectual asset's overview, acquired process and functions)

This strength [] (intellectual asset) is shown in the following indicators:

(Intellectual asset indicator : Provide substantiating indicators and diagrams. If no indicators are available, describe the asset's benefits in text.)

(2) Strength: [] (intellectual asset)

(Intellectual asset : Provide the intellectual asset's overview, acquired process and functions)

This strength [] (intellectual asset) is shown in the following indicators:

(Intellectual asset indicator : Provide substantiating indicators and diagrams. If no indicators are available, describe the asset's benefits in text.)

4. Present – Future (future business developments)

(1) Identifying management tasks

*Use the Cross SWOT sheet on page 73 to identify management tasks. (See page 56 for description.)

Note that external and internal environments constantly change. This process is effective when projection of future changes is taken into account.

Q1 How do you take advantage of company strengths (intellectual assets) to seize present opportunities?

Q2 How do you take advantage of company strengths (intellectual assets) to avert the effect of present threats?

Q3 How do you overcome company weaknesses to capture present opportunities?

Q4 How do you overcome company weaknesses to avert the effect of present threats?

(2) Management policies / strategies

*Provide answers based on the management tasks identified above.

Q1 What management policy / strategy do you plan to adopt in conducting business operations for the next () years?

Q2 What specific measures do you plan to implement to materialize the future management policy, defined in Q1? Describe main measures based on the results of Cross SWOT in (1).

(Describe main measures and which of the four elements ((1)strengths – opportunities, (2)strengths – threats, (3)weaknesses – opportunities, (4)weaknesses – threats) the measures address.)

Q3 Are there any intellectual assets that need to be newly acquired to implement measures described in Q2? If so, how do you obtain the intellectual assets?

(3) Initiatives and investments for acquiring, sustaining and reinforcing intellectual assets

Q1 What initiatives and investments do you plan to conduct to implement business developments identified in (1)?

*If the monetary value cannot be determined, provide its description only.

<input type="checkbox"/> Facilities (including investments in computer software for operation / customer management)	
[Initiative description and investment amount:]
[Expected effect:]
[Fundraising method:]
<input type="checkbox"/> Human resources (initiatives for improving organizational strength, e.g. Providing staff trainings to improve the skills of individual workers)	
[Initiative description and investment amount:]
[Expected effect:]
[Fundraising method:]
<input type="checkbox"/> R&D (including product development and technology / know-how development)	
[Initiative description and investment amount:]
[Expected effect:]
[Fundraising method:]
<input type="checkbox"/> Network (including the development of a network with clients, suppliers or other companies)	
[Initiative description and investment amount:]
[Expected effect:]
[Fundraising method:]
<input type="checkbox"/> Other ()	
[Initiative description and investment amount:]
[Expected effect:]
[Fundraising method:]

《Present – Future (future business developments) Sheet》

In order to effectively utilize accumulated intellectual assets (strengths), our company will:

(2-Q1 : Future strategies) Implement the following strategies over the next () years.

(1) (2) (3) (4)

(2-Q2 : Future measures) Implement the following measures to put the strategies into practice.

(1) (2) (3) (4)

(3-Q1:Investment plan) Plan to implement the following initiatives and investments (including the acquisition of new intellectual assets) to effectively promote the strategies.

(1) (2) (3) (4)

(4-Q1 : Business plan) As a result of these measures, we anticipate the following results:

	1 year later (term)	2 years later (term)	3 years later (term)
(1) Net sales			
(2) Ordinary income			
(3) (2)÷(1)(%)			
(4) Gross assets			
(5) Net assets			
(6) (5)÷(4)(%)			

5. Corporate profile

《Corporate Profile Sheet》

[Business name]

[Representative]

[Establishment]

[No. of employees]

[Business description]

[Capital]

(million yen / thousand yen)

[Annual turnover]

(million yen / thousand yen)[Fiscal year: term]

[Address]

TEL :

[Operation bases]

[Main banks]

[Main industry associations that the company holds membership with]

[Miscellaneous]

6. Prolog

《Prolog Sheet》

1) What is intellectual asset-based management? (Copyable sample text: This text is by Haruurarakansyobo.)

Intellectual asset-based management deals with intangible assets, not included in conventional balance sheets. They represent management resources that are not reflected in financial statements and cannot be easily seen, i.e. human resources, technologies, skills, intellectual properties (patents, brands, etc.), organizational strength, management vision, customer networks and other elements that serve as the source of competitive edge for a company. An “Intellectual Asset-Based Management Report” is a document compiled for the purpose of presenting non-fiscal management resources that cannot be easily seen by stakeholders such as creditors, shareholders, customers and employees, in the form of a scenario for utilizing “intellectual assets” to enhance corporate values (value creation strategy). The Report is also designed to establish common understanding with stakeholders on the future potential of the company. This report has been prepared in pursuant to the “Disclosure Guidelines for Intellectual Asset-Based Management”, released in October 2005 by the Ministry of Economy, Trade and Industry.

2) Notes (Copyable sample text: This text is by Haruurarakansyobo.)

The future management strategies, business plans and associated business projections, included in this Intellectual Asset-Based Management Report, are based on currently available information, and may need to be modified in the future according to changes to the business environment surrounding our company (internal and external environments). In such case, the measures to be actually implemented or results to be achieved in the future may not correspond to information provided in this Report. Please be informed that we do not guarantee that the contents and figures carried in this report eventuate in the future.

3) Contact details

- Business name :
- Address :
- Telephone :
- Staff in charge :
- Email address :

Finally, re-examine whether the content of the Intellectual Asset-Based Management Report represents beneficial information for the main disclosure targets, defined in the disclosure policy. In compiling the report, quote numerical figures that substantiate business performance and plans (numerical basis: KPI or Key Performance Indicators). There are no standardized KPIs to be used. Select those that provide substantiation to the contents of the Report for third-party readers.

After the Report is examined, draw up a message from the proprietor.
(Write a proprietor's message based on the Report content, determined in the disclosure policy, with emphasis on what the company wishes to convey to the disclosure targets with the Report. It may be also effective to include the proprietor's profile, photograph and signature.)

《President's Message Sheet》

Proprietor's
photograph

Representative Director:

● ● ● ●

《Issues to be noted in completing the Workbook》

1. Overview

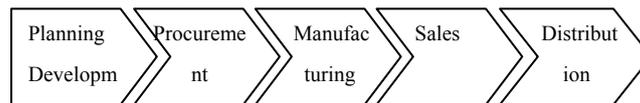
1) Management philosophy

Management philosophy describes, in plain language, the company's basic policies and standards it presents both internally and externally. This forms the basis for forming management visions and making major business decisions.

2) Business overview (business characteristics)

Describe past business operations and products / goods / services handled in terms of “what” has been sold “how” and “to whom”. What's important is who the main targets are and their characteristics (differentiation focus). Also, summarizing goods / services supplied and the flow of business operations (business flow) covering customers, business partners and distribution, can help identify which business divisions (functions) the company has strengths over. (Business flow is significantly different from business type to business type.)

<Business flow of a manufacturer>



This information may be quoted from an existing conventional company brochure or sales tools. However, the description must be given in an easy-to-understand manner, if the disclosure targets include stakeholders who have limited knowledge of the company's business, e.g. financial institutions, new business associates or job applicants.

The Report does not necessarily contain sales figures by business division (products, goods, services). However, it is recommended that past sales results are summarized so as to learn past fluctuations in sales makeup and explore the direction for future business developments.

3) Market environment

Identify and analyze the external environment that surrounds the company, particularly its main line of business.

In this process, identify elements that the company cannot control, and determine whether the elements represent “opportunities” (potential business chance) or “threats” (adverse business effect).

To obtain market information, use data of various statistics from surveys by the Ministry of Economy, Trade and Industry (<http://www.meti.go.jp/statistics/index.html>), Small and Medium Enterprise Agency (<http://www.chusho.meti.go.jp/koukai/chousa/index.html>), local governments and chambers of commerce and industry, or databases held by industry organization, private research institutes and research companies, so as to identify the market environment based on objective numerical data.

carry operating income if you wish to highlight results in the main line of business, or gross operating profit if you wish to emphasize the company's negotiation capacity with suppliers / clients.

3. Company strengths (accumulated intellectual assets)

There are various frameworks for stocktaking intellectual assets (company strengths). Present the information that effectively portrays your company. This workbook features a stocktake table by business flow (value chain) and intellectual asset categorization.

1) Identifying the company's internal "strengths" and "weaknesses"

Identify your company's own strengths, e.g. distinctive business approaches, know-how and other intellectual assets. At the same time, list areas that are not sufficiently addressed or areas that require improvement. The items identified in this process must be something that can be improved within the organization.

Analyze the internal environment to identify these elements, using the following perspectives:

(1)Human resources (president, senior executives, employees) / (2)Goods / (3)Money / (4)Information / (5)Know-how (negotiation capacity, risk management, production management, etc.) / (6)Speed / (7)Organizational strength (leadership, target sharing, etc.) / (8)IT environment / (9)Business bases / (10)Patent and other intellectual properties / (11)Association with customers, local communities and business partners / (12)Trust / (13)Tradition / (14)Brands

2) Business models that take advantage of company strengths (profit-making mechanisms)

In examining company strengths, consider which client needs are addressed and what mechanisms the company has for the purpose. Provide description with reference to the aforementioned business systems.

If the information is to be presented in a diagram, highlight the routes of value creation, i.e. how added values are generated.

3) Exploring substantiating indicators

Use numerical indicators to present company strengths in an objective light. (See Chapter 4-3 for details of visualizing techniques.) If no indicators are available, attach diagrams and photographs.

4. Present – future (future business developments)

1)Management policy (future vision) and strategy

In exploring future management policy and strategy, it is essential to examine how accumulated intellectual assets should be utilized. Maintain the perspective of which specific

strengths (intellectual assets) should be utilized and how.

Depending on the company's strategy, there may be intellectual assets that the company currently does not have, but should acquire and utilize in the future to achieve synergic effects. In this case, describe (1) how such intellectual assets should be obtained, and (2) how they should be utilized.

2) Future measures

Describe specific measures for materializing the management policy (future vision) and strategy, presented in (1).

Based on items identified in Cross SWOT analysis, examine each measure as to which of the four zones ("strengths / opportunities", "strengths / threats", "weaknesses / opportunities" and "weaknesses / threats") it addresses.

In executing management strategy, it is essential to complement weaknesses and overcome threats, while maintaining / enhancing strengths and making effective use of opportunities at the same time. Disclosing "weaknesses" and "threats" to stakeholders, and describing their countermeasures, will help increase the company's credibility.

Intellectual assets, which have no physical shape, could suffer a sudden drop in value when the business environment changes. In other words, current strengths do not necessarily constitute future strengths. Describe the information from the perspective of risk management, while paying consideration to factors that make intellectual assets obsolete.

3) Investments for acquiring, maintaining and enhancing intellectual assets

Explain the "content", "value", "anticipated effects" of investments, required to materialize the aforementioned strategy. In order to establish a sense of trust among stakeholders, include the approximate value of investments if such figures are available.

5. Compiling company overview

Company overview can be effectively provided by transferring information from reference materials currently being used. Keep in mind that the information must be presented to "impress" stakeholders efficiently.

6. Prolog

Give description on an Intellectual Asset-Based Management Report, as well as notes on uncertainties of future-related information and contact details. Sample text is provided on the Sheet, so that it can be copied unless you do not have any particular information you wish to express.

Chapter 5 Model companies that received support in the Intellectual Asset-Based Management Support Project

The four companies that compiled Intellectual Asset-Based Management Reports with our assistance this time, had the disclosure targets, objectives and characteristics as listed below. The table also contains comments from the companies' representatives.

Company name		Haruurakanasyobo	Value Planning
Target and objectives	Main and sub targets	Investors and job applicants Financial institutions, employees, job applicants and business clients	Employees and job applicants Developers (of buildings the company has outlets as tenant), business partners
	Disclosure objectives	(1)Improving investor understanding on the company's business operations (2)Improving financial institutions' understanding on the company's business operations (3)Providing company description to job applicants	(1)Employee (especially senior staff) education (2)Company description for new recruits
Future use of the Report		<ul style="list-style-type: none"> ●Reference material for investors ●Reference material for financial institutions, supplementing financial result data ●Reference material for job applicants to provide company description 	<ul style="list-style-type: none"> ●Reference material for job applicants ●Staff education tool ●Reference material on company description for use when opening new outlets
Comment from the representative		President: Masaaki Michishita	President: Norio Imoto
		<p>The process of compiling this report made me re-recognize the company's strengths and weaknesses. I have also come to realize the importance of preparing all text for the report with readers' viewpoint in mind. Our business cannot be easily described in a few words. I am convinced that presenting the Intellectual Asset-Based Management Report will enhance stakeholders' understanding of our company. The Report is generally used for financial institutions and investors, but we plan to also use it in our recruitment activities. This year, we are particularly interested in recruiting students who are interested in the content of our business. The Report is a very significant tool for this purpose. We compile a securities report each year, but plan to compile this Report for each fiscal term as well for the above purpose and also as reference material providing non-financial information.</p>	<p>The process of visualizing non-numerical assets (intellectual assets) has helped us summarize the company's (and my personal) stance.</p> <p>This makes it easier to conduct presentations to external parties. The greatest benefit is, however, that we have clarified the company's (and my personal) stance and future direction / goal / policy. There have been many elements we have renewed our recognition for.</p> <p>From now on, we will make use of this Intellectual Asset-Based Management Report so that its content is conveyed to and understood by as many stakeholders as possible. To this end, a study session is to be convened at an early stage to ensure that all employees fully understand its content.</p>

Characteristics of the company and its report

This company has compiled the Report to have stakeholders understand its unique business model that cannot be easily understood by external parties. The company has “pioneered an emerging market (combination of café and comic rental services) through unique distribution / sales of new and secondhand materials, and supplies books and other goods / services in the market”. In order to present this unconventional business model, the company identified factors that differentiate it from existing secondhand book retailers and new book wholesalers, and categorized them into “five distinctive strengths” from the perspective of intellectual assets. The Report also included the trends of the target market to deepen understanding on market conditions. As a greensheet registered company, it also focused on association with financial data, in consideration to the viewpoint of investors.

This company is an example of a fast-growing business who wishes to present and share its future vision with stakeholders. KPIs for “customer perspective” and “business process perspective” were explored but cancelled during the report examination stage due to the need to include the details in company manuals. The relevant information was provided in text instead. The move was also based on the judgment that the rapid business growth itself provides sufficient substantiation. The company is considering compiling a separate report for internal use. This report has been produced with focus on visual effects, presenting intellectual assets through product description, and keeping in mind the viewpoint of job applicants, tenants and other future stakeholders.

Company name		Cast	Showadenki
Target and objectives	Main and sub targets	Business clients and financial institutions Business partners, employees and competitors	Business partners and clients Employees and job applicants
	Disclosure objectives	(1)Capturing new business clients (2)Consolidating relations with existing clients (3)Improving financial institutions' understanding on the company's business	(1)Consolidating relations with business partners (2)Expanding sales orders from clients
Future use of the Report		<ul style="list-style-type: none"> ●Providing company information to clients (new users) ●As education tool for senior managers ●As reference material for financial institutions to complement financial data 	<ul style="list-style-type: none"> ●Reference material for a study session with business partners ●As company information to be presented to clients ●As education tool for employees
Comment from the representative		President: Hideyuki Sakai	President: Takehisa Kashiwagi
		In the material processing industry, our company has endured adverse business conditions following the collapse of the bubble economy, and finally begun to enjoy an upward trend in revenues and profits. However, we have always explored measures to break the routine nature of business management, so as to prepare for the next economic slowdown and build corporate muscle that can withstand the effect of the general economy. Upon learning about an Intellectual Asset-Based Management Report, it seemed exactly like something the company needed, and decided to take on the challenge. Once the report is compiled, the focus shifts to pursuing the future vision and achieving numerical targets in conducting business management. It is important to reinforce our strengths, convert weaknesses into strengths, and follow up on the Report each year. The Report is also presented externally as part of PR activities so that existing users can understand we are in an industry with long-term outlook in terms of business environment and employment, and that new users can learn of this type of casting business.	In previous meetings with financial institutions, I always wondered why human resources that comprise "craftsmanship", the "skills" they deliver, and "technologies" presented by the collective business unit (companies), were completely outside the scope of business assessment. Given this opportunity, we have approached the compilation of an Intellectual Asset-Based Management Report with the basic stance of maximum information disclosure. The following two usages are being considered: (1)Presenting information to employees, and as a resource for learning the company's overall picture from a new perspective, and using the overall picture to create the company's future (2)Learning who our stakeholders are, and taking advantage of their benefits
Characteristics of the company and its report		This example shows that a small business in a non-high-tech sector is still capable of compiling an Intellectual Asset-Based Management Report. This company has pursued business in the casting industry, which has bolstered Japan's manufacturing sector for many years. However, it now stands at a turning point due to harsh working conditions and clients' off-shore moves, and faces	This is an example of a non-listed company keenly aware of the need to establish greater understanding of its business among business associates, compared to their understanding on listed companies, in order to maintain its reputation as a non-listed but solid-performing company. The Report was compiled with focus on two existing mechanisms that

	<p>the need to make new business development that takes advantage of its company strengths. In the given background, all senior managers banded together to take this opportunity to review the company's strengths and compile the Report. The Report has been prepared to help clients and financial institutions deepen their understanding on the company.</p>	<p>generated numerous intellectual assets (Bee Dash activity for improving productivity and IS KOUBOU for enhancing customer satisfaction) and described intellectual assets generated as a result. Emphasis was given not only to the content of the Report itself, but also to the process of compiling the Report as part of staff education.</p>
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