

*SME Supporters' Guide for
Compiling an Intellectual Asset-Based
Management Report*

**Organization for Small & Medium Enterprises
and Regional Innovation**

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Introduction

This booklet has been compiled to provide support to specialists such as SME management consultants, accountants, patent attorneys and solicitors, as well as management mentors at the Chambers of Commerce and Industry and other consultants directly assisting SMEs (“Supporters” hereinafter) in assisting SMEs compiling an Intellectual Asset-Based Management Report.

As described in the main section of the booklet, the Intellectual Asset-Based Management Report is a tool for effectively utilizing and presenting the strengths of individual companies. Since the focus of the appeal differs from company to company, the assistance for compiling the Report should be flexibly adjusted accordingly. Supporters are expected to play two roles, i.e. supporting the compilation of the report and providing its verification. This booklet describes issues that should be noted in providing both of these types of support.

Chapter 1: Roles of Supporters

1. Report compilation support

“Report compilation support” signifies supplementing resources that are not available in-house in compiling the Intellectual Asset-Based Management Report. More specifically, such resources are mostly related to providing expert knowledge and other know-hows (e.g. on progress management). SMEs may also seek assistance in actual report compilation work, as they have only limited human resources for preparing such a report.

This section describes issues that should be noted in the case whereby supporters are involved in report compilation and in the case whereby the applicable company prepares the report internally.

1) When the report is compiled by supporters

It is more desirable for a company to prepare an Intellectual Asset-Based Management Report by themselves, as it will be utilized not only as a communication tool but also as a management tool to be applied to its own business management. Yet, in the case of SMEs, lack of sufficient human resources may make it unavoidable for supporters to compile the report on the company’s behalf.

In regard to business philosophy and management policy / strategy, the proprietor may have clear ideas on these elements in their mind, but find it difficult to put them into words by themselves.

Supporters may become inclined to presenting philosophies or policies based on their own knowledge, but it is important to adhere to the supporting role, conducting interviews with the proprietors, or making them draw up a bullet list to express their own ideas on their own account.

2) When the report is compiled by the subject company

While it is undoubtedly important to provide appropriate know-hows and analysis tools at the right timing, attention should also be paid to developing a suitable project framework for gathering comprehensive information from the perspective of collecting and sorting company information that can be used as data for analysis.

Firstly, the subject company’s proprietor must be actively involved to establish the task as a company-wide initiative. Another important factor is the selection of the project leader, who promotes the project itself, and project members, who gather unbiased information from individual departments and compile it into a report. Supporters must ensure that cross-sectional personnel are selected for these roles.

In addition, in view of the need for efficiency and motivation for project members, it is also the role of supporters to present an anticipated workflow and control work schedule.

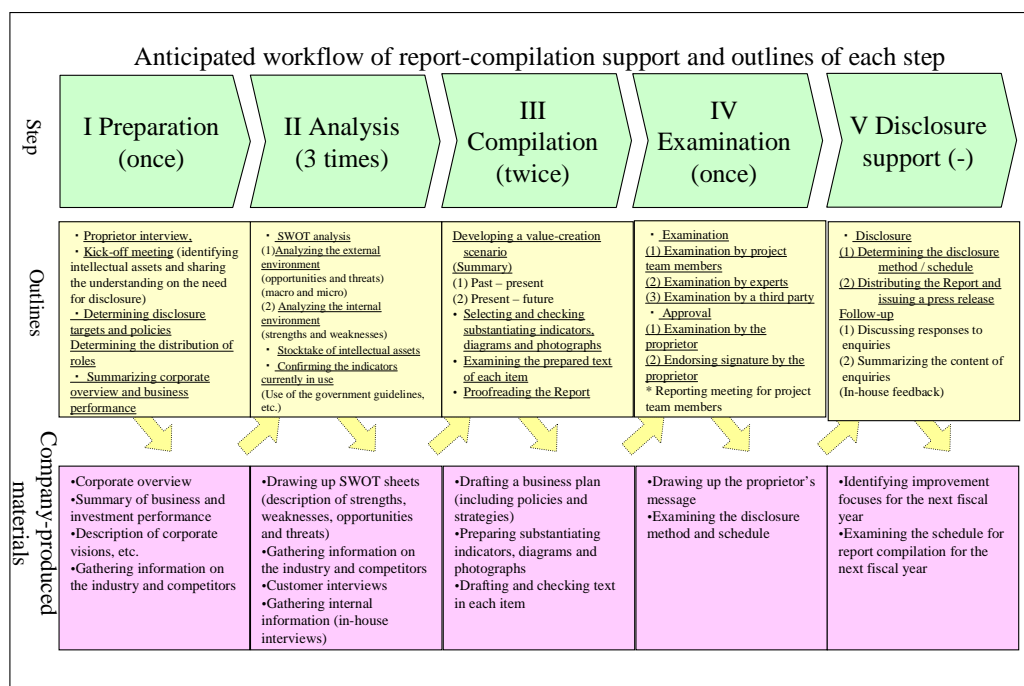
Regardless of whether the report is compiled by a supporter or the subject company, if the company has never prepared an Intellectual Asset-Based Management Report before, participating project members must be able to visualize how the final outcome would look.

See the attached reports for four sample companies, and other Intellectual Asset-Based Management Reports published on the website of the Japanese Ministry of Economy, Trade and Industry.

3) Workflow

The diagram below shows a typical workflow, based on the cases of the four sample companies.

Note that this flow chart shows a standard example of a workflow, and should be adjusted according to the content of the Report to be compiled, purpose and target of its disclosure, project system and support system.



Company-produced materials are prepared by the subject company's project members before or after support is provided, in order to ensure that each stage progresses efficiently. It is desirable to assign duties to individual members so that work will not unduly concentrate on some of the members.

[Example of a Role Distribution Sheet]

Content	Person in charge of gathering information and drawing up a draft	Remarks
Front cover: Intellectual Asset-Based Management Report		
1-(1) Message from the President		
1-(2) Management philosophy		
1-(3) Business overview		
(1) History		
(2) Business description		
1-(4) Market environment		
2 Past business developments		
(1) Past management policies and strategies		
(2) Business performance		
(3) Investment performance		
3 Strengths (Intellectual Assets)		
(1) Strength		
<Intellectual asset indicator>		
(2) Strength		
<Intellectual asset indicator>		
(3) Strength		
<Intellectual asset indicator>		
4 Future business development		
(1) Future management policies and strategies		
(2) Business projection (numerical targets)		
(3) Action plan		
5 Company overview		
6 Prologue		

2. Report examination support

“Report examination support” signifies examining disclosed information in the report, including indicators, from a third-party perspective. The report should be examined with the stance and focuses explained below, from the perspective of not only an expert but also a report reader.

1) In examining the report

Even if all internally-available information is gathered in the process of preparing a report, compiling the data only from the company’s perspective would result in insufficient information disclosure. Particularly when the report is used as a communication tool, placing too much emphasis on the desire to “present the company in a positive light”, may compromise the objectivity of the report. It is necessary to examine the compiled report, including the selection of substantiating indicators, from the perspective of a third party with expert knowledge. The framework of Johari’s Window¹ is used here to categorize perspectives required in examining disclosure information.

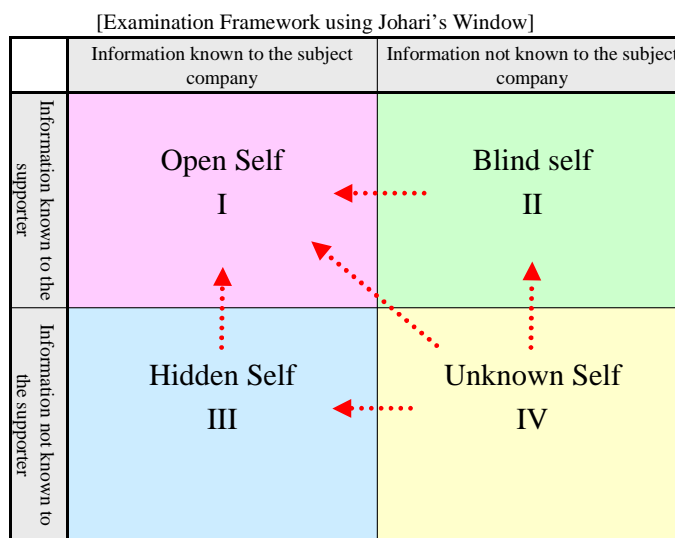
I. Open Self: Information (incl. data) known to both the subject company and its supporters should be examined for consistency, and how it can be presented to report readers accurately so that they can understand it fully.

II. Blind Self: Information not known to the subject company but known to its supporters with expert knowledge, should be presented to the subject company and examined on how it can be effectively presented.

III. Hidden Self: Information known to the subject company, but not known to its supporters (e.g. information specific to the industry

or the company), should be examined for its reliability (objectivity). From the perspective of “ensuring understanding among those with no relevant knowledge”, the supporter should urge the company to present it in a way that the supporter can understand fully,

IV. Unknown Self: Information not known to either the subject company or its supporters, is unobtainable (incomprehensible) information, and should be examined with third-party opinions, gathered from interviews with other stakeholders. Information in this category is often not suitable



¹ Model diagram for awareness and interpersonal relations, developed by psychologists Joseph Luft and Harry Ingham

for disclosure and should be examined with caution.

2) Focuses of report examination

The following are main focuses of the report examination, exemplified in relation to four perspectives:

- Coherency (Ensuring that there are no discrepancies in the overall content)
 - ✓ Is there coherency throughout the report in management philosophy, value creation story, past / future management policies and strategies?
- Consistency (Ensuring that individual pieces of information are consistent among themselves, and present cause-and-effect relationship clearly)
 - ✓ Is there consistency between the market environment and the company's strengths / weaknesses recognized based on the environment?
 - ✓ Is there consistency between past business developments and resulting intellectual assets?
 - ✓ Is there consistency between recognized intellectual assets and substantiating indicators?
 - ✓ Is there consistency between future business developments (management plan) and recognized intellectual assets?
 - ✓ Is there any inconsistency with other disclosure information?
- Exhaustiveness (Ensuring that all information that the company should and/or wishes to convey is covered in the report)
 - ✓ Is the market environment that surrounds the company identified exhaustively?
 - ✓ Are all past business developments covered exhaustively?
 - ✓ Are all intellectual assets, generated from past business developments, described exhaustively?
 - ✓ Are all indicators of intellectual assets examined exhaustively?
- Reliability (Ensuring that analysis and report content are based on facts)
 - ✓ Does the recognized market environment (external environment) reflect the actual market environment?
 - ✓ Are all past business developments described true to the facts?
 - ✓ Are all figures cited in business performance and business plan based on actual fiscal figures or projection figures?
 - ✓ Are indicators of intellectual assets based on objective fiscal and non-fiscal figures of the company?

Etc.

Chapter 2: Guide for report compilation

1. Target and objectives of information disclosure

The objectives of preparing an Intellectual Asset-Based Management Report are:

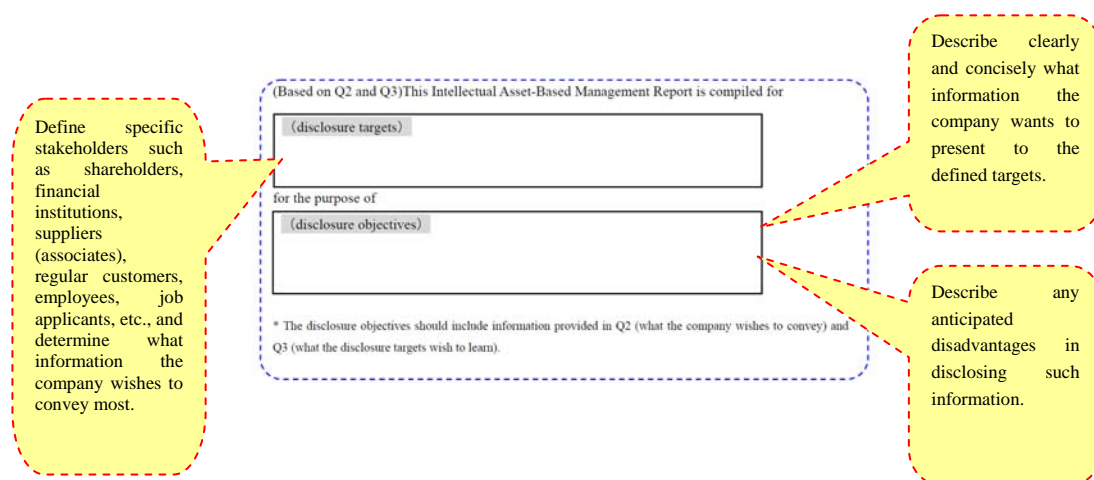
- 1) To convey management initiatives for generating sustainable profits and enhancing corporate values into the future, in a descriptive manner easy to understand for stakeholders
- 2) To establish a common understanding between the company and its stakeholders²

From the stakeholders' point of view, because of the need to assess the subject company based on limited information, the Intellectual Asset-Based Management Report, which provides information including non-fiscal data, represents a very significant communication tool for establishing common consensus with the management. At the same time, many SMEs do not have the type of disclosure mechanism used by listed companies, and are not accustomed to disclosing fiscal and other management information. Indeed, they often do not have a system for systematically gathering internal information.

With these in mind, supporters must develop a disclosure mechanism, determining and constantly checking whom the report is intended for (disclosure target), what the objectives are (disclosure objectives) and which information should be conveyed.

Since SMEs, in particular, compile such reports with a limited number of workers, efficient report administration is an important focus. Clarifying the target and objectives is not only useful in prioritizing information to be featured in the report compilation phase, but also contributes to preventing the leakage of information related to business secrets in the report examination phase from the perspective of risk management.

A Statement Sheet like the example shown below may be filled out first, and checked again during the stages of report compilation and examination, so as to maintain primary focuses throughout the process.



² Page 3, "Disclosure Guidelines for Intellectual Asset-Based Management" by the Ministry of Economy, Trade and Industry (2006)

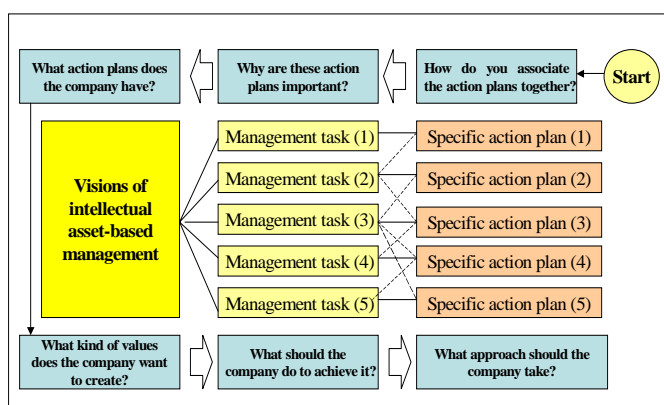
2. Overall picture

1) Management Philosophy Sheet

Management philosophy is the basis of business that the proprietor should reflect upon in making business decisions. When clearly documented, the philosophy plays the role of a compass of business directions as a management tool, and enhances the foreseeability of the company's behaviors as a communication tool for stakeholders. The Management Philosophy Sheet is designed to present, in easy-to-understand text, the proprietor's approach, policy and goal that underlines day-to-day business management.

SMEs have a set of standards that define their philosophy, policy and corporate activities. However, in many cases, these elements exist only in the minds of the proprietors, with difficulty anticipated in writing them out in the process of report compilation. Supporters must take a flexible approach in helping their subject companies fill out the Sheet according to their individual circumstances.

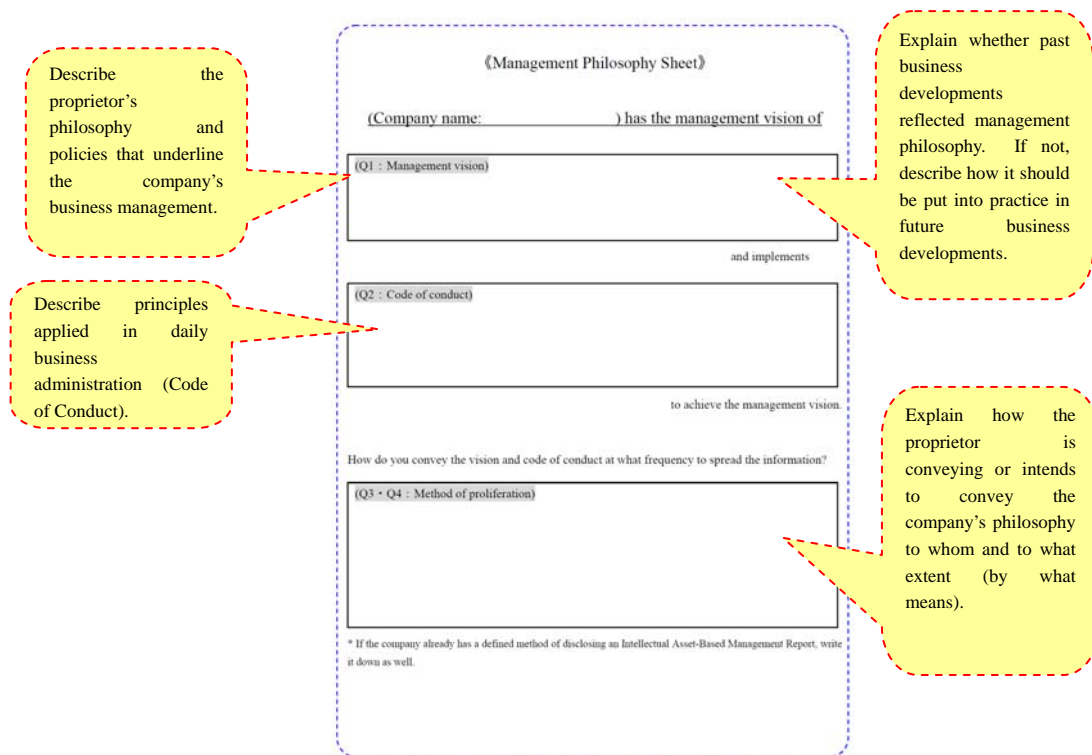
In Denmark, for example, where the reporting of intellectual asset-based management is already an established practice, analysis is conducted on specific action plans, management tasks and visions of intellectual asset-based management in this order, instead of starting from analysis on management visions (philosophy). Then, a



Source: Page 77, "Intellectual Asset-Based Management and Strategic Information Disclosure of SMEs and Venture Businesses" by the Kinki Regional Bureau of Economy, Trade and Industry

consistency check is conducted in the order of the visions of intellectual asset-based management, management tasks and specific action plans. It is recommended that these processes are to be repeated several times before finalizing the Report. This approach of examining from action plans is suitable as it is easier to analyze various elements this way.³ In report-examination support, there should be a focus on whether there is consistency between management philosophy (visions), policy, strategy and specific action plans.

³ Page 77, "Intellectual Asset-Based Management and Strategic Information Disclosure of SMEs and Venture Businesses" by the Kinki Regional Bureau of Economy, Trade and Industry (2006)



2) Business Overview (business characteristics) Sheet

The Business Overview Sheet is designed to present business areas currently being undertaken (including goods and services the company deals with) and their characteristics to stakeholders in an easy-to-understand manner.

The key focuses should be to clearly convey the characteristics (differentiation factors) of the company's business operations as opposed to competitors', and resulting values the operations offer, as well as the positioning of each business operation within the company.

In regard to the former focus, it is necessary to firstly present main sales targets of all business divisions, categorize business operations into a framework such as 4P (Product, Price, Place and Promotion), and describe their respective characteristics.

If no specific characteristics can be identified, have project members write out the characteristics of several business competitors in a form like the one shown on the right, and use the information for comparison in interviews with them, to help them visualize their own company's characteristics.

[Competitor Analysis Sheet example: In the case of wholesalers]

Company A overview	Item	Characteristics
Address: Osaka Representative: XXXX (XX years old) Number of employees: XXXX Number of operation bases: XXX Other business divisions: X Annual sales: X billion yen Establishment: XXXXX, XXXX	Product (goods and services)	Handling XX brands. The company has many repeat clients because of its selection of products with strong individual taste, sought after by some enthusiasts.
	Price (prices)	XX, which competes with our company's main line of products, is offered at XX? XX yen, slightly higher than the market average. The company has an aggressive pricing policy of offering no discounts.
	Place (sales and distribution channels)	The company has three sales bases, namely in Tokyo, Nagoya and Osaka. Osaka, where the head office is located, is home to a large number of sales representatives. There is also strong customer concentration in the Kinki region and areas to its west, compared to competitors. Products are sold through sales agents in Hokkaido and Tohoku.
	Promotion (sales promotion)	The company conducts sales promotion once a year, offering giveaways such as XX, so as to differentiate itself from competitors. Events at retailers are also actively organized in conjunction with manufacturers.

Characteristics (success factors) of Company A:

As for the latter focus, the Sheet should cover the sales breakdown of main business divisions, and the extent of injecting various management resources. Information such as the timing of starting manufacturing (sales) and transition of sales over a set period of time, may be also added to show stakeholders how the company has reached the current business configuration.

Supporters must put emphasis on ease of understanding and objectivity. To achieve ease of understanding, supporters may use photographs, process diagrams, etc. to visually present specific goods / services or workflow. Also, if comparative data of other companies (e.g. product performance data) and other substantiating indicators are available, consider featuring them while examining the effect of disclosing the information.

《Business Overview (business characteristics) Sheet》

1) The company's main line of business is

(Q1 or Q3: Main business areas and their positioning)

{ _____ } ,
 targeting (_____) ,
 This business area accounts for (_____) % of the company's overall sales.

* If the company handles more than one business area (goods / services), describe each of them, as in Q1. If one area represents a significant portion of the company's business, past developments may be described as in Q3.

2) The characteristics of the company's business areas (products, goods, services):

(Q1: Business characteristics)

The characteristics of the ((1) _____) division (products / goods / services) are
 { _____ } .

The characteristics of the ((2) _____) division (products / goods / services) are
 { _____ } .

3) To maintain the characteristics described in 2), the company focuses on (or has built a mechanism that addresses)

(Q2 - Q4: Measures and mechanisms)

{ _____ }
 in the ((1) _____) division (products / goods / services).

{ _____ }
 in the ((2) _____) division (products / goods / services).

Describe areas of business (goods / services), intended customers, and the sales ratio of each business division.

Use data to objectively describe the characteristics of the main business division (goods / services) in comparison to competitors.

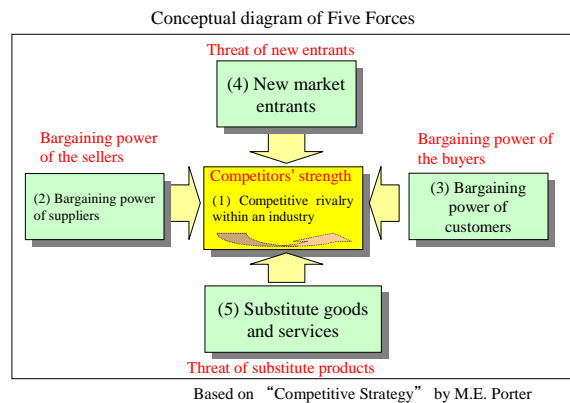
Use photographs, diagrams and data to describe business areas and their characteristics in an easy-to-understand manner. (Consistency check)

Describe specific plans (including resource investment plans) that have been (or will be) implemented to maintain the company's characteristics.

3)Market Environment (External Environment) Sheet

The Market Environment Sheet is normally filled out while conducting the opportunities and threats portion of SWOT analysis. However, it should be noted that its objectives and content may vary depending on who the intended stakeholders are.

If the intended stakeholders are financial institutions, shareholders and recruitment applicants with low industry insight, information on the industry itself should be conveyed. In contrast, if the intended stakeholders are suppliers, business associates and employees with a certain extent of industry knowledge, the objectives of this Sheet include informing them on how much industry information the company has, and how it views the market environment, in addition to merely providing industry information. In the analysis of business threats, in particular, the external environment should be examined from multiple angles, e.g. the Five Forces model (competitive rivalry, supplier power, buyer power, threat of new entrants and threat of substitutes), so as to draw up plans with solid understanding on future uncertainties.



Information should also be obtained through multiple channels. Based on the aforementioned framework of Johari's Window, there are the following ways of gathering information:

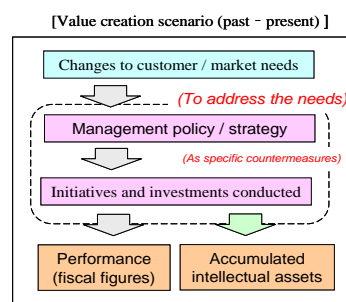
- I. Open Self: Gathering and examining information among supporters and project members
- II. Blind Self: Supporters actively providing information and project members examining and inspecting the provided information
- III. Hidden Self: Interviews with project members and other employees
- IV. Unknown Self: Interviews with customers, business associates, supplies and other stakeholders

Information tends to become biased at SMEs, as they are forced to operate with limited human resources. Supporters must not only present analysis models and lecture on how to use them, but also pay attention to how information is obtained and extend report-examination support, e.g. checking for the objectivity of gathered information.

3. Past business developments (past – present)

The Past Business Development Sheet is aimed at showing stakeholders what kind of policies and strategies the company has taken in developing the business, what kind of outcome and fiscal performance these have produced, and what kind of intellectual assets the company has accumulated.

This Sheet firstly examines the “surrounding environment”, “policies / strategies” and “specific initiatives / investments”, and records fiscal achievements generated as a result. Information on the previous three Sheets should be referred to, so as to fill out this Sheet efficiently.



The method for effectively conveying corporate stories differs from company to company. However, a form like the information sheet shown on the right, may be utilized to conduct interviews according to company history, so as to summarize chronological corporate developments from past to present.

[Sample sheet for chronological summary]

History	Initiative (event)	Outcome (achievement)	Generated intellectual asset
XXXX, XXXX	-----	-----	-----
XXXX, XXXX	-----	-----	-----
XXXX, XXXX	-----	-----	-----
XXXX, XXXX	-----	-----	-----
XXXX, XXXX	-----	-----	-----

Summarizing past business developments presents the company’s foundation of existence to stakeholders, and adds to persuasive data in substantiating plans for future developments. The information can also be used as a management tool for examining the company’s management policies, strategies and initiatives thus far. Supporters should help and examine such summarization work from an objective perspective, while providing other tools and know-hows.

Describe “strategies / policies”, “specific initiatives / investments”, and resulting “achievements” in a consistent manner.

(Check the cause-and-effect relationship as part of report examination support.)

(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)×100%			
(4) Gross assets			
(5) Net assets			
(6) (5)÷(4)×100%			

It is even better if cancelled initiatives are also included, along with their factors of cancellation, rather than simply listing successful initiatives.

Describe what achievements were made as a result of initiatives / investments. (Figures to be cited may be taken from recent terms, but it is even better to provide figures over a longer period of time.)

4. Company strengths (accumulated intellectual assets)

The Company Strength Sheet is designed to define intellectual assets, accumulated from past to present, and convey the information to stakeholders.

In other words, it represents a stocktake of accumulated intellectual assets, summarized in the strength and weakness portions of SWOT analysis (internal environment analysis). Although it is recommended to categorize intellectual assets into “human assets, related assets and organizational assets”, the information may be presented from the perspective of management capacity, as shown on the right, to make it easier to understand.

In exploring future business developments, it is effective to identify

success factors, stability factors and stagnation factors in examining what kind of strengths have been accumulated thus far, and whether there are any tasks to be resolved.

The VRIO framework of the RBV theory⁴ may be referred to in examining the Sheet.

A balance scorecard is effective in managing strengths (e.g. setting indicators). See the separate list of reference

documents for information on how to use this tool, which is omitted in this section.

【Sample sheet for administration capacity summary】

Capacity	Strength (S)	Weakness (W)	Substantiating Indicator
(1) Planning / technical capacity			
(2) Procurement capacity			
(3) Manufacturing capacity			
(4) Sales capacity			
(5) Organizational capacity			
(6) Human resource capacity (manager capacity)			
(7) XXX capacity			

【VRIO Framework = Four questions on management resources of a

(1) <u>V = Value</u> (economic value) Is it possible to adapt the company's management resources to the external environment?
(2) <u>R = Rarity</u> Are there other companies that have similar management resources?
(3) <u>I = Imitability</u> Is it difficult to obtain or develop similar management resources?
(4) <u>O = Organization</u> Is there an organizational system for utilizing the management resources?

Compiled based on Page 250 of “Gaining and Sustaining Competitive Advantage” (2003) by J.B. Barney

⁴RBV (Resource Based View) theory: Theory presented by J.B. Barney. Refer to “Gaining and Sustaining Competitive Advantage” (2003) by J.B. Barney for details.

《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.)

Describe the company's strengths (intellectual assets) comprehensively and concisely.

Include indicators, photographs and diagrams that objectively present the described strengths. (Examine the cause-and-effect relationship with the indicators.)

Check for consistency (or duplication) with the characteristics of the company's business operations, described in "business overview" and achievements described in "past business developments"(non-fiscal).

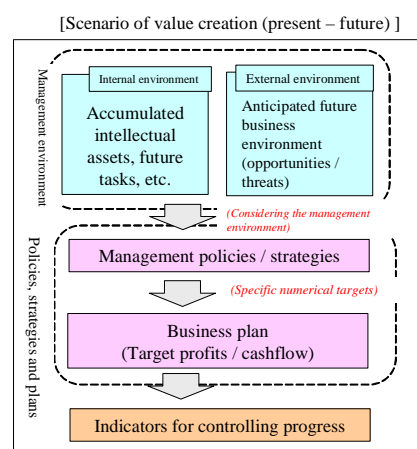
It is effective to include the characteristics of intellectual assets (rights), if they represent key differentiation factors.

5. Future business developments (present – future)

The Future Business Development Sheet is aimed at exploring future developments (business plan), and is used as a communication tool for sharing future policies with stakeholders (what roles the company expects them to play).

This Sheet involves detailing “management policies / strategies” and “business plan (profits, cashflow and other numerical targets)”, taking into consideration various business environments (internal and external environments).

Setting indicators used in the Company Strength Sheet and other control indicators enables regular monitoring of the company’s policies, strategies and business plans. This improves the efficiency of internal management and the delivery of information to stakeholders in an easy-to-understand manner.



The key focus in disclosing future business developments lies in their achievability. Supporters must keep the following issues in mind through report-compilation support and report-examination support:

- (1) Do the business developments reflect the internal and external environments?
- (2) Do the business developments effectively take advantage of intellectual assets accumulated thus far?
- (3) Do the business developments take into account countermeasures for risks?

(Here, “risks” encompass not only manifested “threats” but also the need to develop a flexible organizational system that can address uncertain risks that cannot be predicted at present.)

Draw up and describe the strategies / policies that take accumulated intellectual assets into consideration. Also describe measures / investments as actions for achieving the strategies / policies. (Check their consistency.)

《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) (%)			

Give specific description of measures for creating / attaining new intellectual assets that not only enhance the company’s strengths but also supplement weaknesses, along with future investment plans.

Provide a more detailed business plan separately to financial institutions, investors, and other fundraising-related stakeholders.