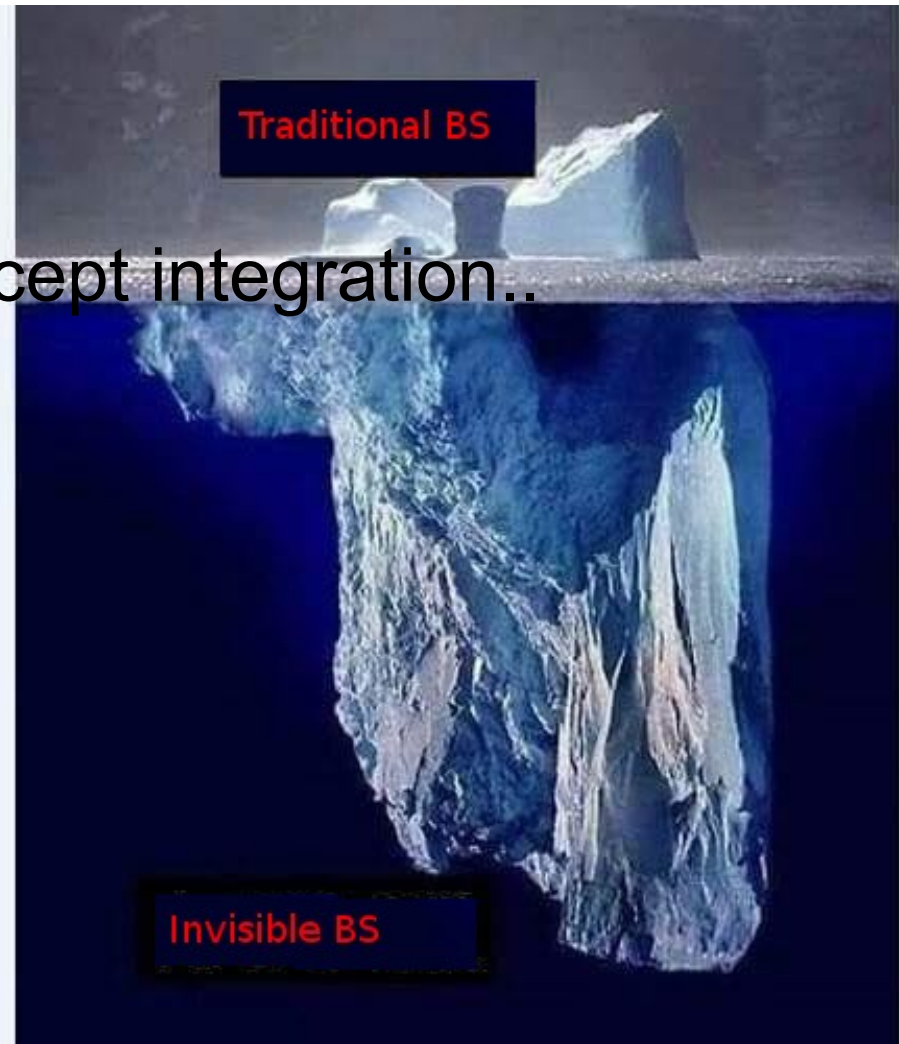


3rd Session



- Should be a logical integration of the previous courses.
- Let's somehow review..
- Let's dream to extended concept integration..
- Innovation...
- Let's face a new challenge!



What is an Intangible Assets?

Intangible asset:

- Defined & Recognised by
 - **if, and only if, certain criteria are met.**
- Standards specifies how to measure
- Generally intangibles are recognized as part of an acquisition

Acquirer is allowed to assign some portion of the purchase price to acquired intangible assets

An intangible asset is an :

- Identifiable asset,
- Non-monetary asset,
- Without physical substance (a useful life >one year).

IAS 38 – Identifies three critical attributes:

- Identifiability,
- Controllably and
- Future economic benefits.

Examples of Intangible Assets

- Goodwill

Marketing-related intangible assets

- Trademarks
- Newspaper mastheads (titluri de)
- Internet domain names
- Noncompetition agreements

Customer-related intangible assets

- Customer lists
- Order backlog
- Customer relationships

Artistic-related intangible assets

- Performance events
- Literary works
- Musical works
- Pictures
- Motion pictures and television programs

Contract-based intangible assets

- Licensing agreements
- Service contracts
- Lease agreements
- Franchise agreements
- Broadcast rights
- Employment contracts
- Use rights (such as drilling rights or water rights)

Technology-based intangible assets

- Patented technology
- Computer software
- Trade secrets (such as secret formulas and recipes)

BSC - Balanced Score Card

vs

IAM - Intangible Assets Monitor

(Sveiby 2001)

Originated entirely independent of each other

- IAM - developed around 1986-1987 in Sweden.
- BSC - developed around 1990 in the USA.

Several similarities

1. Both concepts - non-financial measures must complement the financial indicators.
2. Both authors - non-financial ratios and indicators must be lifted from the operational to the strategic level (strategy must be the driver of designed metrics)
3. Both advocate that change is the most important aspect to measure
4. Both agree “approach to measuring” - not a new control instrument, but to be used for improving learning, dialogue.
5. Both concepts categorize "intangible" into 3 basic areas:

Balanced ScoreCard (Kaplan & Norton)

- Customer Perspective
- Internal Business Process Perspective
- Learning and Growth Perspective
 - Financial Perspective (a fourth category)

IAM - Intangible Assets (Sveiby)

- External Structure
- Internal Structure
- People's Competence
 - Tangible Assets (a fourth category)

BSC - Balanced Score Card

vs

IAM - Intangible Assets Monitor

(Sveiby 2001) - Continued

Differences:

1. Look similar but very different origins, foundations of the concepts
2. **IAM** - based on the notion of **people = organisation's only profit generators**.
(knowledge economy people should **not be regarded as costs** but rather **revenue creators** and that **knowledge** or **people's competence** are **sources of wealth creation**)
IAM assumes **human actions** - converted into both **tangible** and **intangible knowledge**
"External & Internal structures" can be regarded as **assets** (affect the revenue streams).
3. **IAM** - a **Stock-Flow theory**, same as **traditional accounting theory** perceives the 3 Intangible Assets as "real" assets
"Flows focus" - suggests that we should try and find metrics indicating **change in the assets**, such as the **growth, renewal, efficiency** and **stability**.
4. **IAM's "External Structure"** - customers, suppliers and other "external" stakeholders
5. **BSC** advocates singular Customer Perspective – but for Public Sector hard to accommodate to "Customers". Suppliers must be included too.
6. **BSC** disregard what constitutes the bases of a firm but objectives and the measures of the Score Card are derived from an organisation's vision and strategy (to get a more "balanced view").
7. **IAM** - based on "**knowledge perspective**" (a "**Knowledge Era**" measuring instrument)
BSC - more "**Industrial Era**", becomes a more demanding option to get the best value, to re-designing the strategy to be more "knowledge focused"
8. **BSC** users will probably develop non-financial indicators that are different from those using **IAM**.

Knowledge, Knowledge Economy, Knowledge Era...

- Big words! Isn't it?
- Beyond words, are we affected by the concept?, how?
- How do we perceive the 'big picture'?
- Can knowledge lead to/enhance the “exponential behavior”?
- How “exponential technologies” may either influence or disrupt our world..
- Let's talk & converge to a common projection, a common understanding..
- Or let's talk about innovation..
- Or maybe just about “time compressing”..

“On democratising knowledge”

(World Economic Forum)

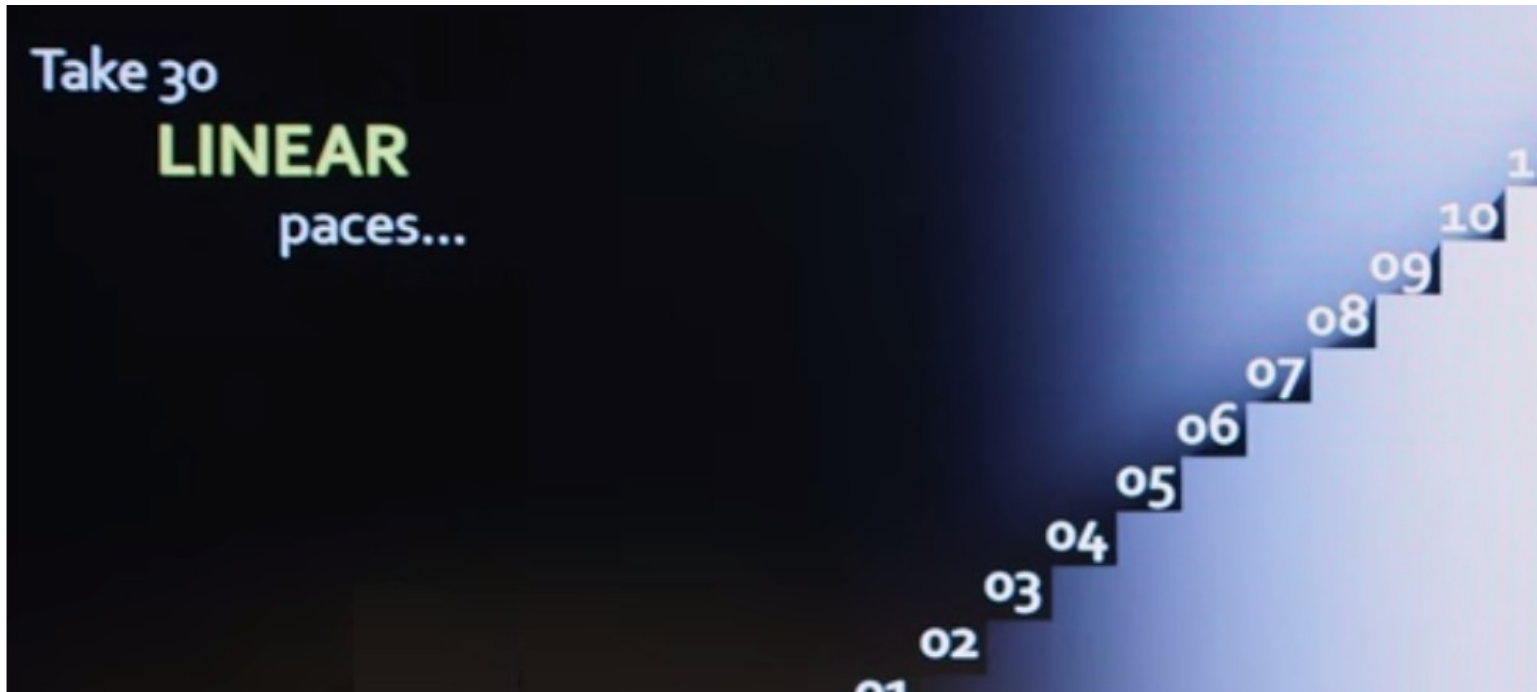
(Peter Diamandis – co-founder and chairman of **Singularity University**)

- Any passionate enough individual – have access to accelerating exponential technologies, and therefore can take part of present world’s grand challenges, some may solve them...
- “A kid in Mumbai on a smartphone, has access to more cloud computing power than the chairman of MIT had twenty years ago. And more access to knowledge and information than President Clinton had twenty years ago. It’s an extraordinary democratisation that’s going on.”

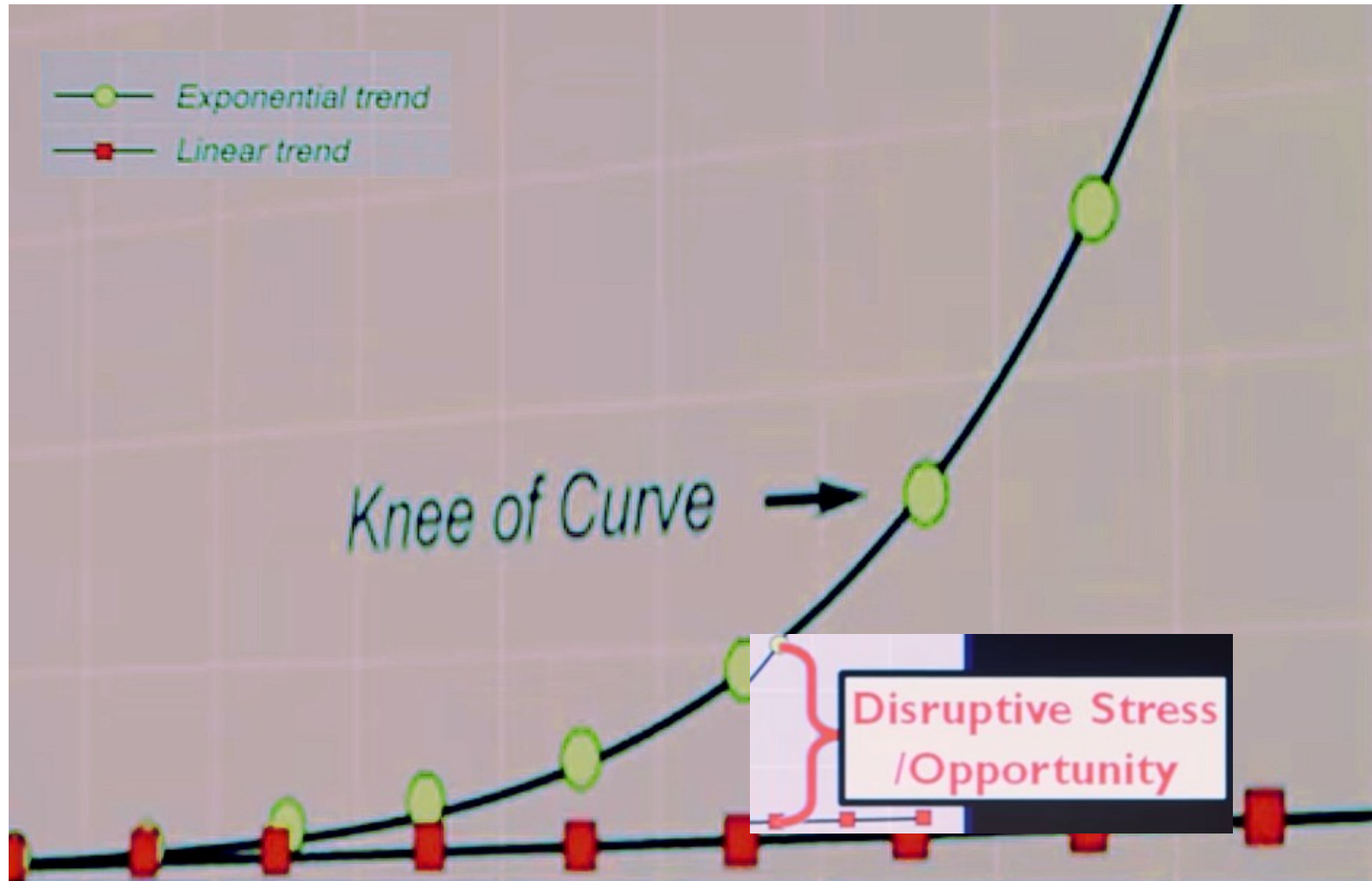
Peter Diamandis

- IBM Watson Ecosystem is in the cloud- A community of organizations, from developers to content providers, collaborating and creating the next generation of cognitive apps/allow to build API to build services on top
- 3D Printing – a Major disruption of Manufacturing .. early signs show up

Linear / Exponential



Linear / Exponential



Kodak Moment

(Handling Intangible Legacy)

- 1996 Kodak - a 28 Billion\$ company, one of well-known traditional and mainstay brands of the world!
- 20 years earlier – Kodak invented the digital camera
- Management team – either failed to see the real potential of its advanced innovation... or...didn't understood 'intangible game'
- “They didn't understand what exponential growth would look like.” ... ending / effectively disrupted by the very technology that they had invented!.
- In 2012 Kodak declares bankruptcy



Instagram Moment

(Handling Intangible Legacy)

- Also involved in digital image business
- Become an important player in “mobile photo-sharing”, “video-sharing” and “social networking service”
- 2012 Instagram gets acquired by Facebook
- “but they’ve got **13 employees** with a **one billion dollar valuation**. The difference between what is an exponential company and the linear one is this kind of disruption. I call it the new Kodak moment.”

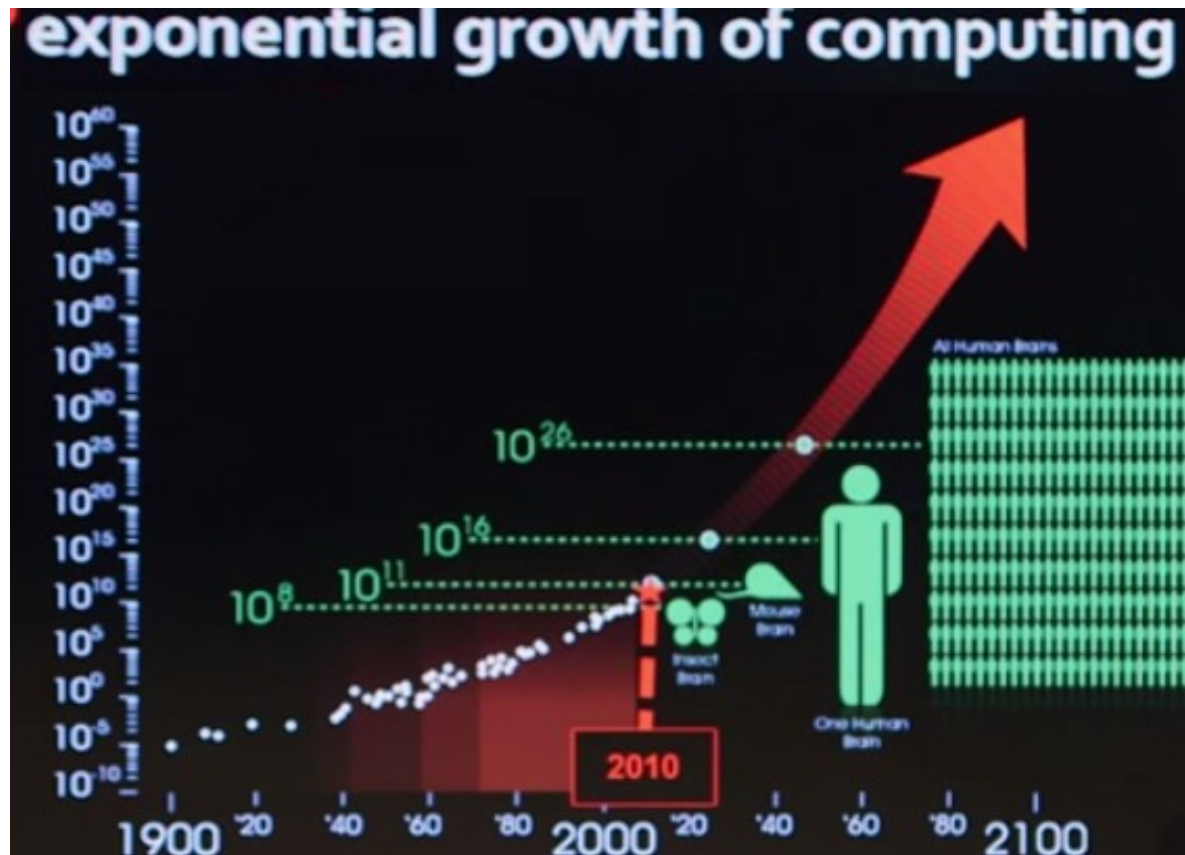
Peter Diamandis

- Intangible's Contribution and handling – **obvious to both cases!**



Connections .. Communications .. Computing Power

(World Economic Forum)

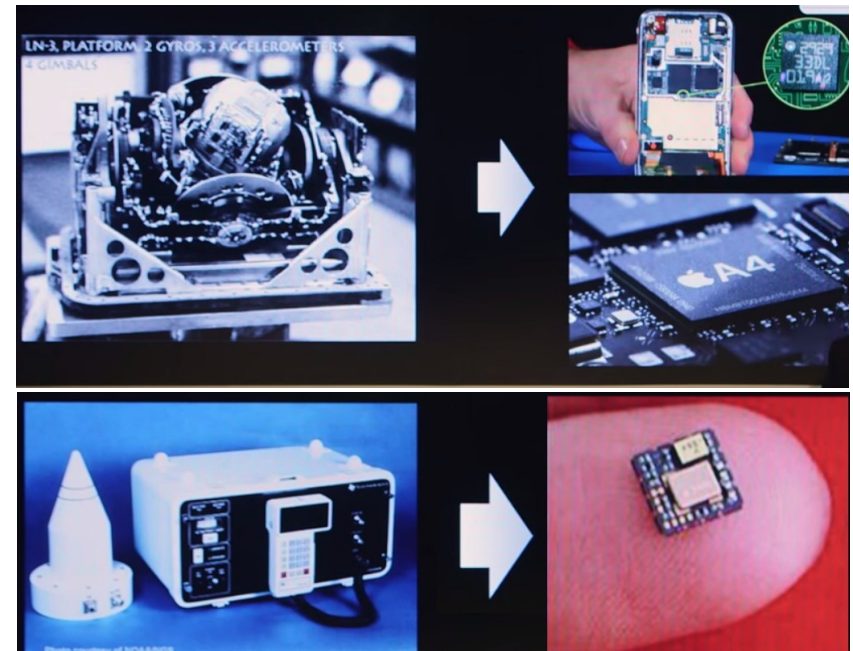


Exponential Technology

Example - History of Solving Longitude Problem

(Wikipedia)

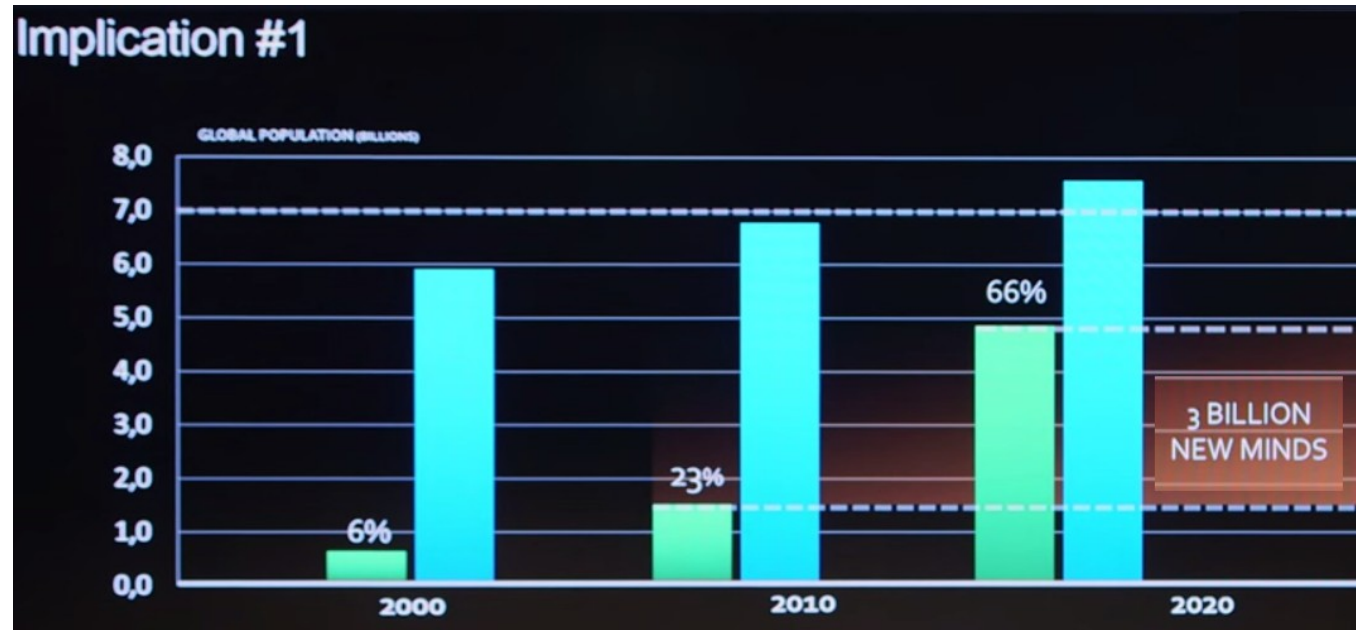
- 3rd century BC, Eratosthenes the first proposed a system of latitude and longitude for a map
- 2nd century BC Hipparchus was the first to use such a system to uniquely specify places on the earth. He also proposed a system of determining longitude by comparing the local time of a place with an absolute time.
- Gemma Frisius 1533 - described for the first time the 'method of triangulation' still used today
- 1553 - described how an accurate clock could be used to determine longitude
- John Harrison's proposal — marine chronometer (1736 first trial / 1773 reward £23,065)
- Galileo's proposal 1612 - proposed that with sufficiently accurate knowledge of their orbits one could use their positions as a universal clock, which would make possible the determination of longitude.
- Halley's proposals 1683 - 'lunar occultations and appulses, magnetic deviation'
- INS - Inertial Navigation System
- GPS



Global Economy .. Global Challenges

(World Economic Forum)

- 'Standing still' - no longer an option!
- “Garage Type” Entrepreneur - undertake risks .. innovation.. big challenges!
- Technology its accessibility may be a “business pusher” our days..
- We're living within a 'logarithmic environment' .. cannot afford a linear thinking...
- Should face '10 times bigger' not '10% bigger'
- 5-7 Billion 'new Internet user' – it should be read as potential 'new customer'
- An world where we little cannot accomplish
- An world of continuous changes
-
- Can we face it?
- The scale..



IC Cases

Skandia AFS case study

- **Skandia**
 - developed frameworks for measuring and reporting intellectual capital also to
 - guides management to drive up overall corporate value.
 - influencing the debate on intellectual capital accounting and reporting.
- Reflect on how the specific nature of intellectual capital influences the valuation process, in practice, and how it impacts on some of the qualities of its value..
- Its US Division offers a good illustration of following the **Roos Model** (first model that clearly distinguishes between **individual knowledge** and **social knowledge**)

Skandia AFS case study

Findings

- Highlights the relevance of the intellectual capital valuation process in spite of the intellectual capital value per se.
- While **intellectual capital value** seems to present a **limited level of objectivity, consistency, comparability and understandability**,
- Its **valuation process** can be considered an **opportunity to visualise and understand intellectual capital and its influence on financial performance**.
- **Intellectual capital valuation** – to be considered a useful practice for managers on **intellectual capital in action**.

Skandia AFS case study

Practical implications

- Research findings should be useful to those interested in studying intellectual capital in action and
- Developing new valuation models or
- Defining existing models
- Some of intellectual capital value limitations can be related to the absence of generally accepted valuation guidelines (e.g. the absence of a common definition, a single process, etc.),
“this can represent an incentive for policy makers to draw up useful rules to make
intellectual capital value more understandable for an outsider and to identify managerial best practices”.

Skandia AFS case study

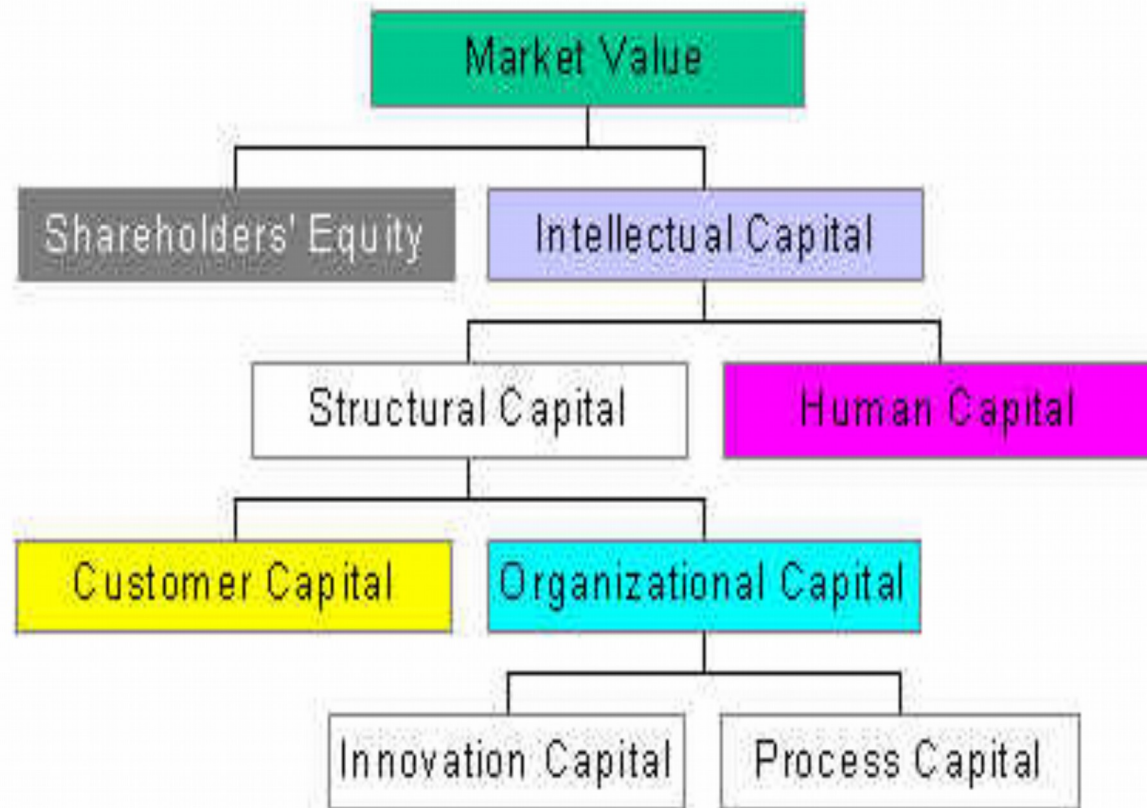
Originality/value

In comparison with previous studies on intellectual capital valuation:

- focuses on an in vivo intellectual capital valuation process
- the specificities and criticalities that emerge from a process perspective (in which intellectual capital is considered as a conventional object).
- Enriches the previous critical discussions on intellectual capital measurement focusing on intellectual capital financial value

Skandia AFS case study

Skandia Framework



Source: Skandia

Skandia AFS case study

Skandia Navigator Report – American Skandia

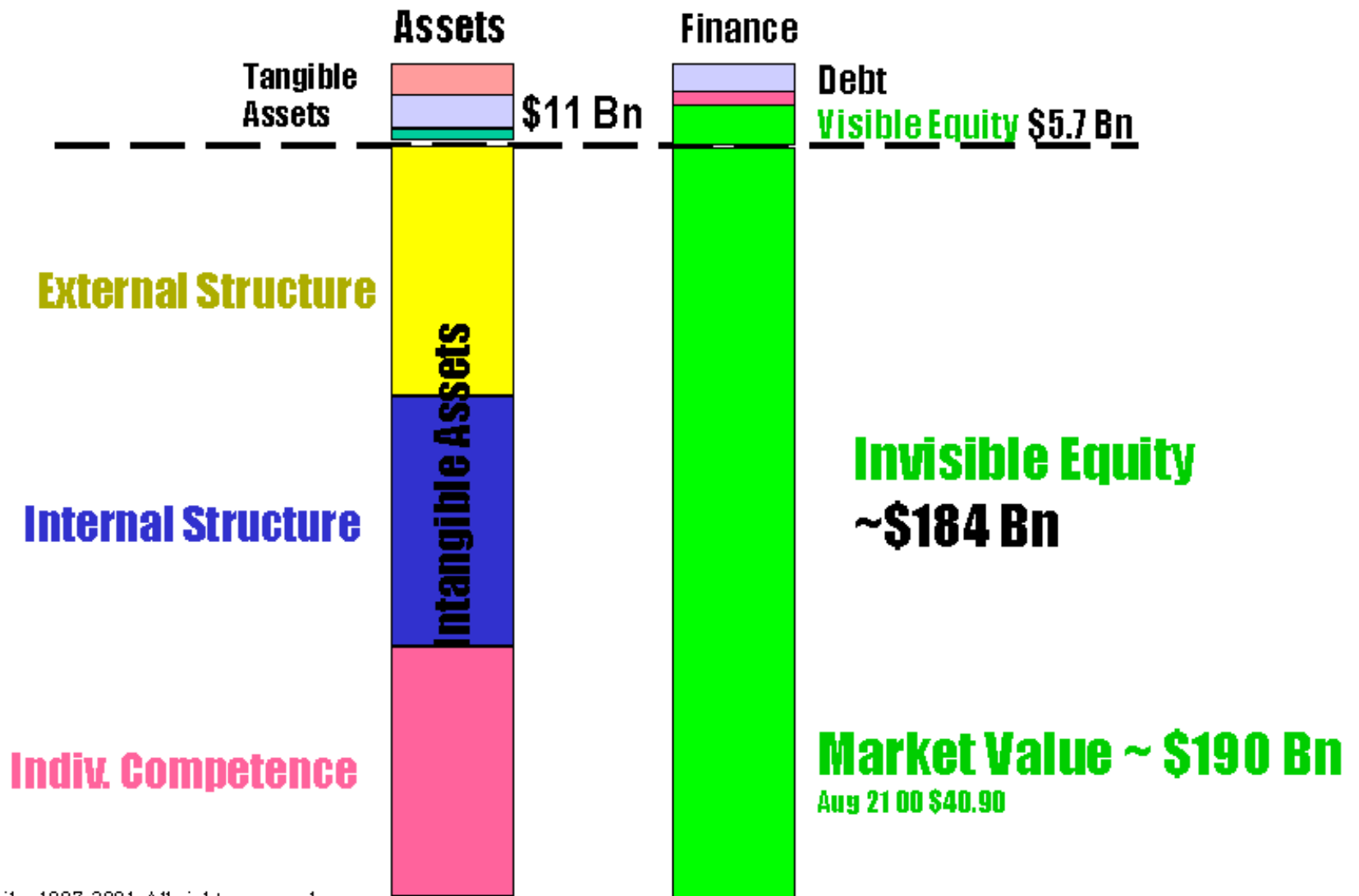
	1997	1996	1995
FINANCIAL FOCUS			
Return on capital employed %	21.9	27.1	28.7
Operating result (MSEK)	1,027	579	355
Value added/employee (SEK 000s)	2,616	2,206	1,904
CUSTOMER FOCUS			
Number of contracts	189,104	133,641	87,836
Surrender ratio	4.4%	4.4%	4.1%
Points of sale	45,881	33,287	18,012
HUMAN FOCUS			
Number of full time employees	599	418	300
Number of managers (total)	88	86	81
Number of women managers	50	27	28

Nokia case study

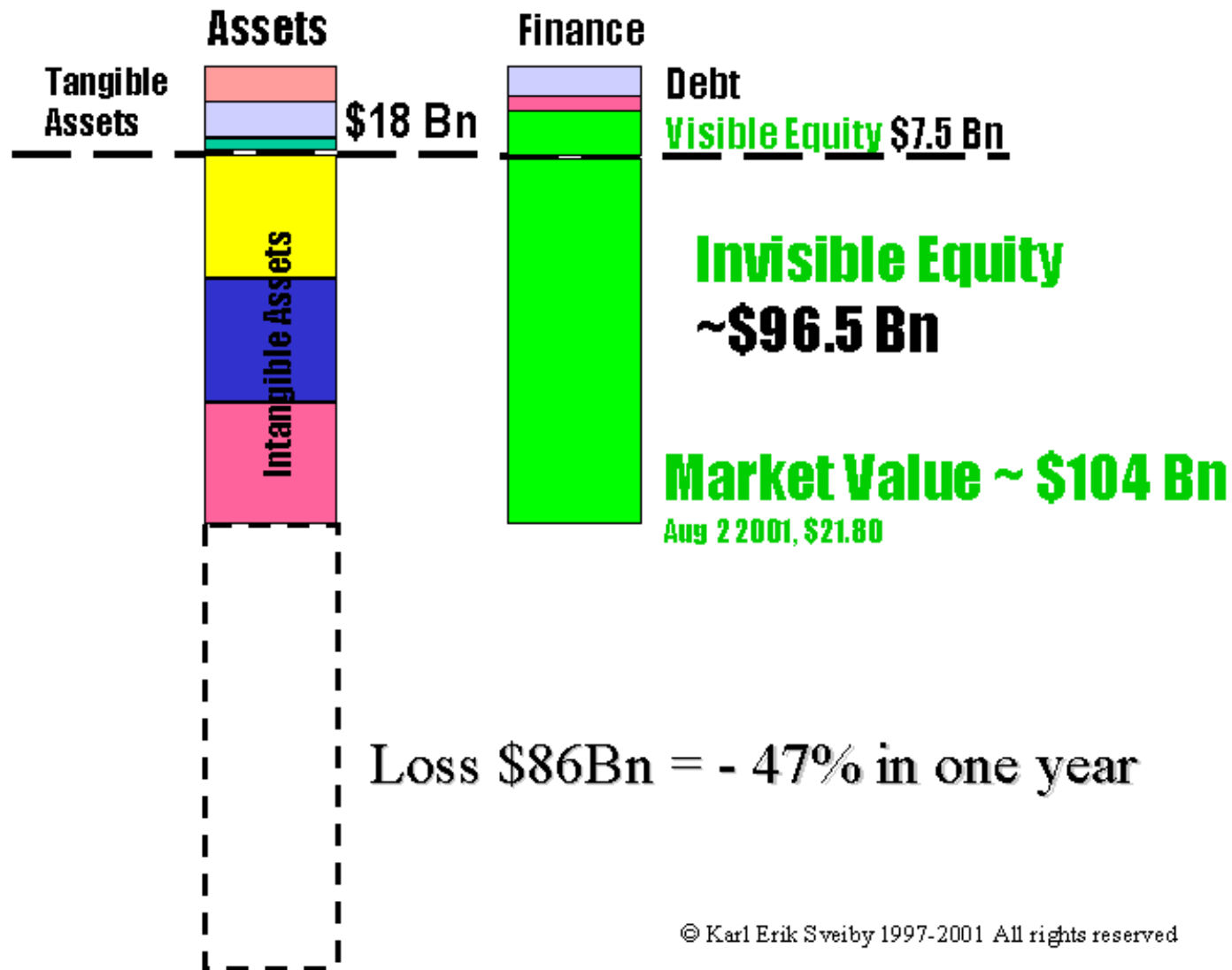
"Invisible" Balance Sheet 1999

- The "visible" component - US\$11 Billion of tangible assets (duly reported in 1999)
- Nokia borrowed \$5.3M in long-term loans, to fund these assets
- Shareholders financed \$5.7 Billion in equity (shareholders' capital).
- Annual Report net book value **\$5.7 Billion** (tells a very few)
 - August 2000, Nokia's equity traded shares (Helsinki stock exchanges)
 - A new investor was willing to pay \$40.90/share, making the market capitalisation +a **\$190 Billion** (owned by the shareholders)
 - traditional/Annual Report gives no clues to the huge discrepancy between the **accounts** and the **price paid** for the **shares**.
- "Under the surface"! - no less than **~\$183 Billion** in **intangible assets** (difference between the **market value ~\$190Billion** and the net **book value \$5.7 Billion**).
- If acquired at this point in time by another company - have had to pay at least **\$190 Billion**.
- **Accountantable items: tangible assets**, the debt, **\$183 Billion "Intangible Asset"** equal to the cost in the accounts and they would call it "**Goodwill**" - the value become suddenly visible!

Nokia's Invisible Balance Sheet, Q3 2000



Nokia's Invisible Balance Sheet, Q3 2001



Dangers with \$\$\$-Valuation

(good for the purpose of course)

- **How, when** should we start using the invisible balance sheet for measuring the intangible assets?
- That depends on the purpose of measuring.
 - necessary for buying or selling a company or an asset, as on the stock markets.
 - Not a particularly useful method for establishing performance, for assessing corporate performance nor for learning about a business.
- Problem generated - the share price of a company is a **perception about future** and it will **fluctuate with the general economy**.

**Is it the end?
No, it is just the beginning!**

- Intrebari?
- Multumim!

IRC Section 409A Valuation?

(Internal Revenue Code section 409A)

Internal Revenue Code, Section 409A regulates the treatment for federal income tax purposes in the United States of nonqualified deferred compensation paid by a "service recipient" to a "service provider".

History

Added Jan 2005 in part, in response to the Enron's executives practice of accelerating the payments under their deferred compensation plans.

The requirement to get a 409A valuation of your company's fair market value stems from the American Jobs Creation Act of 2004...

Congress desire to have a tighter grip on stock option reporting (stemming from the Enron and Worldcom scandals) and because of its desire to ensure the government received its share of taxable income, something that had been avoided through undervaluation of employee deferred compensation.

Issuing stock options or other deferred compensation arrangements to employees, you must ensure the targeted exercise price is compared with an accurate fair market value of your business's common stock as of the option grant date (or other compensation agreement date).