

AREOPA

provoking innovative intelligence

CREATE A COMMON LANGUAGE BETWEEN INNOVATIVE SME'S AND FINANCIERS .

Let's talk money, the language of business.
"Quantifying the future value of the IC created
by SME's"

Ludo Pyis, founder & president of the AREOPA
group

GFIC : 20 & 21 may 2018



WHAT DOES AREOPA DO?

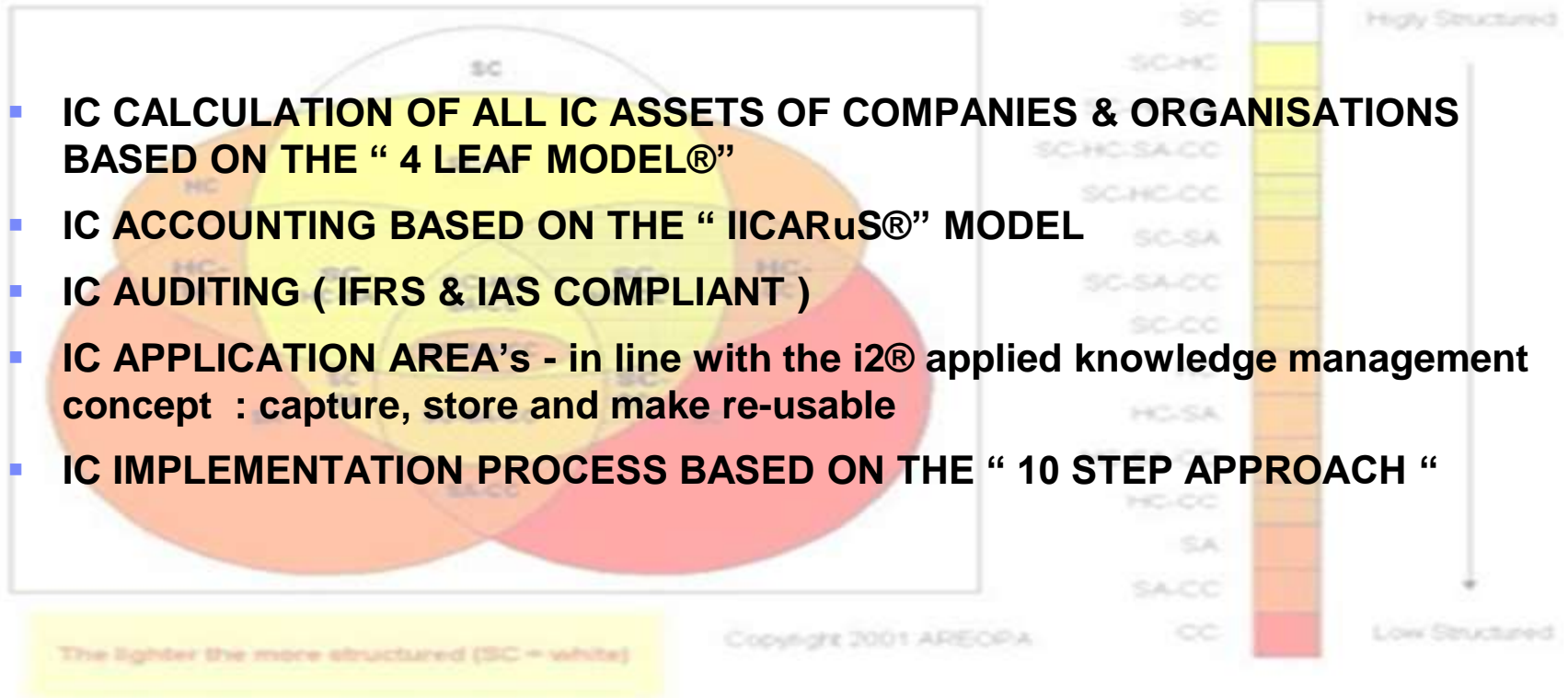
AREOPA's Mission:

Be the leading edge, **knowledge** and practice **provider**, in the field of **intellectual capital accounting**, creating leverage for our alliances and “excelleration” in business performance for the customers we share.



AREOPA's FIELD OF EXPERTISE

IC - 4 leaf model - 15 categories



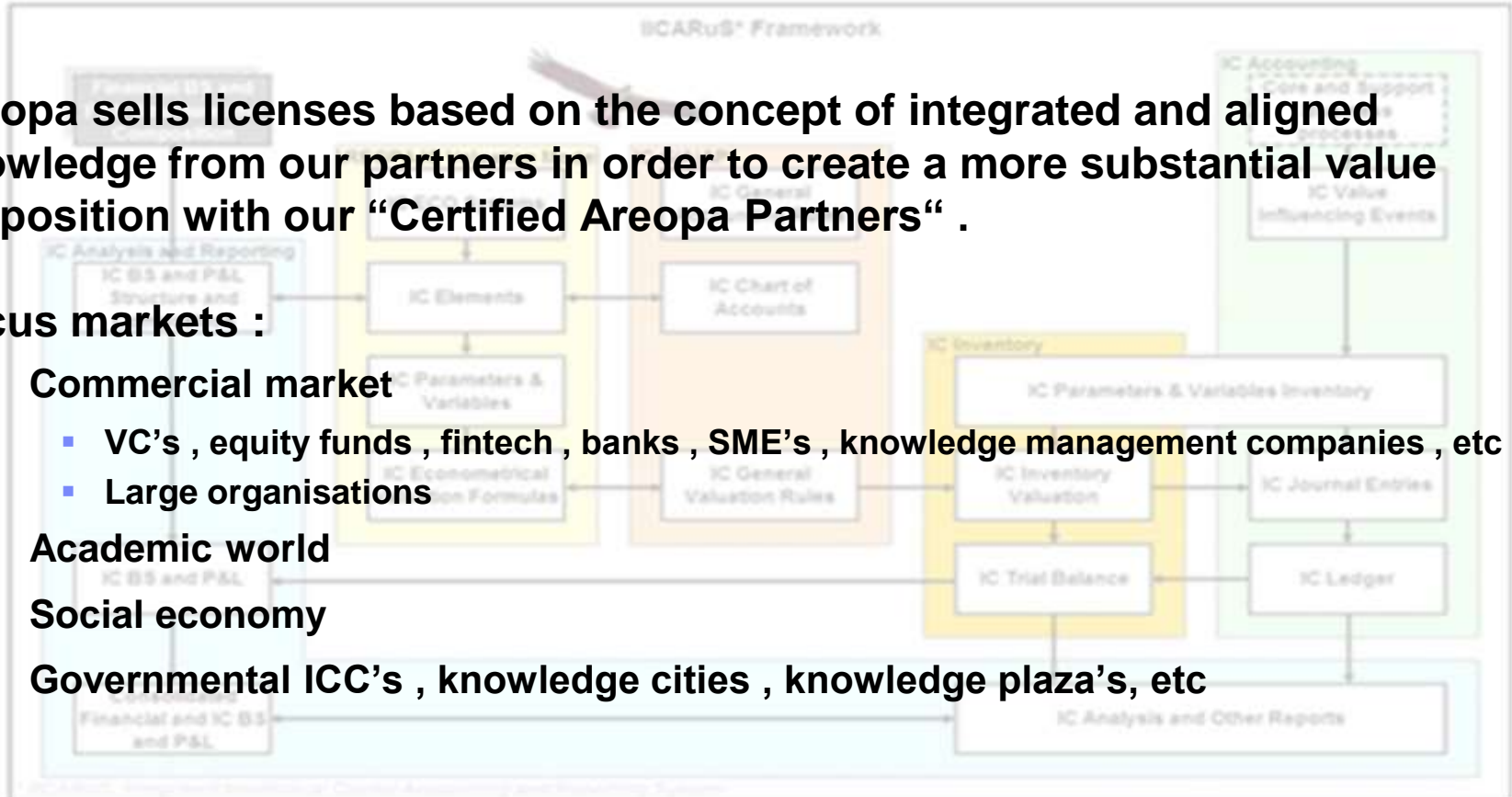
- IC CALCULATION OF ALL IC ASSETS OF COMPANIES & ORGANISATIONS BASED ON THE “ 4 LEAF MODEL®”
- IC ACCOUNTING BASED ON THE “ IICARuS®” MODEL
- IC AUDITING (IFRS & IAS COMPLIANT)
- IC APPLICATION AREA's - in line with the i2® applied knowledge management concept : capture, store and make re-usable
- IC IMPLEMENTATION PROCESS BASED ON THE “ 10 STEP APPROACH “

Source: AREOPA Web Presentation, <http://www.areopa.com/>



AREOPA's TARGET MARKETS as a knowledge provider

- Areopa sells licenses based on the concept of integrated and aligned knowledge from our partners in order to create a more substantial value proposition with our “Certified Areopa Partners“ .
- Focus markets :
 - Commercial market
 - VC's , equity funds , fintech , banks , SME's , knowledge management companies , etc
 - Large organisations
 - Academic world
 - Social economy
 - Governmental ICC's , knowledge cities , knowledge plaza's, etc



THE CHALLENGES AHEAD

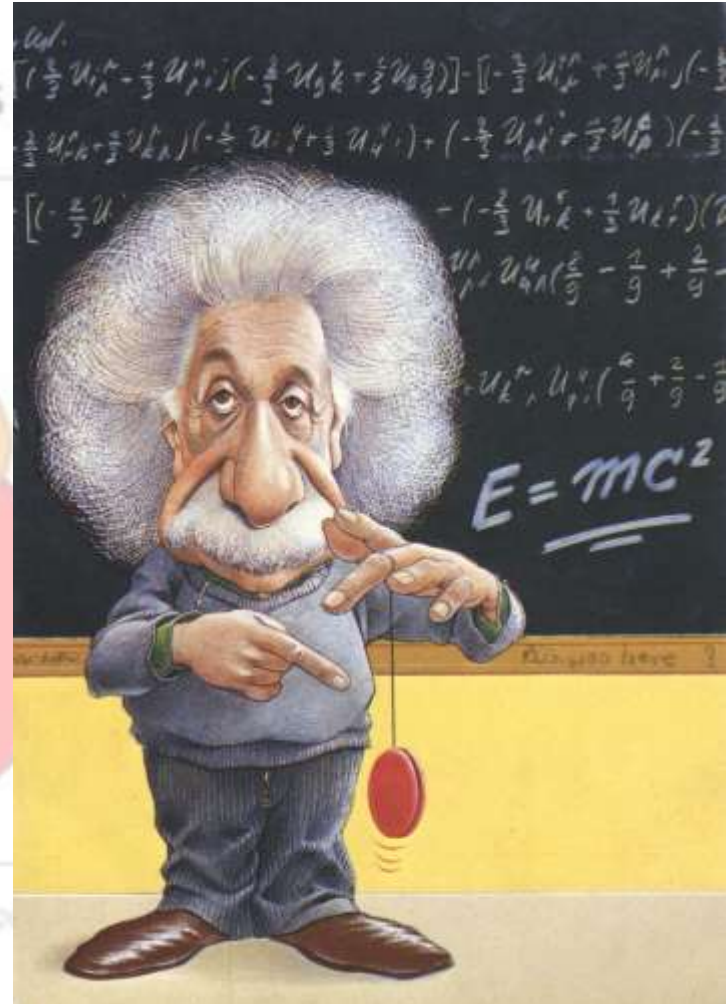
- Create a common language between innovative SME's and financiers = money.
- Focus on practicalities and not on strategies. Help the SME's to get their story right and help the financiers to translate all the received input into future value projections and risk assessments and make sure they get a right part of the shares for the money they invest.
- Make sure that SME's get the royalties , equity or other financial compensation for a fair deal, they should not have to sell 80% of their shares for peanuts to the VC.
- Make sure that SME's spend the money received from the financier (VC , BA , EF , bank , fintech, etc) on new research projects
- Make sure that the SME's are trained in the "10 step approach" and as such create clarity for the SME's and financiers about which services and visions exist and what they can do in order to achieve their objectives.
- Make clear that IC = "AV-costs" and that IC is not "activated costs".



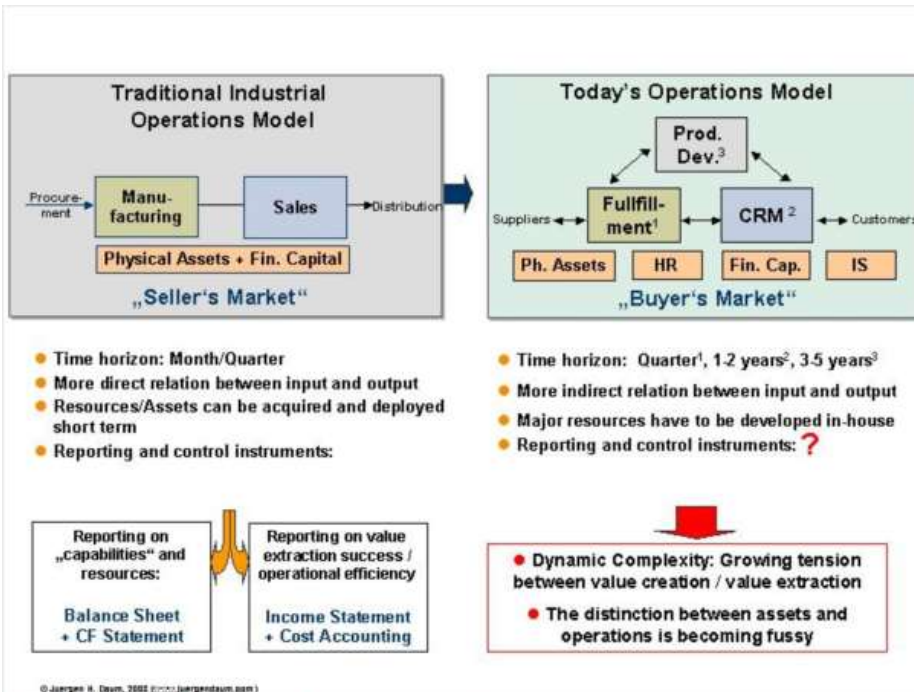
What Is Intellectual Capital?

(some illustrations, not definitions)

- ... the sum of an organization's patents, processes, employees' skills, technologies, information about customers and suppliers, and old-fashioned experience ...
- ... an individual's accumulated knowledge and know-how [that] is the source of innovation and regeneration ...
- ... ability, skill, and expertise ... embedded in human brains ...
- ... knowledge that exists in an organization that can be used to create differential advantage ...
(Hugh MacDonald, ICL)
- ... intellectual capital that has been formalized, captured, and leveraged to produce a higher-valued asset ...
(Klein and Prusak)



The Knowledge Economy Changes the Internal Business Economics of Enterprises



- Financial capital efficiency is being replaced as success factor by human capital efficiency (which requires management to focus its efforts on the effectiveness of an enterprises structural capital as the means, to translate human capital into customer value)
 - Increasing number of “disruptive changes”
 - Tools required to actively manage the “purpose” and the strategy, i.e. the overall “value creating recipe”
- Knowledge assets behave economically different than physical assets: increasing returns, network effects, larger risks, changing the business economics of an enterprise



An Extension of the Performance Measurement and Control System is Required



Manage The Effectiveness

- Continuous Business System Innovation / value creation
- Optimizing the "Outputs" of the total system / value extraction



- Product innovation
- Efficient fulfillment "just-in-time"
- Creation of good customer relationships / value pricing



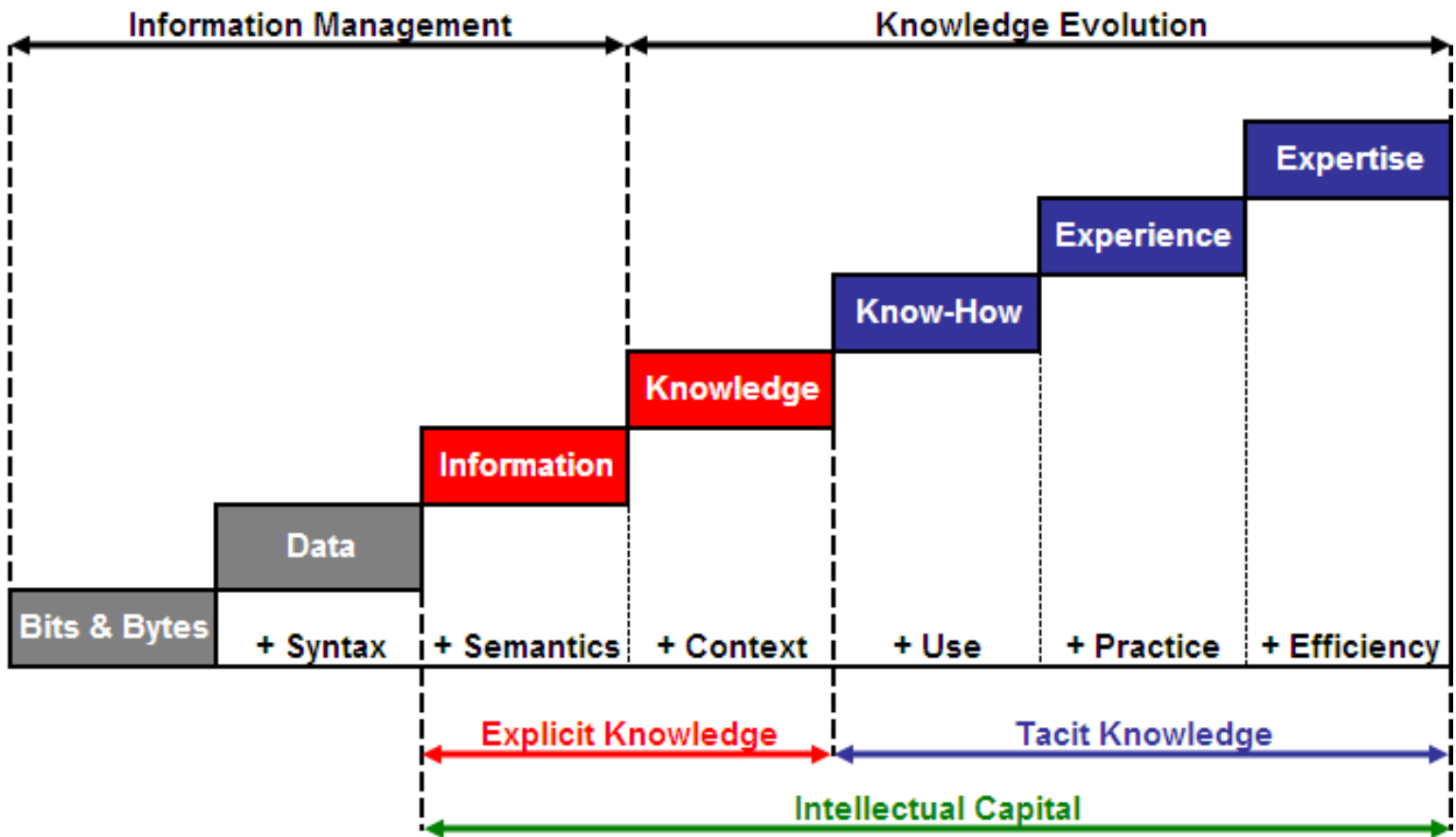
- Availability in the right quality, quantity and time

© Jacques H. Oehm, 2002 (http://www.jhpredux.com)

- Democratisation of capital markets and growing influence of institutional investors as well as the growing influence of other corporate stakeholders (employees, customers, business partners, activist groups/NGOs ...) (These relationships in essence become assets)
- Performance management and control system has to focus on all relevant activities for value creation and for creating "an effect" and "a difference" in the market



Knowledge vs Intellectual Capital

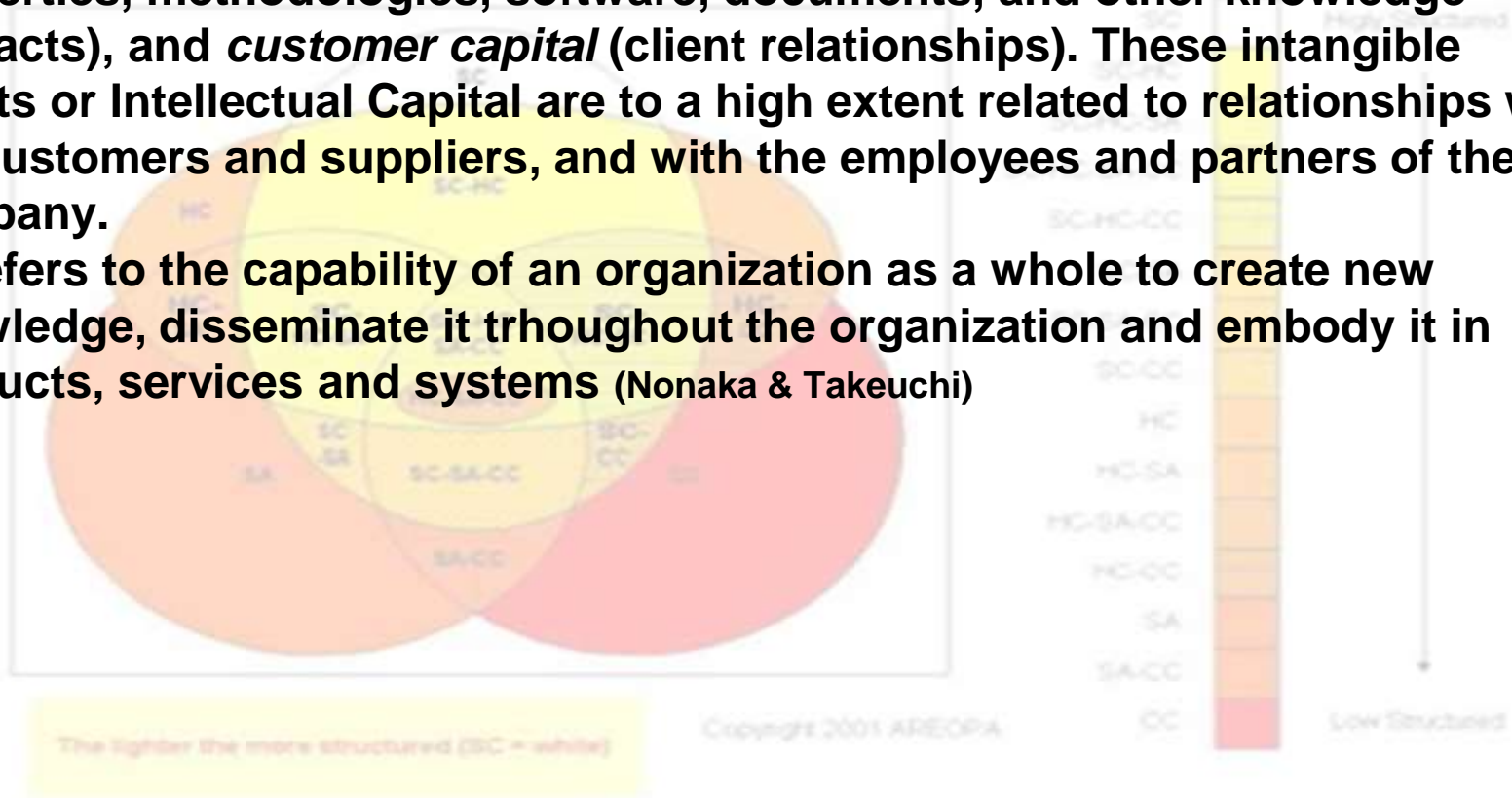


Knowledge Building Process & Intellectual Capital

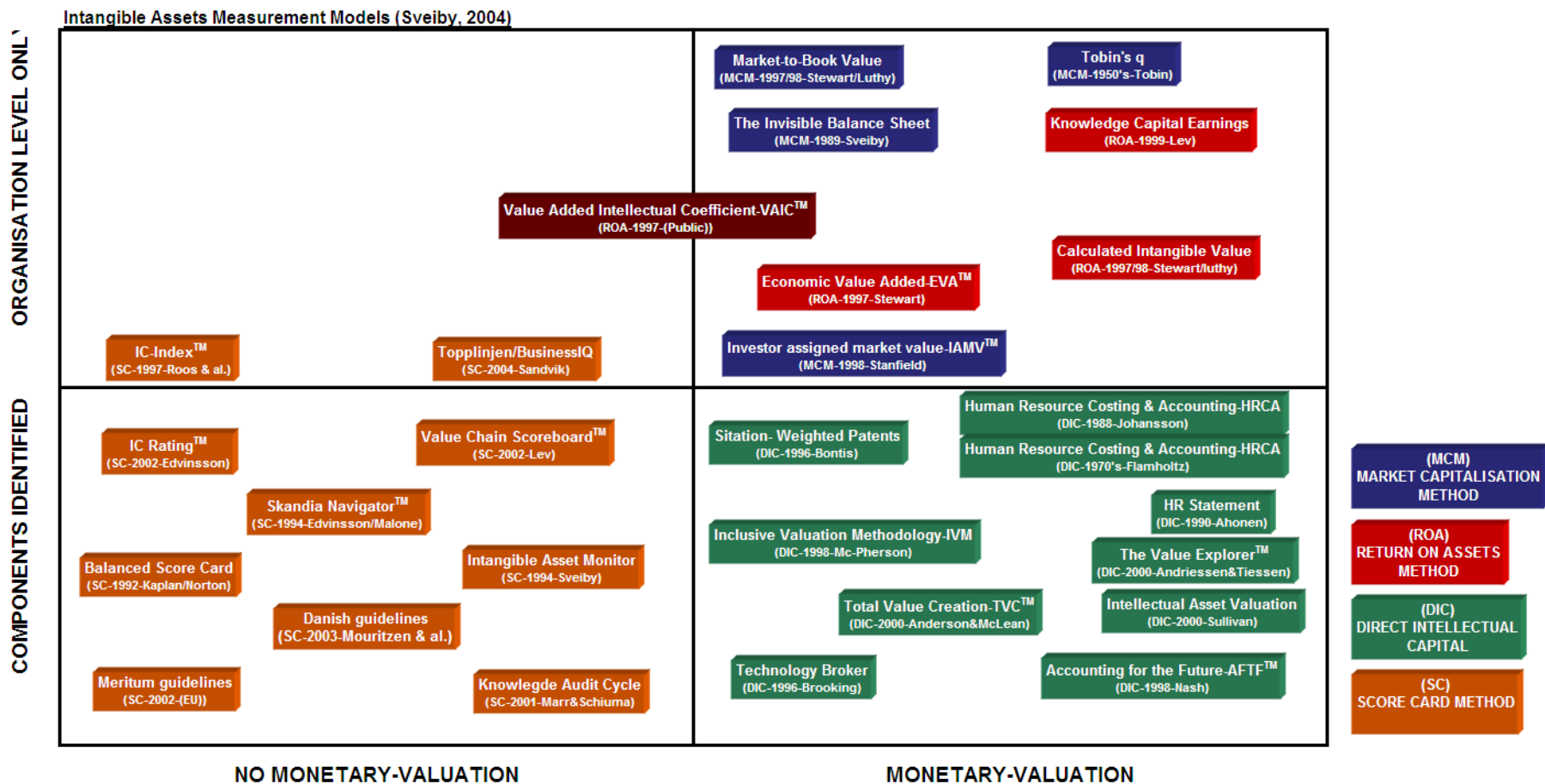


The Creation Of Organizational Knowledge

- A company's Intellectual Capital or Knowledge base is usually determined as the sum of its *human capital* (talent), *structural capital* (intellectual properties, methodologies, software, documents, and other knowledge artefacts), and *customer capital* (client relationships). These intangible assets or Intellectual Capital are to a high extent related to relationships with the customers and suppliers, and with the employees and partners of the company.
- ... Refers to the capability of an organization as a whole to create new knowledge, disseminate it throughout the organization and embody it in products, services and systems (Nonaka & Takeuchi)



Karl-Erik Sveiby's Model on the Methods for Measuring Intangibles



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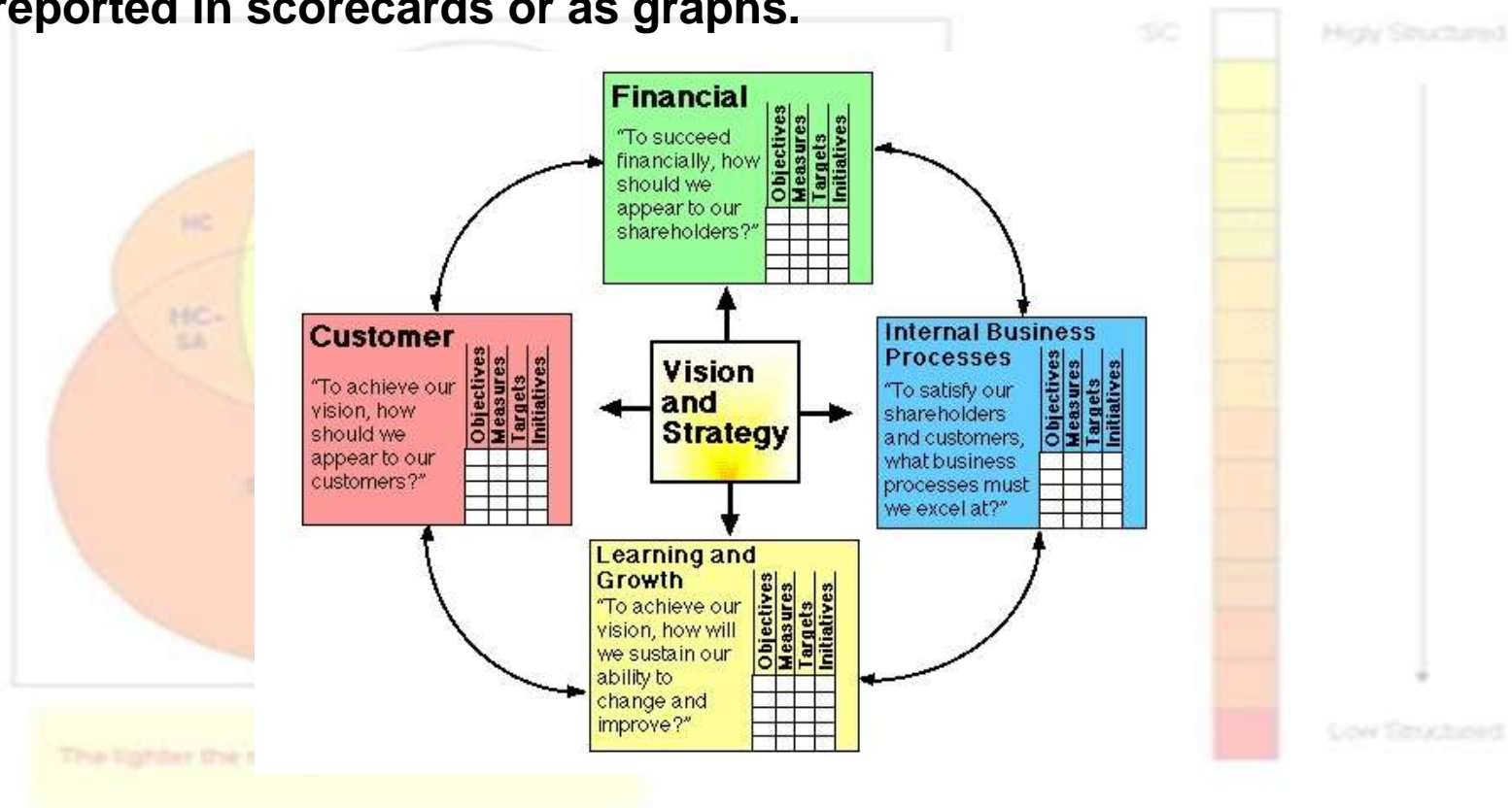
The Four Approaches for Measuring Intangibles

- **Direct Intellectual Capital methods (DIC)**: Estimate the \$-value of intangible assets by identifying its various components. Once these components are identified, they can be directly evaluated, either individually or as an aggregated coefficient.
- **Market Capitalization Methods (MCM)**: Calculate the difference between a company's market capitalization and its stockholders' equity as the value of its intellectual capital or intangible assets.
- **Return on Assets methods (ROA)**: Average pre-tax earnings of a company for a period of time are divided by the average tangible assets of the company. The result is a company ROA that is then compared with its industry average. The difference is multiplied by the company's average tangible assets to calculate an average annual earnings from the intangibles. Dividing the above-average earnings by the company's average cost of capital or an interest rate, one can derive an estimate of the value of its intangible assets or intellectual capital



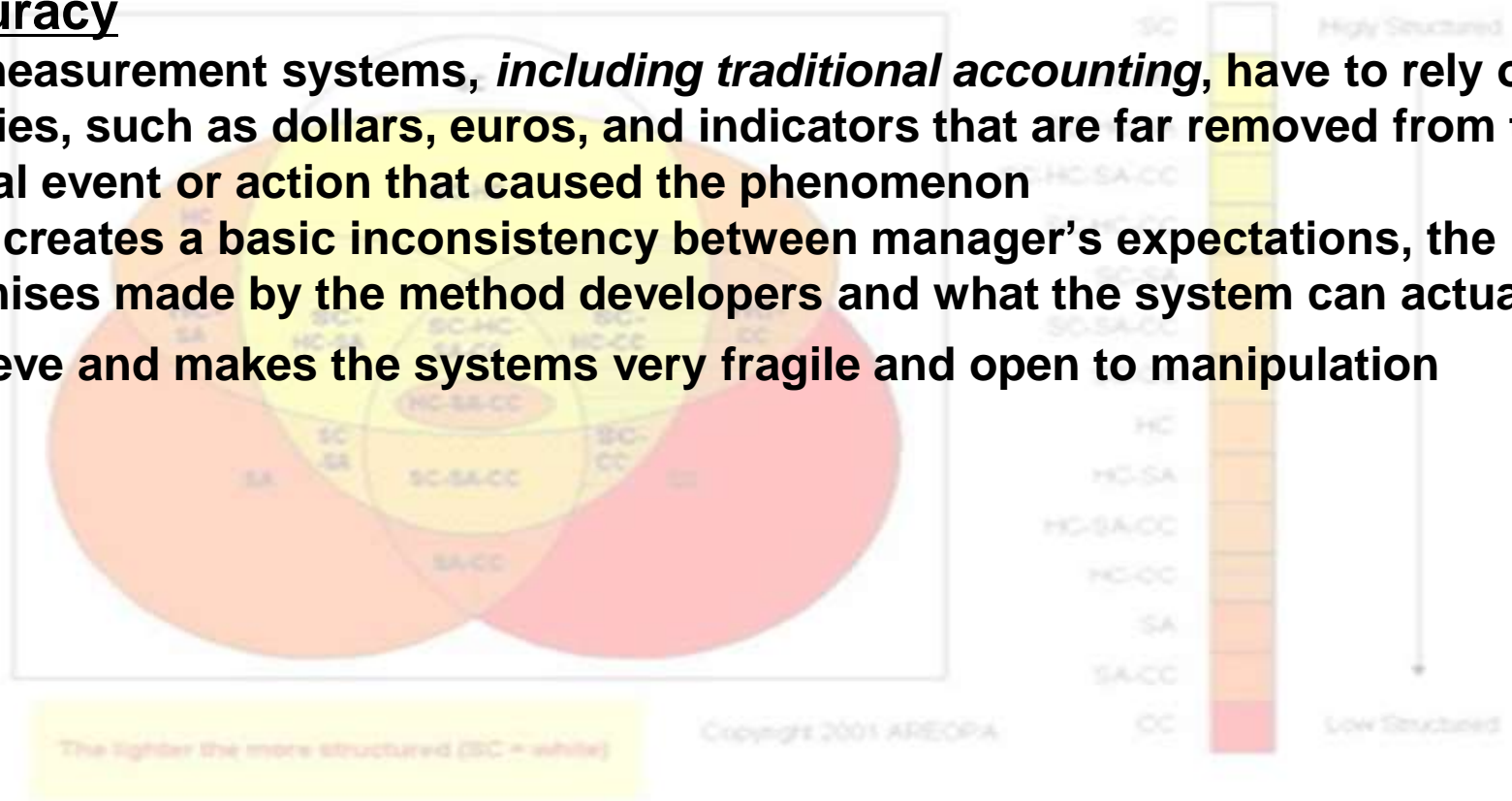
The Four Approaches for Measuring Intangibles

- Scorecard Methods (SC):** The various components of intangible assets or intellectual capital are indentified and indicators and indices are generated and reported in scorecards or as graphs.



The Fundamental Dilemma

- The main problem with measurement systems is that it is not possible to measure social phenomena with anything close to scientific accuracy
- All measurement systems, *including traditional accounting*, have to rely on proxies, such as dollars, euros, and indicators that are far removed from the actual event or action that caused the phenomenon
- This creates a basic inconsistency between manager's expectations, the promises made by the method developers and what the system can actually achieve and makes the systems very fragile and open to manipulation



What could it mean for the Accounting World?

- The importance of Intellectual Capital and Intangible Assets, the immaterial value of companies such as relationships with business partners, brand awareness (customer/partner capital) and the ability to innovate (e.g. R&D capital), but also the ability to multiply knowledge within the organization (structural capital), has greatly increased in the last two decades.
- Financial accounting and traditional management instruments are not able to capture these new values and report on them.
- What is needed is an enhanced concept for corporate reporting and new management tools that will enable companies to manage these new drivers in a systematic way.
- This should enhance the capability of investors to better understand the value and the potential of the hidden intellectual resources of an enterprise in order to make better judgements about its capabilities to perform in the future.

The tighter the more structured (SC = white)

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SC+HC+CC
SC+CC
SC+HC
SC
SA
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Low Structured



International Accounting Standards (IAS)

IAS 38 Intangible Assets

Deloitte.

IAS 38

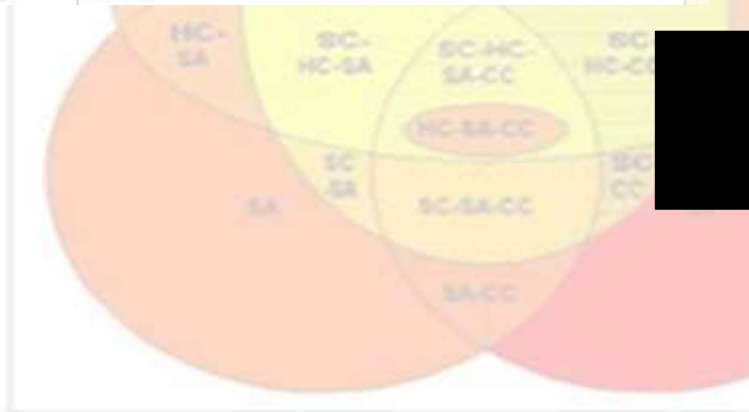
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STANDARDS: IAS 38

INTANGIBLE ASSETS

HISTORY OF IAS 38

February 1977	Exposure Draft E9: Accounting for Research and Development Costs
July 1978	IAS 9 (1978): Accounting for Research and Development Costs
1 January 1983	Effective Date of IAS 9 (1978)
August 1991	Exposure Draft E37: Research and Development Activities
December 1993	IAS 9 (1993): Research and Development Costs
1 January 1995	Effective Date of IAS 9 (1993)
June 1998	Exposure Draft E50: Intangible Assets
August 1997	E50 was modified and re-issued as Exposure Draft E29: Intangible Assets
September 1998	IAS 38: Intangible Assets
1 July 1999	Effective Date of IAS 38 (1998)
31 March 2004	IAS 38 Revised



The lighter the more structured (SC = white)

the three critical attributes of an intangible asset are: [IAS 38.8]

- identifiability
- control (power to obtain benefits from the asset)
- future economic benefits (such as revenues or reduced future costs)

Identifiability: An intangible asset is identifiable when it: [IFRS 38.12]

- is separable (capable of being separated and sold, transferred, licensed, leased, or otherwise disposed of as an individual asset or part of a group of assets)
- arises from contractual or other legal rights, regardless of whether those rights are enforceable

Examples of possible intangible assets include:

- computer software
- patents
- copyrights
- motion picture films
- customer lists
- mortgage servicing rights
- licenses
- import quotas
- franchises
- customer and supplier relationships
- marketing rights

Intangibles can be acquired:

- by separate purchase
- as part of a business combination
- by a government grant
- by exchange of assets
- by self-creation (internal generation)



International Accounting Standards (IAS)

IAS 36 Impairment of Assets

Deloitte.
IAS 36
SUMMARY OF IAS 36

STANDARDS: IAS 36

IMPAIRMENT OF ASSETS

HISTORY OF IAS 36

May 1997	Exposure Draft E55 Impairment of Assets
June 1999	IAS 36 Impairment of Assets
1 July 1999	Effective Date of IAS 36 (1999)
31 March 2004	IAS 36 Revised The summary below reflects the March 2004 revisions.
1 April 2004	Effective Date of March 2004 revisions to IAS 36

AMENDMENTS UNDER CONSIDERATION BY IASB

■ None

SUMMARY OF IAS 36

Objective

Objective

To ensure that assets are carried at no more than their recoverable amount, and to defir

Scope

IAS 36 applies to all assets except: [IAS 36.2]

- inventories (see IAS 2)
- assets arising from construction contracts (see IAS 11)
- deferred tax assets (see IAS 12)
- assets arising from employee benefits (see IAS 19)
- financial assets (see IAS 39)
- investment property carried at fair value (see IAS 40)
- certain agricultural assets carried at fair value (see IAS 41)
- insurance contract assets (see IFRS 4)
- assets held for sale (see IFRS 5)

Therefore, IAS 36 applies to (among other assets):

- land
- buildings
- machinery and equipment
- investment property carried at cost
- intangible assets
- goodwill
- investments in subsidiaries, associates, and joint ventures
- assets carried at revalued amounts under IAS 16 and IAS 38

The lighter the more structured (SC = white)



Intellectual Capital Calculation

Building Blocks – Elements/Phenomena

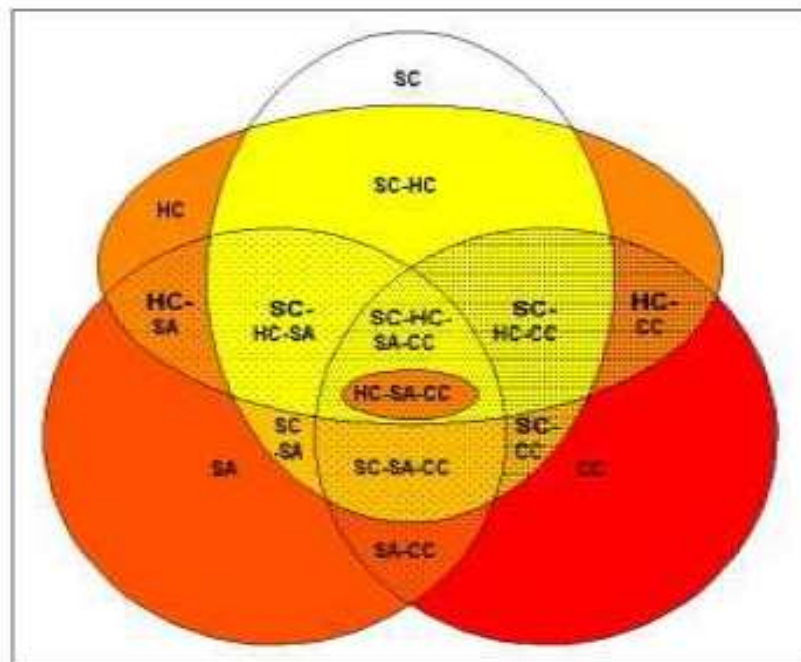
	Human Capital	Customer Capital	Structural Capital (Organizational Capital)
GUTHRIE (2001)	<ul style="list-style-type: none"> • Know-how; • Education; • Vocational qualification; • Work-related knowledge; • Work-related competencies; • Entrepreneurial spirit • Innovativeness, • Proactive and reactive abilities • changeability 	<ul style="list-style-type: none"> • Brands • Customers • Customer loyalty • Company names • Distribution channels • Business Collaborations • Licensing agreements • Favourable contracts • Franchising agreements 	<ul style="list-style-type: none"> • Patents • Copyrights • Trademarks • Management Philosophy • Corporate Culture • Management processes • Information Systems • Networking Systems • Financial Relations

Source: Adopted from Guthrie (2001), p.35



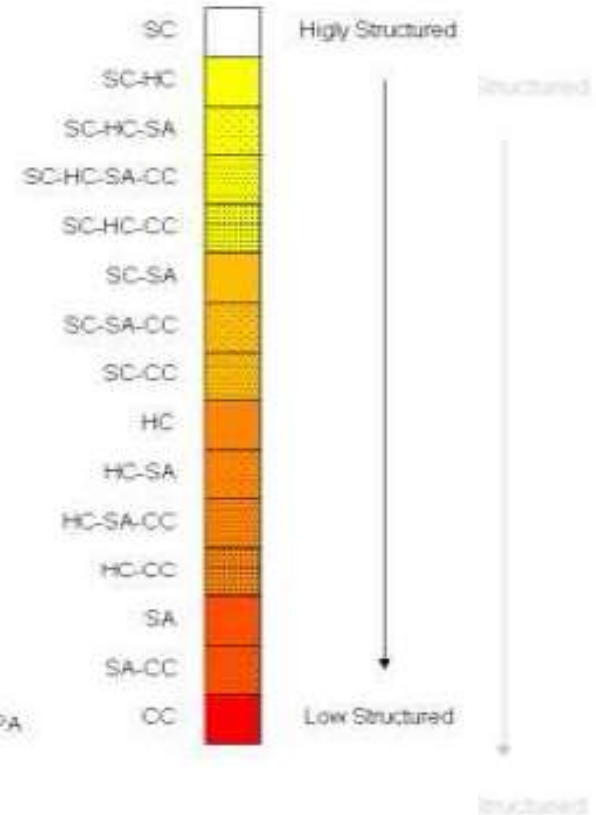
Areopa's 4-Leaf Model[®]

IC - 4 leaf model - 15 categories



The lighter the more structured (SC = white)

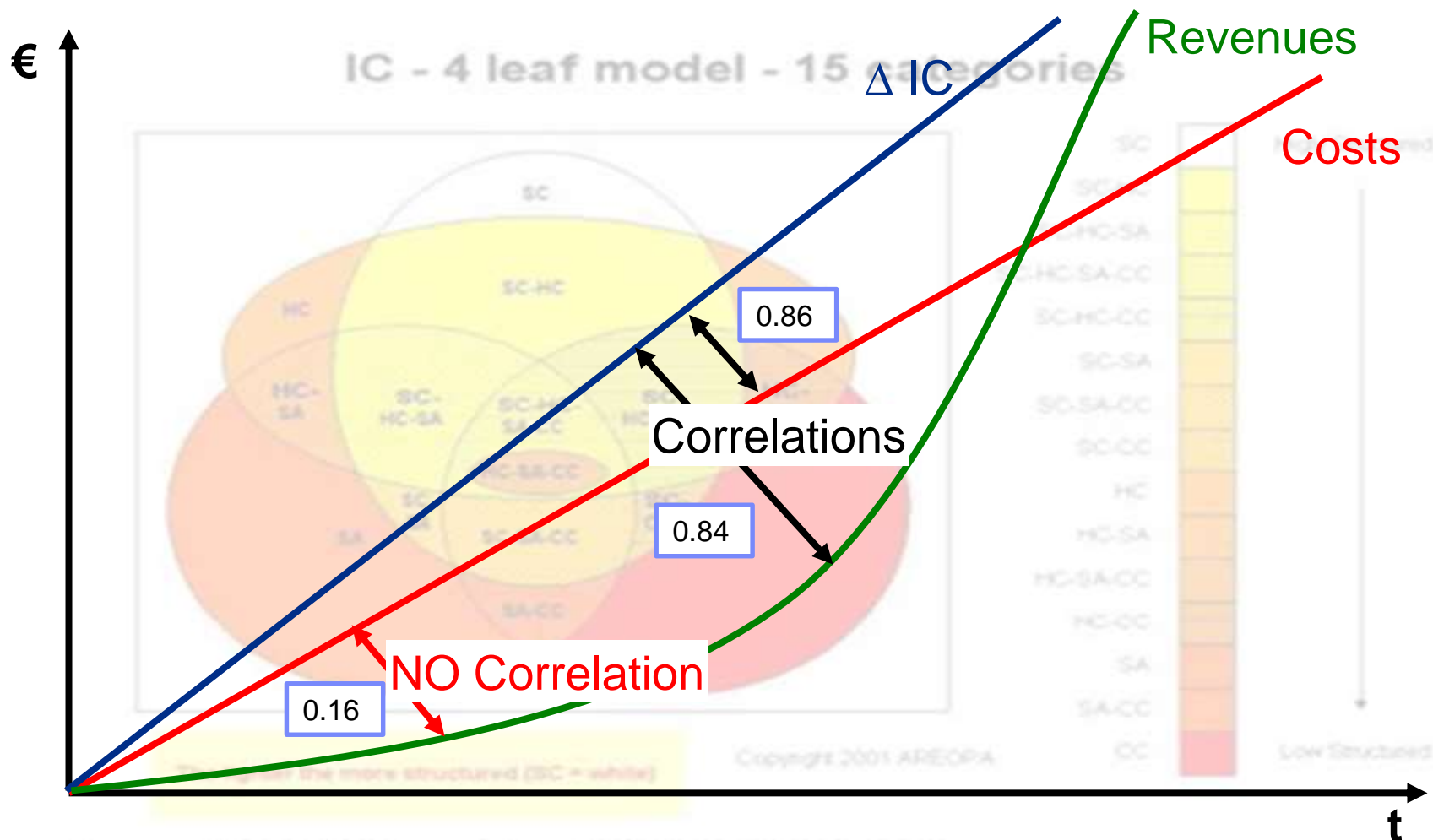
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Source: AREOPA Web Presentation, <http://www.areopa.com/>



Managing Growth – Costs lead to Increase of IC, Increase of IC leads to Revenue



Areopa's Intellectual Capital Calculation Example – Non Structuralized Human Capital

1 Title Non Structuralized Human Capital

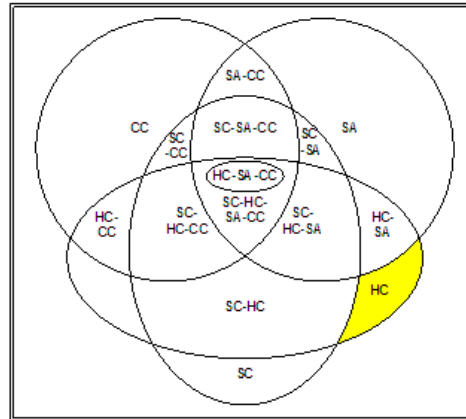
2 Category Unstructuralized Internal Intellectual Capital

3 Location **Human Capital**
HC

4 Concept description When joining AREOPA a new Areopagite will add value to AREOPA in the following fields:

- Using/having a network
- Using/having experience
- Level of intelligence
- Personality
- Social skills
- Technical skills

For being successful it is important that there is home support. Enough financial backup is necessary (meaning how long can he/she last with no income).



Average earnings Multiplier

Based on the average earnings or wage of the last 3 years the added value of the new Areopagite is calculated. The average earnings are seen as a cost. The benefits are seen as a multiplier of those average earnings. The multiplier is composed of all elements, mentioned above.

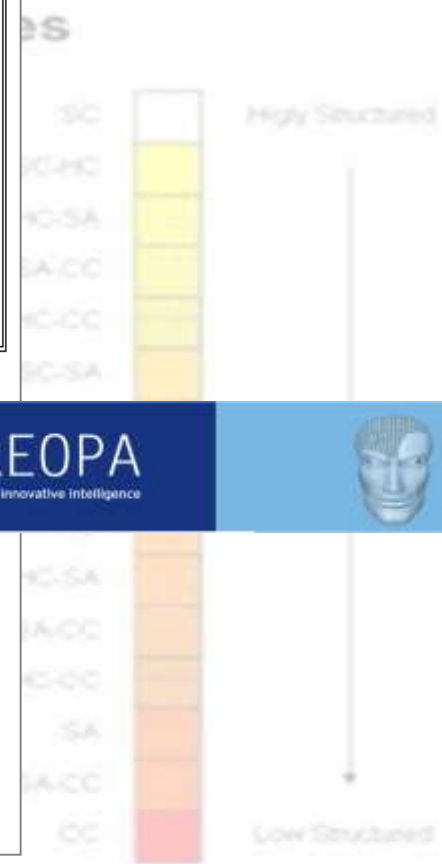
Network

The new Areopagite knows people. Some of them are known to AREOPA, others not. Categorization of the network leads to 3 categories, each with a different weighting factor:

	WF
- A: people at decision making level in large companies with willingness to contact them in first 2 months.	3
- B: people at decision making level or key influencers in medium / small companies with willingness to contact them in first 2 months.	1,5
- C: Only indirect contacts.	1

Persistence factor The anticipated willingness to contact them is measured by the persistence factor (values: 0..1) of the new Areopagite.

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Areopa's Intellectual Capital Calculation Example – Non Structuralized Human Capital

Experience

	WF
- Implementation consultant using other method	0.8
- Implementation consultant eager to learn	1.2
- Consultant working as conceptual consultant	0.7
- 10 years top management experience regularly worked with consultants with success	1.5
- 10 years top management experience regularly worked with consultants with no success	0.7
- Experience teaching or as a professor	1
- Experience working with groups, trainer, unions, etc.	1.5

Intelligence

	WF
Category 1 (WF=1)	
- transha, mentors	1
- semsha	1,1
- implementation TCM	2
- implementation AIS	4
Category 2 (WF=1.5)	
- network coordinator	3
- SA-manager	2
- short-term sales	1,5
Category 3 (WF=5)	
- lead generator	1
- deal generator	3

Personality

Each Areopagite is quoted for the 5 basic beliefs (value: 0-5)

	WF
entrepreneurial	5
empowerment	4
100% customer driven	3
no hierarchy	2
variable cost thinking	1

The reference is 75 (5 on each belief x WF)

Social skills

Value: 0.5

Technical skills

Value: 0.5

Home Support

Value: 0.1

Financial backup

Value: 0.1

The total is obtained as the sum of all benefits minus costs for all new Areopagite

5 Formula

Benefits - Costs

BENEFITS = Sum of (Multiplier x Average Earnings)

BENEFITS = Sum of (Network Multiplier x Experience Factor x (Intelligence Category x Intelligence Factor) x Personality Index x Social Skills Index x Technical Skills Index x Home Support Factor x Financial Backup Factor / Reference x Average Earnings)

Network Multiplier = (3 x (#A new + 0.8 x #A known) + 1.5 x (#B new + 0.8 x #B known) + (#C new + 0.8 x #C known)) x Persistence factor

COSTS = Sum of Average Earnings

6 Variables

Average Earnings	0.1 mio EUR
Multiplier	3,262
# A new	5
# B new	6
# C new	20
# A known	2
# B known	3
# C known	10
Persistence factor	0.8
Experience factor	1.5
Intelligence Category	1.5
Intelligence Factor	3
Personality	0.55
entrepreneurial	4
empowerment	3
100% customer driven	4
no hierarchy	2
variable cost thinking	1
Social skills	4
Technical skills	3
Home Support Factor	0.8
Financial Backup Factor	0.6
Number of new Areopagite	50
Reference	100
AKC%	32.5%

7 Parameters

8 Calculation

BENEFITS	5 300 mio EURO
COSTS	1 625 mio EURO

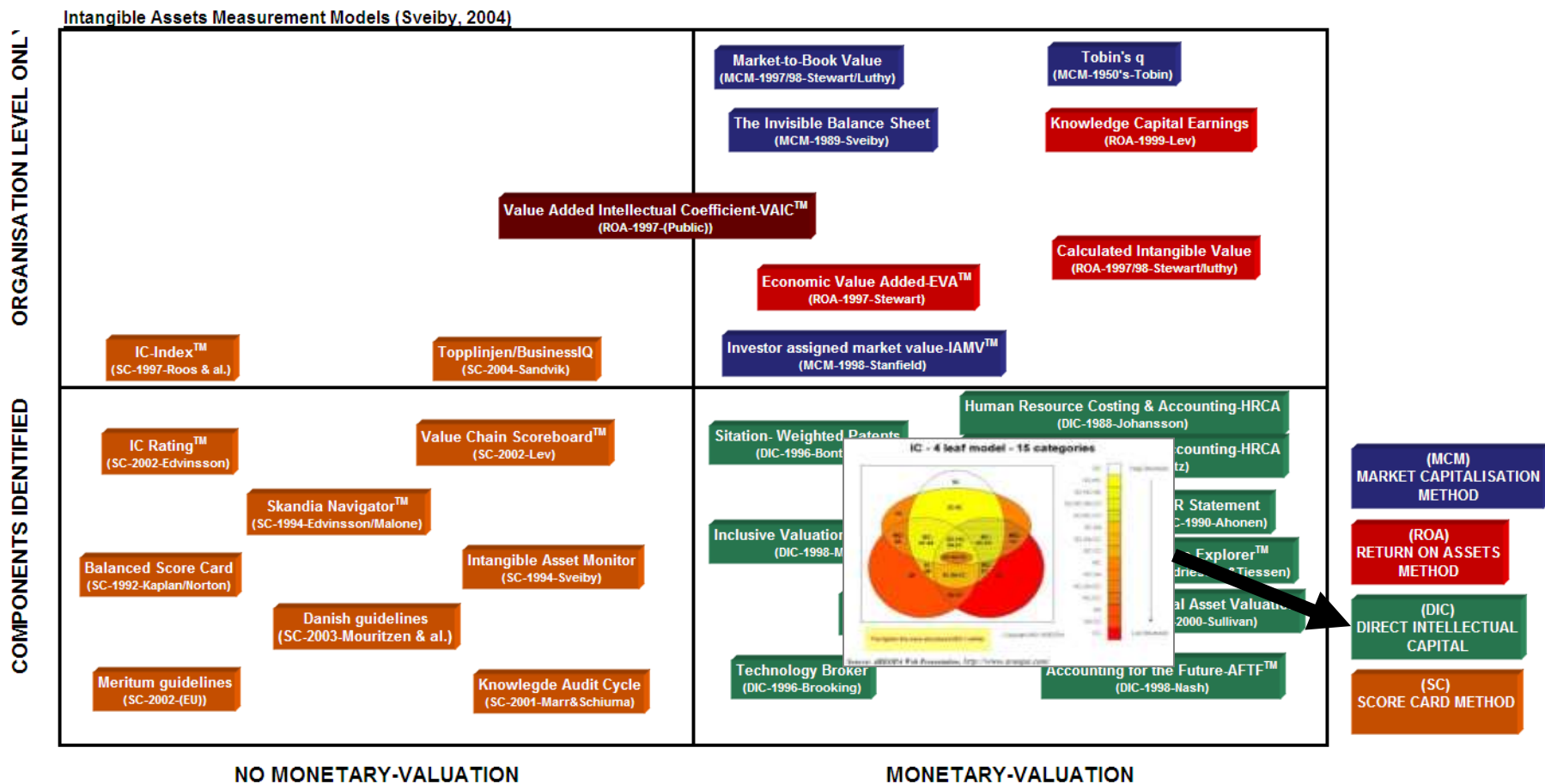
VALUE IC 3.675 mio EUR

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Areopa's Positioning on Karl-Erik Sveiby's Overview



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