

# Transparency, Financial Markets, and Intellectual Capital

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## The emergence of the global brain

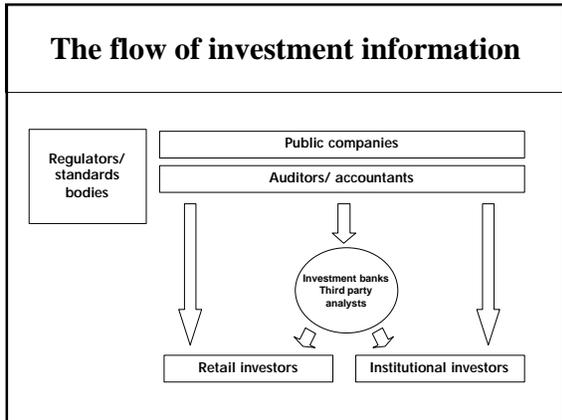


## The Money-Go-Round



## Capital Markets



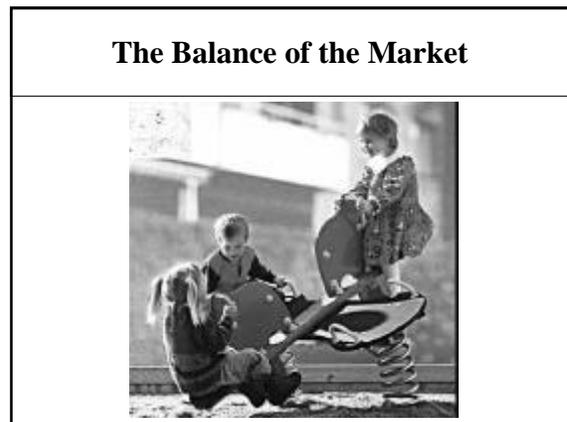


### The Problem

- Current accounting standards (financial data) provide an increasingly poor measure of corporate value
- Investors do not have full information on which to make decisions
- Capital is mis-allocated by the market
- Capital is mis-allocated within companies

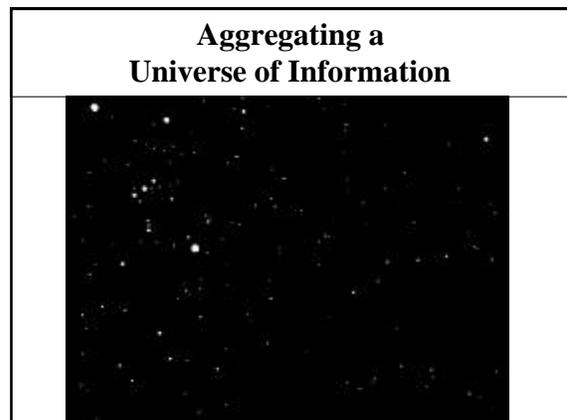
### Efficient Markets Hypothesis

- Market prices reflect all available information
- ...or is it true that some investors can assess companies' value better than the market does?



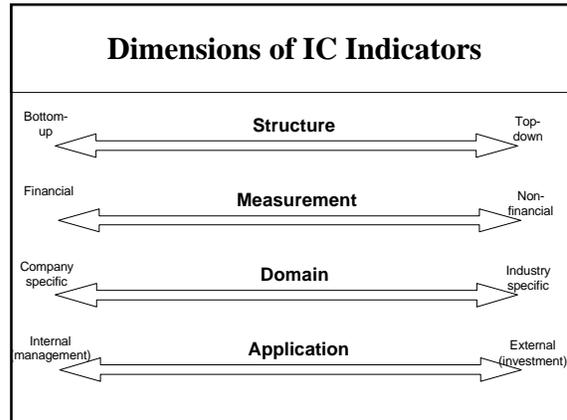
### Valuation models

- Used by institutional/ sophisticated investors
- Valuation of intangible indicators is subjective!
- Inputs must relate to discounted cash flow (DCF)
- Investors require raw rather than consolidated information
- Both quantitative and qualitative assessment



### Some of the Critical Questions

- How do investors assess intangible assets?
- What, if any, standards for reporting on intellectual capital will evolve?
- Who will drive a shift to reporting on intellectual capital?
- How long might this take?
- What are the implications for senior executives and knowledge managers?



### Examples of IC measurement

- Tobin's Q
- Intellectual capital supplements
- Balanced score card
- Patent valuation models
- Intellectual asset valuation models

### What do investors want to know?

- Better information on drivers of value (DCF)
- Company provided
  - People e.g. Employee turnover
  - Relationships e.g. Customer retention
  - Innovation e.g. Product development measures
  - Quality e.g. products, processes, consistency
- Externally sourced
  - Brand/ reputation/ communication style
  - Leadership/ strategy

### What *else* do investors want to know?

- Social impact
- Environmental impact
- These issues impact investors, and in turn share prices - these cannot be withheld!



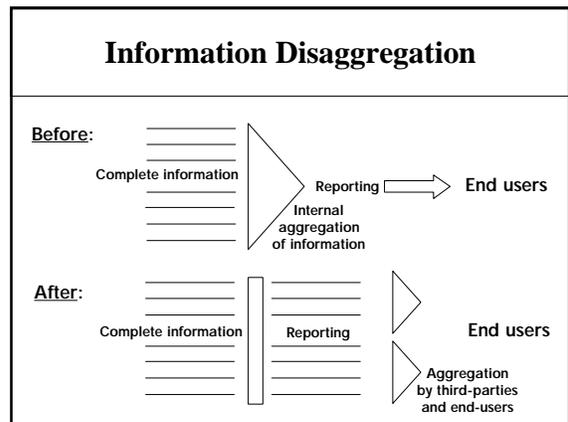
### Transparency and Governance

- Effective governance requires transparency
- Perceptions of effective governance drive share prices
- Institutional and retail investors are increasingly voting with their dollars



### Implications of XBRL

- Greater external visibility, integration into models, and comparability
- Enhanced internal visibility
- Shift to real-time reporting
- Ability to easily extend to non-financial indicators



### How will it happen?

- Accounting standards bodies need to implement intangible indicators
- Regulators must push for greater disclosure and provide guidelines
- Large investors need to demand greater disclosure from companies in comparable formats
- Companies need to provide richer information on intangible indicators - in their own interest

### Critical questions for the future

- How fast and far will be the shift to intangibles reporting, and who will drive it?
- How fast and far will be the shift to real-time reporting?
- How will the market premium for transparency evolve moving forward?

### Action steps for intangible reporting

1. Identify intangible value-drivers
2. Find appropriate measures
3. Company-specific or peer-comparable?
4. Educate investors on value-drivers and interpretation
5. Provide valid, consistent information
6. Report in digital format

### Transparency leads to better valuations

- 70% of utility companies believe their company is undervalued by investors
- 72% of investors believe better disclosure would increase the share price of utility companies  
- PricewaterhouseCoopers

### The Drivers

- Accounting standards bodies need to implement new practices
- Regulators must push for greater disclosure and provide guidelines
- Large investors need to demand greater disclosure from companies in comparable formats
- Companies need to provide richer information on intangible indicators

### Progressing Step by Step



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*"Ross Dawson argues persuasively that leading economies are driven by the flow of information and ideas. The ideas in his own book can position any individual or company at the center of that flow."*  
- Thomas H. Davenport, Director, Accenture Institute for Strategic Change, and co-author, *The Attention Economy*

*"I'm not sure that even Ross Dawson realizes how radical—and how likely—his vision of the future is."*  
- Seth Godin, author, *Unleashing the Ideavirus*

### Help the flows come to life

