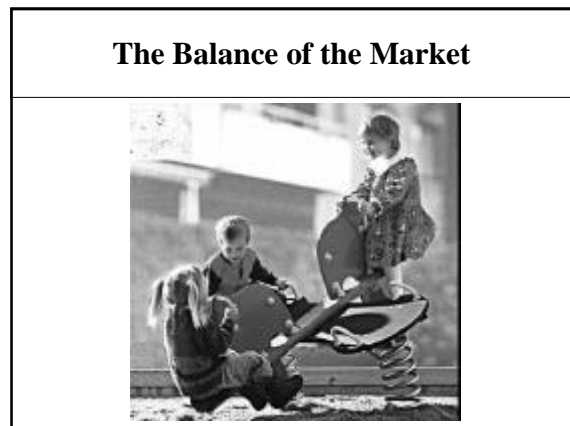


The Problem

- 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

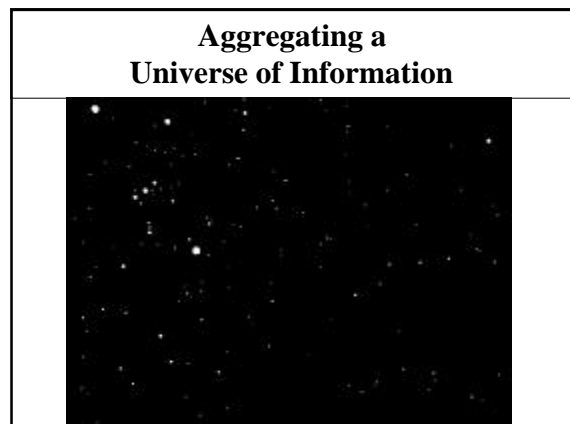
Efficient Markets Hypothesis

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



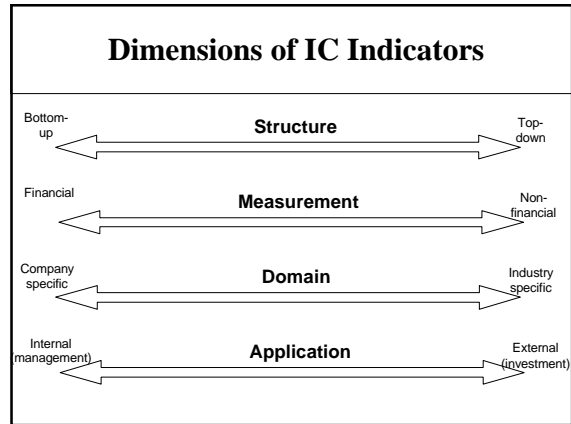
Valuation models

- 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!



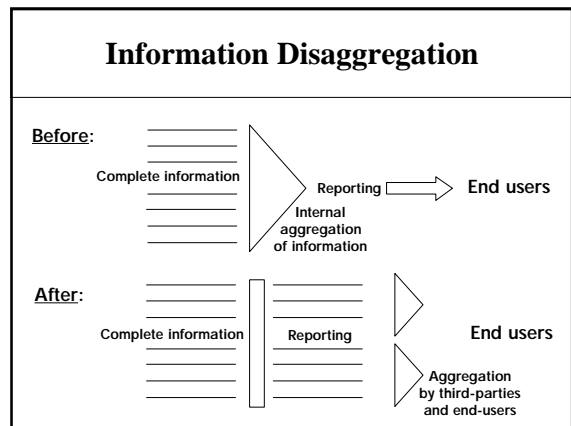
Transparency and Governance

- 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

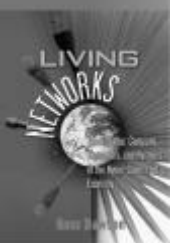
- Accounting standards bodies need to implement new practices
- Regulators must push for greater disclosure and provide guidelines
- Large investors need to demand greater disclosure from companies in comparable formats
- Companies need to provide richer information on intangible indicators

Progressing Step by Step



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