

Interim Report
SME Intellectual Asset-Based Management Forum

March 24, 2006

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Brochure on SME's Intellectual Asset-Based Management

1. Background and issues

While the Japanese economy is slowly showing signs of recovery, we cannot necessarily be optimistic about the business environment of small and medium enterprises (SMEs). They must continue to implement management efforts such as differentiating themselves from competitors, and enhancing their profitability. With numerous challenges in securing human resources, achieving stable fund-raising and improving relations with business associates, SMEs are seeking some form of support measures.

Despite these challenges, many of these SMEs appear to have sustained their business through utilizing technologies, integration capacity, customer / community networks, geographical advantage, trust, tradition and other strengths that have been accumulated through many years of sales activities as “intellectual assets” for generating profits. Some are consciously taking advantage of these intellectual assets, while others are tapping into their business strengths subconsciously or almost unconsciously.

With domestic and international competition set to intensify further, SMEs must adopt a management approach of utilizing their own intellectual assets for differentiation and future profits (Intellectual Asset-Based Management), in order to achieve sustainable growth while addressing various business challenges. For companies that intend to take on new businesses or expand their business scale, effectively utilizing intellectual assets could help them develop a significant competitive edge.

Implementing Intellectual Asset-Based Management is also tantamount to managing business with considerations to Corporate Social Responsibility (CSR) and the environment.

For example, providing products that have greater environmental considerations than competitors’ products or pursue safety beyond the level required by standards, will help the company establish a trusting relationship with consumers, and build a foundation for sustainable growth, while making social contributions to consumers, society and the environment.

There have been several studies conducted on Intellectual Asset-Based Management, including the “Interim Report”¹ by the Subcommittee on Management & Intellectual Assets, New Growth Policy Committee, Industrial Structure Council (August 2005) and METI’s “Guidelines for Intellectual Assets Information Disclosure”² (October 2005). In the course of debate on corporate accounting, an international trend is emerging to focus on not only conventional financial information but also intellectual asset information, i.e. non-financial information that provide the basis and ground for

¹ http://www.meti.go.jp/policy/intellectual_assets/index.htm

² http://www.meti.go.jp/policy/intellectual_assets/index.htm

financial information and profit projections, so as to appropriately assess companies' future profitability. Also, recent debate on corporate governance as a system to counter corporate scandals, are expanding the scope from merely discussing the system framework to highlighting elements that are not clearly visible, such as leadership, corporate atmosphere, culture and interpersonal relations. These elements are nothing other than intellectual assets themselves.

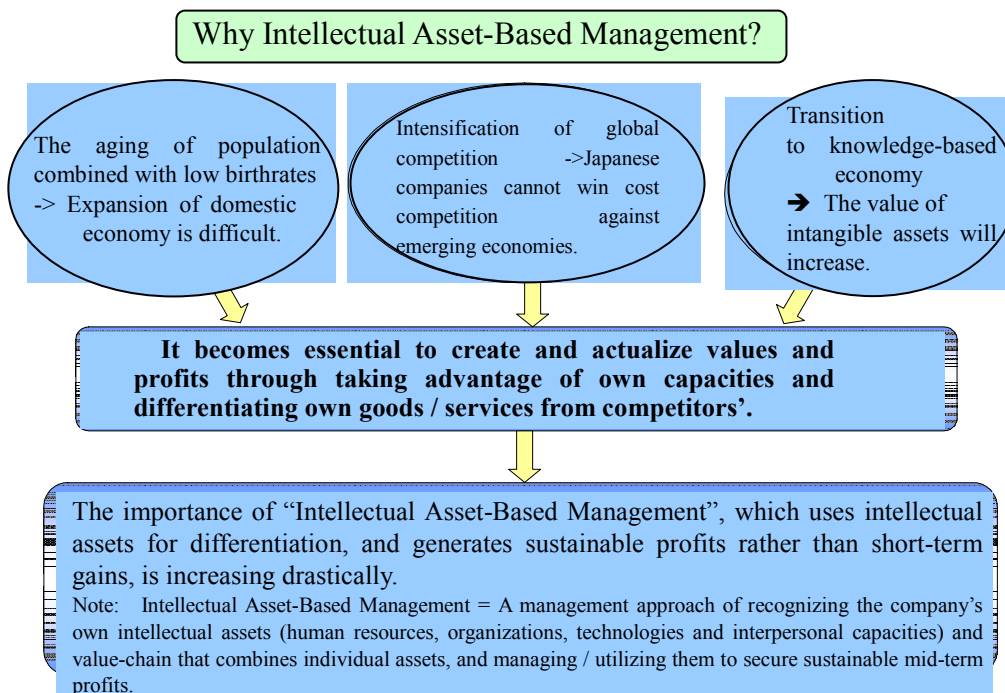
Whatever terms they may use, various debate on corporate management are directing their attention to intellectual assets and their utilization. However, such talks primarily target large corporations, and do not necessarily agree with the reality and objectives specific to SMEs. That is why this forum was set up in January 2006 to explore Intellectual Asset-Based Management as a measure for reinforcing the business strength of SMEs.

2. What is Intellectual Asset-Based Management?

(1) Significance of Intellectual Asset-Based Management

In order to sustain profitability, companies must develop strengths that differentiate them from competitors, so as to establish a competitive edge. Conventional competition centered on costs, focusing on the injection of tangible assets such as funds and facilities. However, in an intellectual society whereby people pay money for “difference” and “values” rather than goods themselves, the differentiation ability element holds the key. For this reason, it is becoming an increasingly important task for companies to recognize and effectively utilize their own “intellectual assets” (note) in business management, and differentiating themselves from competitors. Presenting the details of Intellectual Asset-Based Management could help enhance the credibility of a company’s future potential. With empathy from various stakeholders including shareholders, creditors, employees and business associates, companies can reinforce their foundation of existence, reduce various transactional costs such as interest payments, and achieve appropriate corporate values.

(Note) Intellectual assets: All management assets that are not reflected in the financial statements, but provide the source of competitive edge, such as human resources, technologies, skills, intellectual properties (patents, brands, etc.), organizational capacity and customer networks.



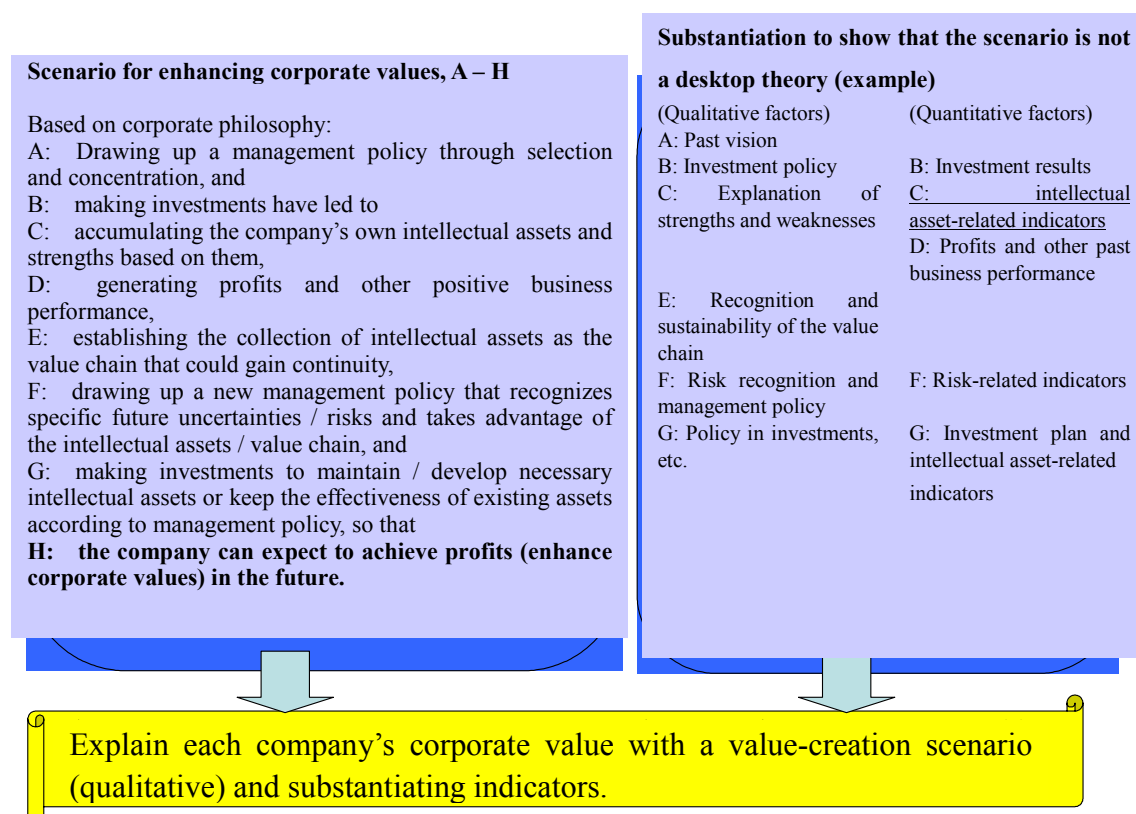
(2) Presentation of Intellectual Asset-Based Management (“Guidelines for Intellectual Asset Information Disclosure”)

While it is important to put Intellectual Asset-Based Management into practice within a company, it is just as important to win understanding and empathy from a wide range of stakeholders (business associates, clients, financial institutions, employees, etc.) in order for the management style to survive in the long-term. When a company presents its Intellectual Asset-Based Management to stakeholders, the stakeholders, in turn, provide feedback, thereby creating mutual dialog, and further progressing the content of the Intellectual Asset-Based Management.

Merely presenting financial information portraying past business performance, would fall short of expressing the company’s growth potential. Providing information on Intellectual Asset-Based Management in addition to financial data, enables the company to transcend the limitation of conventional fiscal information, and describe its potential future growth to stakeholders. In other words, it is effective to provide financial information together with an Intellectual Asset-Based Management Report in a way that they mutually complement each other.

The “Guidelines for Intellectual Assets Information Disclosure”, released by the Ministry of Economy, Trade and Industry on October 13 last year, suggests the approach of using easy-to-understand scenarios to describe management policies for future value creation, and incorporating substantiating indicators (intellectual asset indicators) into the scenarios for added credibility. The document also includes guidelines for parties on the side of assessing such reports on Intellectual Asset-Based Management.

The Guidelines were compiled based on the Interim Report by the Subcommittee on Management & Intellectual Assets, New Growth Policy Committee, Industrial Structure Council.



(3) Overseas initiatives

• Germany

Based on the stance that compiling an intellectual asset report has financial benefits for SMEs, the government has drawn up the guidelines for SMEs titled “Intellectual capital statement --- Made in Germany”. Around 16 SMEs have released their intellectual capital statements according to the guidelines. Large enterprises like banks are among those who have disclosed their intellectual capital statements, indicating a growing interest in Intellectual Asset-Based Management in the business community including large corporations.

• EU

In 2001, a consortium of entities from 6 EU countries released the MERITUM Guideline, advocating standards and indicators for compiling an Intellectual Capital (IC) report. The PRISM Report 2003, proposing far-reaching policies, was released in 2003. A working group, set up EU in late 2004, has been working on drawing up guidelines on IC reports.

• OECD

OECD conducted a study on intangible assets in 1991 – 1992, and held a symposium on the assessment and disclosure of intellectual capital in 1999.

In response to a Japanese proposal, the Project on intellectual assets and value creation was launched in 2004, convening a conference in the Italian city of Ferrara in

October 2005. The Ferrara conference attracted around 20 Japanese participants, who introduced initiatives in Japan. The results of the project are due to be reported to the ministerial meeting in May 2006. The project on intellectual assets is due to continue under OECD's Directorate for Science, Technology and Industry as well as the Centre for Entrepreneurship, SMEs and Local Development.

3. Intellectual Asset-Based Management at SMEs

(1) Significance of Intellectual Asset-Based Management at SMEs

SMEs must commit themselves to the management approach of recognizing and utilizing their unique intellectual assets as the source of competitiveness, and achieving differentiation from competitors on a continuous basis, so as to enhance the quality of their business management. In this sense, SMEs are advised to recognize the importance of Intellectual Asset-Based Management, which involves the use of their own intellectual assets as described in the previous chapter.

With the development of SME accounting increasing their fiscal transparency, it should be noted that SME's advantages lie in areas not reflected in financial data, much more so than the case of large corporations. For this reason, SME operators must make more management efforts to acknowledge and utilize their unique intellectual assets as the source of their competitive edge than ever before.

SMEs generally have less management resources than large corporations, and need to overcome various difficulties when starting new business activities. They must therefore seriously consider how they can take maximum advantage of their business assets while utilizing external resources. It is necessary to draw in the capacities of internal and external stakeholders appropriately to operate business according to the approach of Intellectual Asset-Based Management.

In many SMEs, the management policy is often only in the minds of proprietors, rather than being presented fully to employees and external parties. Yet, sharing the management policy with employees and maintaining dialog with financial institutions / business associates have a great significance in so far as opinions of these parties can be reflected to improving the management.

Corporate activities are not only undertaken within each company, but in broad-based associations with business clients, customers as well as the residents of its surrounding communities, social infrastructures, environment, traditions and cultures. In order to implement Intellectual Asset-Based Management, it is important to gain empathy and support from these stakeholders.

Numerous studies have been conducted on improving the management capacity and business performance of SMEs. Some studies quantified / prioritized elements effective for enhancing SME performance, and identified the development stages of good-practice companies practically and qualitatively, to present the "high-profitability spiral"³. As indicated in these studies, When a company wishing to enter a new

³ The Sanno Institute of Management, "Shueki Kesshoka Riron (Profit Crystallization Theory)" by Yahachiro Miyata (Diamond, Inc.) (7.2003), "Quantification Model on qualitative factors for improving SME profitability", "Shinyo Kinko" (11.2005) pp.36-43, etc.

business area or expand its business scale tries to improve business performance, there is a significance in improving qualitative factors of corporate management. This has a deep association with Intellectual Asset-Based Management, examined by this forum.

(2) Anticipated benefits

Various benefits are expected to arise from companies implementing and presenting Intellectual Asset-Based Management. These benefits include:

- 1) Facilitating optimum use of limited management resources. The management style may also give fresh “inspiration” to proprietors on the strength of their businesses.
- 2) Enhancing trust from business associates and clients
- 3) Improving employees’ awareness, work motivation and sense of unity
- 4) Helping the company secure human resources that empathize with its management policy and business strategies
- 5) Gaining advantage in terms of fund-raising from financial institutions
- 6) Allowing the company to appeal its future growth potential to prospective shareholders prior to going public

Note that these benefits would come about as a result of the continuous implementation of Intellectual Asset-Based Management and subsequent enhancement to the quality of business management. If companies direct their interest and energy to compiling an Intellectual Asset-Based Management Report with the motivation of making themselves look good to secure human resources, raise business funds and improve trading terms, they would lose the true significance of improving their quality of business management through Intellectual Asset-Based Management.

SMEs, which account for 99% of Japanese enterprises, face various situations and challenges. Their approach and objective for implementing and presenting Intellectual Asset-Based Management naturally vary from company to company. Each company has its own strengths. Businesses are expected to tap into such strengths as the source of competitiveness, so as to enhance the quality of their management.

(3) Target SMEs

Intellectual Asset-Based Management is considered effective for all SMEs, numbering 4.8 million across the nation. Yet, in order to proliferate this management style among SMEs and support their efforts to improve business management, it is necessary to promote initiatives that suit the versatile reality of SMEs. It is possible

to categorize companies based on which business types enjoy a higher level of improvement benefits through Intellectual Asset-Based Management.

This forum has been aware of the need to discuss what kind of SMEs we should have in mind in exploring specific measures. However, the priority has been given to summarizing open discussions on Intellectual Asset-Based Management for comprehensive SMEs as a whole.

At meetings, some discussions were more geared toward venture businesses seeking to create products of high added values in fields such as IT and biotechnology. However, there are not many SMEs eyeing for stock market listing, and such companies are likely to already have a high level of awareness on business management using intellectual assets. For this reason, some pointed to the need to proliferate the concept of Intellectual Asset-Based Management to the remainder of SMEs.

The descriptions from the next chapter onwards do not target any specific types of SMEs, but have been compiled primarily for ambitious SMEs seeking to improve their business management.

4. Implementation and presentation of Intellectual Asset-Based Management in SMEs

4-1. Implementation and presentation of Intellectual Asset-Based Management (General)

(1) Overall flow of implementation and presentation (flow chart) and positive cycle through feedback

The flow-chart below shows the overall flow of tasks to be conducted by each company conduct in order to implement Intellectual Asset-Based Management and gain empathy in the management approach from stakeholders including employees, financial institutions and business associates.

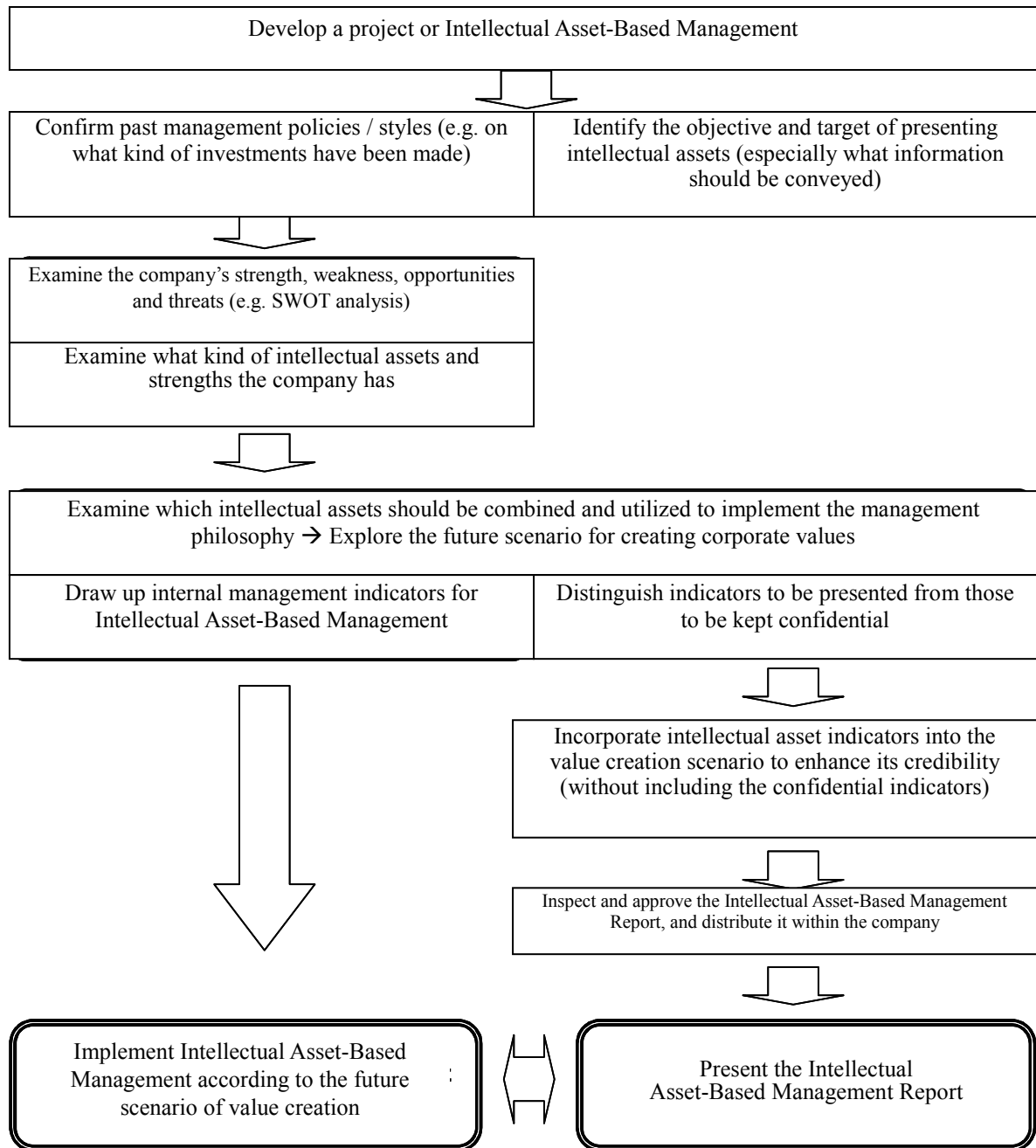
When initiating Intellectual Asset-Based Management, it is important to conduct analysis based on past experiences and achievements, and clarify the management policy for creating future values and profits, i.e. enhancing corporate values. Future policies must be based on the recognition of potential uncertainties in the future.

When Intellectual Asset-Based Management becomes steadily implemented and enhances business performance, the Intellectual Asset-Based Management Report, presented to stakeholders, gains added credibility. When the credibility of disclosed information increases, the company will enjoy a more appropriate reputation of its corporate values. Then, it can expect to efficiently secure human resources, raise business funds and consolidate business ties. This, in turn, increases effort and investment in the creation and utilization of intellectual assets, the source of such reputation, and reinforces Intellectual Asset-Based Management itself even further.

In other words, the implementation and presentation of Intellectual Asset-Based Management provide mutual feedback, and should be coordinated as the two wheels of a cart.

The approach and method for implementing and presenting Intellectual Asset-Based Management may vary from SME to SME, as explained in 3 (3). The flow-chart below shows a general approach for a wide range of companies. Intellectual Asset-Based Management is diverse and is not necessarily restricted to a single approach,

Flow chart for the implementation and presentation of Intellectual Asset-Based Management in SMEs



※Implementation and presentation of Intellectual Asset-Based Management mutually provide feedback.

4-2. Procedure for adopting Intellectual Asset-Based Management (Details)

(1) Preparation for adopting Intellectual Asset-Based Management

i) Organizing the project

It is desirable to form a project team to review the company's intellectual assets and implement Intellectual Asset-Based Management. With the company's proprietor as the top leader, the team should include members that make final decisions, members who make day-to-day decisions, and their subordinates from different departments for undertaking daily operations.

However, SMEs and venture businesses don't generally have large workforces, and often cannot make a clear allocation of work operations. For this reason, in practical reality, the proprietor, who has the overall grasp of the company's management, determines the management policy for utilizing intellectual assets, and implements it in partnership with all employees. Project members, led by the proprietor, will also handle the compilation of the Management Report.

(2) Recognizing intellectual assets and exploring their utilization

At SMEs, intellectual assets and management policy for utilizing them may be clear in the minds of proprietors, but are not summarized in documents. On the premise of implementing Intellectual Asset-Based Management, it is important, for example, to apply SWOT analysis to comprehensively identify the company's strengths, weaknesses, profiting opportunities and threats to profitability, thereby reconfirming the company's intellectual assets and clarifying the management policy for their utilization.

i) Examining past achievements

Examine the management philosophies, management policies and strategies from past to present, and identify resulting investment / business achievements. Also examine whether the management philosophies, management policies, strategies, investment achievements and other elements have been consistent, and summarize how intellectual assets have been accumulated and utilized in the process.

At many SMEs, management philosophies, management policies and strategies are often only in the minds of proprietors. Laying them out in documents can summarize them and may spark a new inspiration.

ii) Confirming own strengths and weaknesses (SWOT analysis, etc.)

Once management situations and intellectual assets from past to present are identified, use management analysis tools such as SWOT analysis to summarize and

identify the company's strengths, weaknesses, profiting opportunities and threats to profitability. Such analysis clearly indicates what kinds of strengths have been accumulated as intellectual assets.

Identifying weaknesses and developing their countermeasures may also turn the weaknesses into future strengths, i.e. intellectual assets that can be utilized. Sorting out future profitable opportunities and potential threats to them can present the direction of how intellectual assets should be best utilized and modified to generate profit.

In the absence of complicated analysis, simply listing several strengths can be the first step in confirming where the company's strengths lie.

The following management analysis tools are available to identify the company's intellectual assets and explore future management policies.

- SWOT analysis

SWOT analysis examines a company's strengths, weaknesses, opportunities and threats for comprehensive assessment. Its simple methodology allows even SMEs to summarize these elements about themselves easily.

- Balanced Scorecard / BSC

BSC assigns weights to elements such as finance, internal management / process, clients and education, incorporate them into targets, and digitize / visualize them so as to control and improve management and individual performances. It should be noted that BSC itself is not a tool for developing corporate strategies.

- JIS Q 9005・JIS Q 9006

JIS Q 9005 is a guideline for autonomously developing a quality management system, designed to improve / innovate the "quality" of goods and services for customers, so that the company can achieve sustainable growth through education and innovation. JIS Q 9006 is a guideline that defines the approach for self assessment as a way of improving and innovating the quality management system.

- Five forces

"Five forces" represent the framework used to analyze the external environment and industrial structures as the premise for exploring corporate competition strategies. Analysis is conducted in five perspectives, i.e. "threat of entry", "competitive rivalry", "threat of substitutes", "power of buyers" and "power of suppliers".

- GRI (Global Reporting Initiative) Sustainability Reporting Guidelines

The Guidelines are for voluntary use by companies reporting their activities and economic, environmental and social aspects of their goods and services. They are aimed at clarifying how the reporting entity is contributing to a sustainable society, and presenting it in the way easy to understand for both the entity itself and its stakeholders.

○Corporate ranking self-diagnostic system (TKC Corporation)

This software allows SMEs to make self-diagnosis of its corporate “ranking” with the focus on qualitative analysis, based on the approach taken by the Financial Services Agency in the “Supplement to the Financial Inspection Manual: Treatment of Classifications regarding Credits to Small and Medium-Sized Enterprises”. Users give either “Yes” or “No” to questions such as “Are the goods and services of your company high in technological standard and capable of sustaining sales on a continuous basis?” If “Yes”, the users must select reasons (e.g. “Because the goods and services we deal with have been featured in newspapers and industry magazines, with positive feedback”).

○IC Rating (Actcell Corporation)

This tool measures and assesses how efficiently each of the intellectual capital components is functioning, how much potential future risk the organization has, and how much capacity it has in improving and developing each of the IC components. The tool visualizes overall intellectual capital comprehensively and structurally. In addition, it can illustrate the structure of how individual IC components are interconnected, so as to help the company improve its corporate values.

○FFS theory (InterVision Consortium)

This is a utilitarian factor analysis theory based on applied psychology, facilitating the formation of work teams that produce higher achievements. Characteristics of individual persons are compiled into digital data, so as to scientifically generate combinations that produce optimum productivity.

iii) Determining the disclosure policy

When business operators initiate the compilation of an Intellectual Asset-Based Management Report, refer to the “Guidelines for Intellectual Assets Information Disclosure” (METI) as well as similar guidelines issued in Germany and Sweden. The 2004 White Paper on International Economy and Trade⁴ features detailed information on overseas disclosure models. Also examine Intellectual Asset-Based Management Reports⁵ already available.

In doing so, it is desirable to summarize information internally managed and information already disclosed at the same time.

After summarizing information to be presented, determine the following disclosure policies:

- Objectives and targets for presenting information
- Stance toward associated risks

⁴ http://www.meti.go.jp/report/tsuhaku2004/2004honbun_p/index.html

⁵ All About, Inc., Development Bank of Japan, NeoChemir Inc. and Mnemonic Security, Ltd.
<http://www.meti.go.jp/policy/competition/index.html>

- Approach and policy toward the company's trade secrets⁶
- Specific disclosure means and media

iv) Drawing up the scenario for future value creation

Combine the intellectual assets, identified in the management analysis in (ii), to form a value chain, and draw up a scenario of value creation for generating profits in the future, with considerations paid to future management policies and strategies. In the process, examine consistency with management policies / strategies from past to present, and, if inconsistent, summarize how they will be changed. Also, in order to make the scenario for future value creation highly specific and likely, it is necessary to define it based on information on future uncertainties.

Venture businesses that have just been launched may have a plan to change management policies from the beginning. Changes in the business environment may also force some companies to change their management policies. Having changes to management policies is not a problem by itself. It is important for the company to be clearly aware why and how the policies have to be changed in relation to the scenario of value creation utilizing its own intellectual assets.

v) Specifying and managing intellectual asset indicators

The above processes from (i) to (iv) clearly define the scenario of value creation for acknowledging own intellectual assets and taking advantage of them for future profits. Intellectual Asset-Based Management is implemented based on this scenario. It is important to set "internal management indicators" as an in-house guide, and control these indicators while implementing Intellectual Asset-Based Management, instead of implementing it merely by instinct.

Intellectual Asset-Based Management is a management style that takes advantage of each company's unique strengths. Significance lies in being different from competitors. Indicators that internally control its implementation should therefore be different from company to company. Highest care must be paid to the control of these indicators, as they directly link to trade secrets and the source of competitive edge.

When an Intellectual Asset-Based Management Report is prepared and presented to financial institutions, business associates and other stakeholders, the scenario of value creation is shown in a qualitative text. To increase its credibility, the text must include quantitative indicators (indicators for external explanation) for substantiating key aspects of the scenario. As far as the information receivers (e.g. financial institutions and business associates) are concerned, the substantiating indicators should

⁶ Guidelines on the management of trade secrets (revised on October 21, 2005)
<http://www.meti.go.jp/policy/competition/index.html>

be the same as internal control indicators. However, from the perspective of trade secrets and competition, it is desirable to choose 5 to 10 indicators for external presentation to reinforce the credibility of the value creation scenario.

(3) Policy sharing and implementation within the company

i) In-house sharing and examination

The value-creation scenario, drawn up in (2), internal control indicators for its steady implementation, and scenario-substantiating indicators for (external presentation) should be shared within the company, and examined with a focus on the following aspects:

- Whether the value-creation scenario is consistent with management policies
- Whether the value-creation scenario, internal control indicators and scenario-substantiating indicators are convincing and effective
- Whether there are any problems in terms of trade secrets and competition
- Whether the scenario is consistent with other disclosed information (sales report, etc.)
- Whether the quantitative information used as indicators is accurate
- Whether there is sufficient reference information

ii) Proprietor approval

After the value-creation scenario, internal control indicators and scenario-substantiating indicators are examined, the proprietor gives the final approval.

Issues that the proprietor should focus in examining them, for example, are:

- Effectiveness and credibility of the value-creation scenario
- Trade secrets and competition-related issues
- Consistency with disclosure policies
- Effectiveness on anticipated disclosure targets
- Achievability of disclosure objectives

At SMEs, the proprietor is often the only party with an overall view of the company's operations. Also, since it is the proprietor who has to bear the final responsibility, the proprietor has to make substantial confirmation regardless of the involvement of external support personnel or organization in implementing Intellectual Asset-Based Management.

(4) Presentation of an Intellectual Asset-Based Management Report

i) Media and method according to disclosure objectives

Most companies conduct their business in association with their stakeholders, such as employees, business associates, financial institutions and clients. It is therefore important to share the sense of values with stakeholders regarding the value-creation scenario in implementing Intellectual Asset-Based Management, rather than conducting it merely within the organization. With empathy from stakeholders and solidarity between the proprietor and employees, Intellectual Asset-Based Management can be put into practice efficiently with sustainability.

An “Intellectual Asset-Based Management Report”, which combines the value-creation scenario (qualitative information) drawn up in (3) and its substantiating indicators (quantitative information), can be presented to stakeholders as credible data, so as to win their empathy with the management.

Prior to presenting the report, it is necessary to examine, in specific details, how the information should be delivered via which media, according to the disclosure policy initially drawn up, and with considerations to disclosure objectives / targets.

If the presentation is directed only to specific financial institutions or business associates, it is not necessary to make the Intellectual Asset-Based Management Report publicly available. The Report should only be shown to relevant persons in charge, and be reproduced in the required number of copies.

On the other hand, if the Report is disclosed to attract new clients or human resources, a simplified few-page report may be prepared, and inserted into a sales report, annual business report, and other existing media. In this case, the objective is to present the information as widely as possible. It is therefore effective to use the company’s website and other Internet media in terms of cost performance and speed.

Some companies are already offering a variety of information via their websites and brochures. If proprietors use their own words in compactly and concisely delivering the scenario of the companies’ future growth, it is certain to gain empathy from a broad range of stakeholders.

However, such presentation of an Intellectual Asset-Based Management Report is considered to be part of IR or PR operations. Since not many SMEs have in-house experts in the area, they need to commission the work to external parties or receive support from experts.

ii) Follow-up after disclosure

The method of presenting an Intellectual Asset-Based Management Report is different from company to company. Tasks listed below must be implemented as post-disclosure follow-up.

An Intellectual Asset-Based Management Report can be presented to stakeholders chronologically, so as to give it an added credibility.

- Implementing a media conference or briefing
- Preparing a system for answering any questions
- Examining questions and queries received
- Following up on Intellectual Asset-Based Management's strategies, achievements and internal control indicators
- Determining items to be carried forward to next fiscal year

4-3. Human resources for supporting implementation and information presentation (List)

Since SMEs do not have as many resources as large corporations do, they may find it difficult to implement Intellectual Asset-Based Management and prepare an Intellectual Asset-Based Management Report all by themselves. They may wish to utilize, as required, human resources that support the implementation and presentation of Intellectual Asset-Based Management.

The following are typical support human resources and organizations specializing in law, accounting, finance and business management. Such human resources / organizations become necessary in various occasions indicated in the flow chart.

Further examination is required to work out specifically when SMEs can seek support from which types of human resources / organizations.

Support human resources / organizations	Areas of expertise
Attorney	With rich knowledge and experiences in legal affairs, attorneys can provide accurate support on risk management and corporate governance.
Patent agent	With knowledge on intellectual properties, patent agents can provide accurate support on knowledge creation.
Tax accountant	Due to close contact with SME operators, tax accountants can provide overall support on Intellectual Asset-Based Management. They can show their skills particularly regarding the association between fiscal figures and intellectual asset indicators.
Certified accountants	Due to close contact with SME operators, certified accountants can provide overall support on Intellectual Asset-Based Management. They can show their skills particularly regarding the association between fiscal figures and intellectual asset indicators.
SME management	With daily consultation on SME management, SME

consultant	management consultants can provide overall support on Intellectual Asset-Based Management.
Real estate appraiser	The value of real estate properties change significantly according to their usage. In this sense, they are similar to intellectual assets. Real estate appraisers can draw from their land valuation experience in the assessment of intellectual assets.
SMRJ	With vast experiences in SME support and a variety of support programs, SMRJ can provide overall support on Intellectual Asset-Based Management.
Financial institutions	Financial institutions can provide business funds or preferential interest rates to SMEs that are expected make sustainable future growth through Intellectual Asset-Based Management.
Venture capital	Venture capitalists are expected to provide overall management support in addition to funding particularly to companies seeking IPO.
Accounting counselor	Accounting consultants, along with directors, can grasp the statuses of the companies' fiscal and other activities, and therefore are expected to provide broad-based support including management support and assistance in report compilation. (Accounting consultant is a corporate unit, newly established under Company Law to enhance accounting reliability. Parties qualified to serve in the unit include tax accountants, certified accountants, tax accounting firms and auditing firms.)

5. Implementation support measures (*Details to be examined in the future)

SMEs lack resources (e.g. human resources) to implement Intellectual Asset-Based Management by themselves and present it to necessary stakeholders. The government and other relevant organizations should therefore provide due support.

In the process, effective measures must be explored from the perspective of “contributing to the innovation of SME management”, with considerations paid to coordination with existing measures under consistent scenarios.

This forum and other bodies will further examine specific support measures and their content. Possible measures include the following:

(1) Support through existing organizations (in coordination with existing measures)

Implementing and disclosing Intellectual Asset-Based Management are an effective means of promoting management improvements in SMEs. However, it is a difficult task to be handled by SME operators alone. They must be provided with some incentives for taking on the challenge. To this end, support measures should be provided under the partnership of the Small and Medium Enterprise Agency, local governments, SMRJ, government-affiliated financial institutions (Development Bank of Japan, Japan Finance Corporation for Small and Medium Enterprise, Shokochukin Bank, National Life Finance Corporation, National Federation of Credit Guarantee Corporations, etc.), various city banks, regional banks, Shinkin banks, Central Federation of Societies of Commerce and Industry, Japan Chamber of Commerce and Industry, National Federation of Small Business Associations and emerging markets.

In particular, SMRJ may effectively contribute through providing the following types of support measures:

➤Organizing model intellectual asset projects among SMEs

Seek applications from SMEs in typical business types / formats, support the compilation of their “Intellectual Asset Reports” through dispatching experts, etc., and publish the outcome in a collection of case studies.

➤Providing consultation and advice

Provide consultation and information from experts at SMRJ’s SME & Venture Support Centers, and dispatch the experts, to offer comprehensive support on Intellectual Asset-Based Management.

➤Developing diagnostic tools for Intellectual Asset-Based Management in SMEs

Develop a simple self-diagnostic tool (software) that allows SMEs to assess their Intellectual Asset-Based Management, and draw up a manual for SME support organizations on the compilation of an Intellectual Asset-Based Management Report.

➤Incorporating Intellectual Asset-Based Management into SMRJ’s support measures

Use “Intellectual Asset Reports” as part of screening documents for extending credit guarantee, etc.

(2) Proliferation activities (for SME operators and information receivers)

SME operators are advised to correctly understand Intellectual Asset-Based Management as the premise for SME implementation of the management system. In other words, Intellectual Asset-Based Management must be proliferated through training and seminars on SME operators. Such activities require training materials that describe the management concept in a way easily understandable among SME operators.

When SME operators adopt Intellectual Asset-Based Management or compile an Intellectual Asset-Based Management Report to be presented to stakeholders, there should be a manual that explains the process on step by step basis.

When an SME presents its Intellectual Asset-Based Management, it is necessary that receivers of the information can understand the concept correctly. Without correct understanding on the part of the receivers, there will be no benefit in disclosing Intellectual Asset-Based Management or motivation for disclosing such information. For this reason, the concept of Intellectual Asset-Based Management should be proliferated not only among SME operators but also the receivers of Intellectual Asset-Based Management information. Such receivers include, as listed in 4-1, financial institutions, business associates and employees. Education is particularly necessary to enlighten financial institutions. As education activities for financial institutions, forum members have pointed out the need to coordinate with bankers associations, seek a tie-up with relationship banking initiatives, and have the elements of Intellectual Asset-Based Management included in the “Supplement to the Financial Inspection Manual” by the Financial Services Agency.

In particular, SMRJ may effectively contribute through providing the following types of support measures:

➤ Education and proliferation

• Compiling information leaflets and brochures

In order to proliferate Intellectual Asset-Based Management, print additional copies of the leaflet produced this fiscal year, and newly compile an information brochure. Implement education activities through SME support organizations, professional practitioners’ associations (Japanese Institute of Certified Public Accountants, Japan Federation of Certified Public Tax Accountants’ Associations, Japan Small and Medium Enterprise Management Consultants Association, etc.).

• Organizing symposiums and seminars on Intellectual Asset-Based Management in SMEs

Have each branch office organize symposiums or seminars to diffuse the concept of Intellectual Asset-Based Management.

➤ Implementing training at SME University

Provide training for SME operators and SME support organizations at SME University

(3) Software support

Use of software could facilitate the compilation of an Intellectual Asset-Based Management Report to be presented to necessary stakeholders (e.g. financial organizations). Such software is not only effective in helping SME operators compile an Intellectual Asset-Based Management Report by themselves, but also beneficial for experts supporting such activities. Also, in the process of compiling such a report, software could provide inspirational opportunities on the implementation of Intellectual Asset-Based Management, such as identifying own corporate strengths that lead to value creation, and finding out how such strengths can be utilized.

Since Intellectual Asset-Based Management Reports require diversity, it is not appropriate to offer a uniform template to be filled out. The software could process interactive questions (with questions changing according to previous responses), and support the compilation of an Intellectual Asset-Based Management Report in the end. Specific details still need to be worked out.

6. Perspectives of further examination

Examples of support measures and their approaches were detailed in 5. The Forum should further explore specific support measures and initiatives to establish Intellectual Asset-Based Management in SMEs. In doing so, the following aspects need to be taken into consideration:

- When introducing specific measures for supporting Intellectual Asset-Based Management initiatives, it is necessary to have the image of targeting SMEs so that the measures are relevant to their needs. In the case of fund-raising support, separate discussions should be held between direct finances such as the emerging business market and venture funds, and indirect finances via government-affiliated financial institutions and regional financial institutions.
- In preparing and providing a manual for SMEs adopting Intellectual Asset-Based Management, it is necessary to examine the development of human resources for support that complements the initiatives described in the manual.
- Since the term “Intellectual Asset-Based Management” is not necessarily proliferated, there should be awareness-raising activities, e.g. providing business operators, supporters and information receivers with easy-to-understand explanation on how the management style relates to existing methods for management improvement. A commendation system may also be introduced to reward good-practice cases.
- Further examination is also required on how to secure credibility of information disclosed in the form of an Intellectual Asset-Based Management Report. Releasing such reports periodically over time will enhance credibility. The possibility of objective third-party assessment should also be considered.

7. Conclusion

This Forum initially began examining the significance for SMEs in implementing Intellectual Asset-Based Management, based on the belief that companies considering entry into new business areas or expansion of their business scale, may benefit from effectively tapping into their intellectual assets, the source of differentiation, to attain a competitive edge and sustainable differentiation from competitors. The Forum then explored the method of implementing Intellectual Asset-Based Management at SMEs, ways of attaining empathy from financial institutions, employees, business associates and other stakeholders to achieve management improvement, and specific measures for proliferating and supporting Intellectual Asset-Based Management.

In the short period of just three months, we have defined the flow of implementing Intellectual Asset-Based Management in SMEs, and summarized tasks and other issues to be noted in the process. Several ideas have also been compiled as support measures for SMEs adopting Intellectual Asset-Based Management.

In the future, our support measure proposals should be further examined to develop a mechanism that SMEs find easy to incorporate.

Throughout the discussions at the Forum, there has been a shared consensus that all companies, regardless of their scales and business types, have excellent intellectual assets. If this is the case, it is perfectly possible for each company to adopt Intellectual Asset-Based Management in line with its own strategies, and utilize expert human resources and support measures as required in the process, thereby exercising a management approach that taps efficiently into its strengths (intellectual assets) and generate sustainable profits. There are high expectations for companies taking on the challenge of Intellectual Asset-Based Management.

Members of the SME Intellectual Asset-Based Management Forum

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Business Support Division, Business Support Department, Small and Medium Enterprise Agency

【Secretariat】

Organization for Small & Medium Enterprises and Regional Innovation, Japan

○Forum agenda and schedule

1st meeting on Monday, January 16, 2006

- Overview of Intellectual Asset-Based Management
- Discussion focuses on Intellectual Asset-Based Management at SMEs

2nd meeting on Monday, February 6, 2006

- Case study presentation
InterVision Consortium, Inc.
All About, Inc.
- Compilation of an Intellectual Asset-Based Management Report by SME

3rd meeting on Monday, February 27, 2006

- Case study presentation
Woodland Corporation
Academia-Industry Cooperation Promotion Division, Economic Policy
Department, Kansai Bureau of Economy, Trade and Industry
- Intellectual Asset-Based Management at SMEs
- Brochure on SME Intellectual Asset-Based Management (tentative)

4th meeting on Monday, March 13, 2006

- Interim report
- Support measures on Intellectual Asset-Based Management (tentative)