

## Yearly Update on the Progress of the TIPS Project – summary of a research report on corporate investors' view on introducing a corporate IP disclosure framework

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### Background

In the era where inventions drive the economy, the ability to create, capture and protect these inventive ideas has become vital for a corporation to stay competitive and sustain profit growth. Various government policies have been implemented in order to stimulate inventions and to strengthen the ability to protect these inventions through effective use of intellectual property (“IP”) rights. For the past few years, the TIPS (Taiwan Intellectual Property Management System) project has been promoted extensively aiming to increase public awareness towards IP rights and to assist local companies to establish a systematic and comprehensive IP management system.

Over the years, the TIPS project has received wide recognition and positive feedbacks, and many TIPS-implemented companies are ready for the next challenges. After an extensive research, the project proposes to follow the international trend of encouraging companies to make better and more disclosure of intangible assets that are not often shown in the traditional financial statements<sup>1</sup>. Local companies with effective IP management system and strategy are encouraged to compile an “Intellectual Property Management Report” summarizing its business, R&D and IP management strategies as well as their accumulated IP assets.

In order to compile an Intellectual Property Management Report, a company is advised to re-identify its intellectual property, re-think about its strength and weakness in every aspect and where necessary, the company may also need to re-conduct a market, technology trend or competitor’s analysis, through which it is believed that a better and more effective IP strategy will be re-formulated. Formulating a well-planned corporate strategy that takes into account various IP issues is one of the main reasons for introducing the corporate IP disclosure framework. Promoting the disclosure of IP-related information so that the management efforts, visions and true capabilities of a corporation can be fully disclosed and recognized is the second major reasons for introducing the corporate IP disclosure framework.

This essay begins with a brief update on the yearly progress of the TIPS project, follows by a summary of the research report on corporate investors’ view on initiating a framework for enhancing disclosure of corporate IP-related information. The research report contains the result of a survey conducted between April and June this year (year 2009), consisting questions to uncover local investors’ view and attitudes towards corporate IP, and to identify kinds of IP-related information required when making an investment decision as well as to find out to what extent local investors would support the government’s initiative on promoting a corporate IP disclosure framework.

### Update on the Yearly Progress of the TIPS Project

In order to facilitate the promotion of TIPS, several supplementary services have been introduced (fees and expenses are fully or partially subsidized by the government this year) :

- (1) Free On-Line Self-Assessment Tool;
- (2) On-Site Diagnostic and Consulting Service (selected companies were fully subsidized);
- (3) “Demonstrative” Model Companies (selected companies were partially subsidized);
- (4) IP Management Courses (partially subsidized);
- (5) On-Site Auditing (for the Conformance of TIPS requirements) and issuing of the TIPS Compliance Certification (fully subsidized) .

To the end of 2009, 401 enterprises have completed the on-line self-assessment questions; 93 companies have received on-site diagnostic and consultation services; 847 persons have taken the IP management courses; 64 enterprises have successfully obtained the certificates for the compliance of TIPS and more than 299 enterprises have either completed or in the middle of implementing TIPS.

### Summary of the Research Report on Corporate Investor s’ View on Introducing a Corporate IP Disclosure Framework

Even though it is clear that the idea of encouraging corporations to disclose non-financial information has started few decades ago in Europe and are currently being vigorously promoted by many major countries, we believe that in order to facilitate smooth promotion of the new IP disclosure framework, it is important to find out the local investors’ views and attitudes towards IP and to know how investors see the role of IP can play in a local corporation. Hence a survey was conducted at the initial stage of preparing the new corporate IP disclosure framework in Taiwan.

The survey was sent via both mails and emails to 357 corporations, including venture capital firms; trust, investment consulting or management firms; security corporations, financial institutions and banks. More than one set of survey questionnaires could be distributed in one corporation to be filled by investors/analysts that are specialized in investing different industrial sectors. As a result, a total of 495 set of questionnaires were distributed..

### Basic Data

The survey was conducted between April to June 2009. At the end of June, a total of 150 investors/analysts responded which equals to a 33% response rate. Most of the survey respondents specialized in investing in various industrial sectors which include: semi-conductor; telecommunication; electronic components; 3C products; IT; optical; biotechnology; pharmaceuticals; new energy resources; media; creative and culture and traditional manufacturing industries.

Around 50% of the survey respondents have more than 5 years’ experience in investment; among them, 23% of the survey respondents have

more than 10 years' investment experience.

#### Investors recognize the importance of IP

A remarkable 94% of the survey respondents recognized that the ability to create, protect, manage and exploit IP has become an essential element for a company to stay competitive and sustain growth in today's market environment. 88% of the survey respondents believe that companies with more or better IP assets are more likely to generate profits and 91% believe that such companies are more likely to survive in this ever-increasing competitive environment.

Yet, 94% of the survey respondents agreed that not only a company should actively create IP assets, but the ability to exploit and thus extract value from the accumulated IP assets is what makes a company stand out among the others. Taking a step further, the survey result reveals that the respondent investors believe a company with effective and well-planned IP strategy is likely to:

- Enhance its market competitiveness (84%);
- Raise its overall corporate value (71%);
- Maintain its market position (55%);
- Increase its profitability (32%);
- Affect its share price (30%);
- Assist investors in evaluating such company's managerial ability and performance (29%) as well as evaluating its future growth potential (28%).

#### IP-related information influences investors' investment decisions

Given that most investors see the ability to create, manage and exploit IP assets as well as having a well-planned IP strategy are crucial for the survival of a company, 82% of the survey respondents indicate that IP-related information has been considered when making an investment decision. Furthermore, 85% of the survey respondents think that they will place greater emphasis on IP in assessing companies in the future.

#### Indicators that used to assess/evaluate a company

Most often used IP-related indicators identified by the survey respondents when making investment decisions are:

- Core technology and its market competitiveness (77%)
- Research ability (experience and achievement) (73%)
- IP protection and management measures (41%)
- IP strategy (align with overall corporate strategy and market/technology characteristics) (40%)
- Ability to fully utilize self-owned IP assets (38%)
- R&D expenditure and investment (35%)
- No. of IP assets (35%)
- Time taken for competing products to enter into the market (33%)
- Cost of maintaining IP assets (19%)

Ratio of intangible assets as to the overall corporate value (19%) :

20% of the survey respondents indicated that they have turned down investment in the past for inadequate IP awareness of the target companies.

#### List of local companies with good and effective IP strategy

The survey respondents were asked to name local Taiwanese companies which in their mind have most effective and sound IP strategy. Taiwan Semiconductor Manufacturing Company (TSMC), Foxconn, United Microelectrc (UMC), HTC, Acer are the top 5 most named companies given by the survey respondents.

Having good quality of patents (such as essential or new technology patents); detailed and complete patent map; sound IP strategy; brand and professional IP/legal department are cited as the reasons that impress these investors.

#### Inadequacy of public available IP-related information

While most investors acknowledge the importance of IP and take into account various IP-related indicators when making investment decisions, 76% of the survey respondents expressed that currently, the amount of IP-related information disclosed by companies are not sufficient for them to make an informed investment decision.

When a question asking the survey respondents to identify the channels by which they obtained their desired IP-related information, the results were quite spread out. 45% of the survey respondents relied on asking the top managers directly; 43% relied on annual report; media and news (35%); website (34%); industrial journals (25%); competitors (15%) and other private channels (15%). It appears that various sources were used but no particular source provides sufficient information. Indeed, a remarkable 91% of the survey respondents believe that if there are more channels provided for corporations to disclose their internal IP information, more accurate assessment of the corporate value can be made.

#### Support government's initiative of promoting IP reporting framework

Further, 73% of the survey respondents expressed their willingness to support the government's initiative of encouraging local companies to disclose their IP-related information. In relation to the initiation and promotion of the corporate IP disclosure framework, 64% of the survey respondents responded that it would be better to adopt a voluntarily disclosure policy and decide whether to switch to mandatory disclosure later; 22% think that only a voluntarily disclosure policy should be adopted followed by 14% of the survey respondents who believe that the government should adopt a mandatory disclosure policy from the start. When the survey respondents were asked to provide suggestions to facilitate the promotion of the corporate IP disclosure framework, the following suggestions were picked by the survey respondents:

- Provide valuation tools to assist investors in assessing and analyzing IP related information (40%);
- a central platform to collect and display all the compiled IP management reports (21%);

- lists of compulsory items to be disclosed in the report (21%); and
- regulate the frequency of updating the contents of the report (15%).

#### Conclusion

Based on the results of the survey, we can conclude that the local investors' view and attitude towards IP are similar to those in overseas. Majority of the investors (> 90%) see IP as valuable tools that could assist companies to create profits and sustain growth in today's competitive market. While most of the investors (82%) have taken into account relevant IP information when making investment decisions, 76% of the survey respondents expressed that the amount of corporate IP-related information disclosed by companies are insufficient for them to make informed investment decisions. This is an important message that local companies should pay particular attention.

It is hoped that through the introduction of the corporate IP disclosure framework, more adequate corporate IP information will be disclosed to assist investors in making better and accurate investment decisions. Consequently, a company's true capabilities, managerial efforts and the intangible assets created upon can thus be fully appreciated and reflected on its market value.

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1 Various national and institutional initiatives addressing the disclosure of corporate intellectual assets are currently being promoted vigorously at the international level such as Japan's "IA based Management Report, (METI)"; Denmark's "Intellectual Capital Statement (MSTI)"; European Union's "Guidelines on Intangibles, MERITUM project"; U.S.'s "EBR 2.0 (Enhance Business Reporting Consortium)"; and The World Intellectual Capital/Assets Initiative (WICI) is currently working on developing a voluntary global framework for measuring and reporting corporate performance.

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