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Managing Performance of Intellectual Property by Dr Corazon G. Anzano, University of San Carlos, Cebu, Philippines

The study developed a management tool that attempts to capture and measure Intellectual Property (IP) and its link to business performance. With the proposed IP Valuation Method, four new insights can be gained in the IP management. First, rank IPs based on sales contributions, that is, which IPs has contributed significantly to business performance. Second, assess IPs' sales potentials and capacity to add value to the company given its remaining useful life (RUL). Third, decide on what to do with IPs with near-ending/expiring RUL and of IPs whose exclusive use become obsolete. Fourth, prioritizing investment on IPs with high potentials.

The principal researcher was Corazon G. Anzano and the co-researchers were Challoner A. Matero, Melanie B. de Ocampo, Gerard L. Go and Marites A. Khanser, all from the University of San Carlos, Cebu City, Philippines.

The valuation method used the rate of return on IP in measuring IP's financial contribution. The ratio is the quotient of the sales contribution per IP divided by the IPs book value. Source data will come from the Statement of Financial Position and from interviews with owners on perceived percentage contribution of sales by IP.

In addition, the study proposed to determine future contribution of IPs using Sensitivity Analyses. Income projections are given in three different scenarios: best case (optimistic projections), worst case (pessimistic projections) and most likely. Bases for scenario building are estimates on net cash flow taking into consideration competition, market condition and changes in net investments based on management's perception. Best case is estimated at a 15% in net cash flow, most likely, 10% and no increase for worst case. The income projections are discounted to present market value using the annual inflation rate. The proposed IP Valuation Method stemmed from the business experience of two firms in the creative industry where continuous innovations in product and process have been their competitive advantage. They are in different phases of IP management. Company A, a Filipino medium sized enterprise exports home furnishing and garden accessories and uses patented stonecast manufacturing processes in product creation. It has IPs duly patented and encountered legal battles in the process. Company B, an Indonesian medium sized enterprise, produces high-valued batik cloth using traditional hand-made batik method. It has registered its trademark and is on road to registering its intellectual properties.

Findings showed that a knowledge management system (KMS) integrated in their company policies and procedures facilitated the creation of innovative processes and new products. Typical of Asian companies, the creation of a family atmosphere and the culture of sharing are the organizational norm. Teamwork and synergy among key employees became the springboard for sharing of knowledge and technical expertise.

The current practice is to report IP as a separate line item under the intangible asset account of the Statement of Financial Position. It used the historical cost subject to two procedures: 1) annual amortization using straight-line method, and 2) annual evaluation of impairment loss. For Company A there is the Notes of the Statement of Financial Position that accompanies the financial statements. In this report, there is a disclosure clause that reflects the valuation by an independent appraiser of the IPs fair market value including other comments on changes of IPs. Based on the findings of the study, there is a need for periodic reporting of IPs to help management in decision making with regards to their IPs.