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A French survey on management of intangible assets

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Summary

INSEE and other agencies of the French public statistical system have decided, at the end of 2003, to launch a survey on the management of intangible assets by firms. This survey originates from two ideas.

Firstly, the subject of such a survey came from considerations about the role of knowledge and innovation in growth in the present economies. For this reason, "intangibles" have been identified by the French National Council of Statistical Information as one of the main items to be looked at.

The second idea rested upon the question of surveying enterprise groups as statistical units. This question arose from the experience of some surveys such as the surveys on R&D, the innovation surveys (CIS3) or a survey on "economic value of patents": it appears that, in a number of cases, the legal unit (which is the common statistical unit) is not relevant for the analysis, and that the enterprise group (or a part of it) has to be considered as a whole.

Because it was thought that this problem would be faced not only for innovation and R&D, but also for other kind of intangibles, this topic seemed a good candidate for a first attempt in France to survey enterprises groups.

The idea of conducting a survey on intangible assets can be traced back to the mid-term statistical program defined by the French National Council of Statistical Information which is the body in charge of defining the work program of the French public statistical system. In August 2003, the plan was drafted this way:

"[Intangibles] is the most difficult project. Numerous elements are already in place. Many actors are already busy with the theme. But it is very difficult to get a global vision of the set of statistical data we would like to have.

There have been statistical data on research for a long time. More recently, innovation has been surveyed. Numerous bodies are interested in information society. Advertisement and software expenses are surveyed through the annual business survey. Surveys are carried out on vocational training.

We should first define what is meant by statistics on intangible. Then one would have to set a program with priorities. Then some thought should be given on the most relevant ways for collecting information. It could be:

- *working out manuals such as the Frascati or Oslo manuals;*
- *defining sets of indicators such as indicators on e-Europe;*
- *implementing an ad-hoc survey.*

Obviously everything should be done at least in a European framework, or, better, in the OECD framework. But we should take advantage of the next coming years to detail what is really wanted and, if possible, to start implementing it."

But defining what are exactly "intangible assets" is by no means an easy task: something in which some economic value is embedded but which is not tangible, something which is produced but with a complete uncertainty, something which is often not separable from the firm and hence which is not marketable but adds value to the firm. On one hand, nobody knows the extent of what has to be included under the wording "intangible assets". On the other hand, everybody is well aware that the real value of a firm is very much linked to elements such as research, trade marks, ownership of patents, embedded specific knowledge of the firm, formal or informal skill of its human resources, location.

It can be understood from these lines that intangible assets, their definition and measurement, are still a field of investigation for statisticians (as well as for economists). But it is very clear that intangibles assets, whatever may be their precise definition, are the new frontier of economic performances and growth, and this makes sense to develop some kind of investigation to grasp some of their features. From there came the idea of designing a survey which, given the state of the art on the topic, will be experimental.

It must also be stated that this survey does not attempt to survey extensively all the components of intangible assets, neither does it aim at really measuring the amount of intangible assets: at this point, not enough thoughts have been given yet to consider such an outcome, where even accounting rules about the matter are far from being unambiguous.

The content of the questionnaire

The scope of intangibles

For this first experience, some choices had to be made in order to limit the scope of the survey. The first option taken was to drop any attempt to deal with manpower and skill management. Though this option is at least debatable given its utmost importance, this subject has been dropped for several reasons:

- because of the very nature of skill and manpower, it deserves a survey on its own;
- such a topic would have required the collaboration of specialized statistical bodies, which would have made the process still heavier;
- a coming survey on a related topic (a double survey, addressed to the firms and to their employees, dedicated to the consequence of the development of computerisation on business organization and working conditions) is already planned for 2006.

It was then decided to limit the survey to the following three items:

- marketing and advertisement ;
- management of intellectual property (patents, trade marks, designs, copyrights, etc.);

- research and development; innovation.

Other kinds of “intangible assets” could have been considered but have eventually been left aside: commercial asset (customers networks, files of clients, information on the customers profiles, etc.), knowledge of processes, long term contracts, location (for tourism industry or distributive trade for example), knowledge management, etc.

For the three chosen items, the aim of the survey is to know the kind of actions that are conducted, to identify their objectives, to collect information about the management strategies, to measure the allocated resources (both in terms of manpower and of financial resources), and to check if there is some assessment or evaluation about the efficiency of the action undertaken.

More precisely, the questions for each item are detailed below.

Marketing and advertisement (§ B of the questionnaire)

To identify actions undertaken, a list of items is proposed as a typology of advertisement: media (press, audiovisual, etc.) and non-media communication (conventions and exhibitions, on-site advertisement, etc.), sponsoring, collective advertisement campaign (organized by professional unions for instance), web site creation or improvement, papers presented in conferences.

The reasons why such actions have been undertaken are asked : launching new products or new stores, contacting new customers, counterattacking competitors, improving the brand or corporate image, addressing potential suppliers or distributors. Another question deals with how the “brand advertisement” management is organized: by segmentation of the market, by generation of products.

Two questions aim at assessing the efficiency of advertisement campaigns, in terms of tools and in terms of outcome. Lastly, it is asked how many resources are devoted to advertisement, both in terms of human and of financial resources.

Research, development and innovation (§ C)

This next frame of questionnaire is basically divided up in two parts: one for innovation and the other for R&D.

Four questions deal with innovation. One aims at knowing if some innovations were introduced during the last two years, the definition of innovation here being in line with the future version of the Oslo Manual: product innovations, process innovations, marketing innovations and organizational innovations. Then it is asked about the rationale of the innovating actions: to gain new markets, to meet a specific demand from clients, to oppose to competitors initiatives, to use new technologies or products introduced by suppliers, to use a new patent, to react to new regulations. Last, and following the previous pattern, it is asked to assess the consequences of introducing an innovation on market shares and profits.

The first two questions on R&D are about the existence of R&D actions (split up between launching multi-yearly or infra-annual projects, hosting researchers from outside, setting a new R&D department, establishing partnerships) and the aims at stake (keeping pace with competitors, getting new skills, coming into critical mass, strengthening excellency and reputation). A question is devoted to the way the budget is defined (by setting a ceiling on expenses, by estimating the costs, by benchmarking) and to the amount of resources flowing into R&D activities (both in monetary terms and human resources). The question on expenses distinguishes whether they are capitalized or not.

Intellectual property (§ D)

This part covers brands, literature and artistic property, patents, drawings and models: questions are first asked about possession and protection (mainly by “yes or no” questions) of those items, as well as about the geographic extension of the protection (national, European Union, beyond) and the use of one (or several) of these items produced by a third party to which fees or royalties should be paid. Information is asked about the strategy of protection (some innovations, very few, none of them, are protected) and the reasons why it is chosen to protect (detering copying and faking, getting access to foreign markets, improving the firm's position in a partnership, getting revenues, rewarding one's researchers when they have discovered something etc.) or not to protect (products are not prone to protection, keeping things secret is a better strategy, it is considered irrelevant, inefficient, costly or difficult).

It is asked if the firm has been victimized because of faking, the bringing of judicial proceedings, and the estimated costs of forgery. Conversely we ask the respondent if it has been involved in any court proceedings for forgery.

Final questions deal with the amount of fees and royalties received from the use of intellectual property by third parties and those paid for the use of intellectual property produced by third parties.

The surveying process

The collective dimension of the management of intangibles

One of the feature of “intangible assets” is their ability to produce strong externalities: if some money is spent in one part of any particular business, the yield may be seen in an other part of the business. It means that expenses dedicated to some of the items above mentioned as intangible assets might have incurred in any part of the organization of the firm. These remarks are especially meaningful when it comes to surveying groups of enterprises. That is the second specific point of this survey. As stated before, it was one of the drive for choosing to launch a survey on “intangible assets” that it was very suitable to groups of enterprises. As it is well known and underlined above, the question of statistical units is a very hot topic among business statisticians and very little has been done so far regarding this point in France. The intuition here was that the “intangible assets” topic was one of the themes at the heart of groups organization, hence it was particularly interesting to take advantage of a survey on intangibles to investigate an experimental survey designed specifically for groups.

The strategy for independent units

For independent legal units, a standard survey can be considered. One questionnaire is mailed to the firm, usually to the managing director, the accountant or the financial director, whoever is the correspondent for the annual business survey. If necessary, the questionnaire would be circulated through relevant entities inside the corporation (R&D directorate, legal affairs directorate when the latter is in charge of intellectual property management, communication directorate for advertisement, etc.). At this stage, and for independent legal units, the difference between this survey and a standard one lies in the purpose, intangible assets which is a new brand theme in business statistics, not in the way the survey will be carried out, nor in the statistical unit.

The strategy for enterprises groups

The situation is quite different when it comes to enterprises organized as groups: one knows that sending the questionnaire to the individual legal units would give no relevant answer, because the policy management of intangibles is generally not decided at that level. Besides, when one or several units carry out the management of one of the items under review for the whole group, the expenses incurred in the name of the rest of the group can be compensated by the rest of the units (benefiting from the expenses or not) through a network of cross-subsidies within the different entities of the group: this makes the expenses not additive and reinforce the need of a surveying of the group.

But one does not know *a priori* who in the group has the relevant information. It is thus necessary to first identify the way the group is organized for the management of intangibles. In principle, each group might be joined into one of the following categories: either a “central” unit is in charge for the whole group, or every single subsidiary do it for its own sake, or one (or some) unit(s) of the group is in charge for other units of the group. These three types of organization may apply to each of the items under review.

In order to understand the very organization of each group about to be surveyed, a preliminary survey will be conducted by phone in order to understand the organization and to identify the proper interlocutor(s) within the group. Actually, it can't be ruled out (it may even be the majority of cases) that several persons will be concerned by the different items (advertisement, intellectual property, and R&D/innovation). Some pre-tests tend to suggest that in many cases, one single person will be able to respond the entire questionnaire or, at least, will be able to re-route it toward concerned persons within the group. It also seems that the contacted person often wishes to be the only entry point vis-à-vis the public statisticians. Anyhow, it is necessary to foresee that the questionnaire may be broken down in as many parts as persons concerned.

Dealing with the micro-groups

The enumeration of French enterprise groups showed that there are a quite numerous amount of very small enterprise groups: 16 400 group consists of 2 to 4 legal units, compared to less than 4000 consisting of 5 legal units or more. For these “micro-groups”, it has been assumed that the management of intangibles was always common for the enterprise group, and that the unit being the head office could always be in position to answer for the whole group: it seemed thus possible to consider these groups as independent single units for this survey. As a consequence, they will be addressed a single questionnaire, which skips the time consuming pre-survey step.

Dealing with the international enterprise groups

The multinational enterprise groups, be they French or foreign-owned, raise a critical question, because the intangible management policies do not respect the national borders of the countries. Thus the question is: in our survey, are we interested in the management of intangibles on the French territory, or in the management of intangibles by “French units”? The first choice is more in line with the logic of our other surveys, but may be irrelevant if the French part of the group has no economic consistency. The second choice prevents us from linking the results of the survey to any other economic data that can be obtained by other sources limited to the French territory; and because it seems out of reach to get the information at the group level for a foreign-owned group having affiliates in France, one part of the information on what is happening on the national territory could be missing.

Finally, it was decided to give prominence to the second choice, i.e. in the case of a French-owned international enterprise group to consider first the strategy of the whole group (including all affiliates abroad); only the questions on the impacts would be limited to the French market. In the case of foreign-owned enterprise groups, it will be searched if a French “sub-group” exists with an operational and economic consistency: if so, this “sub-group” will be surveyed. If not, the individual legal units will be surveyed one by one, with a specific question added in order to know if they are autonomous in their management of intangibles or if a foreign unit decides upon it.

Thus, the information that will be collected from the foreign-owned enterprises will not be exactly of the same nature that the information collected for French ones.

The scope of the survey and the sampling frame

The scope of the survey covers the manufacturing industry, the distributive trade, the non-financial services (except transportation) and the construction. Enterprises are included without any size threshold, because some very small enterprises, e.g. start-up enterprises in the field of ICT, may be very active in the management of intangibles. On the whole, the scope of the survey consists in about 4 000 French-owned groups made of 5 legal units or more, 6200 foreign-owned groups, and 2 millions independent enterprises or micro-groups (less than 5 legal units).

The sampling frame is specific to each of these three kinds of units. A stratified sample is built for the French-owned groups and the foreign-owned groups, the criteria being the activity sector and the size class (in terms of employment); the survey is exhaustive for the 900 groups above 1 000 employees. The 2000 questionnaires are parted into 1300 directed to the French-owned groups (representing 64% of the turnover of the groups) and 700 to the foreign-owned groups (representing 36%).

Within the independent enterprises or micro-groups, an attempt was made to focus the sample on the units that are more specifically concerned with the topic of intangibles, in order to avoid non-response and to get a richer information from those who are concerned: the variables that are generally used, such as the activity sector or the size, are not necessary the best fitted for this purpose.

The fiscal data give information on different accounting headings that may be linked to some form of intangibles:

- patent and licensing fees and royalties (as expenses or as income),
- capitalized patents or similar rights (recorded in the balance sheet) and the corresponding depreciation,
- capitalized research and development costs (recorded in the balance sheet) and the corresponding depreciation.

One at least of these variable is strictly positive for a little more than 166 000 enterprises, on a total 2 millions. It was also checked that for 80% of the enterprises engaged in R&D, according to the annual R&D survey, at least one of these variables was strictly positive: this tends to confirm that using this filter would allow to focus on enterprises that are most probably concerned with R&D and intellectual

property management. Nevertheless, this filter does not help to characterize other forms of intangibles so that it remains necessary to also sample the rest of the population.

Finally, the size of the sample is the following: 8 000 independent enterprises among those “filtered” by the fiscal data, 10 000 independent enterprises among the rest, 2 000 micro-groups (between 2 to 4 legal units).

The questionnaires have been tested between June and August 2004, both through face-to-face interviews and through postal sending. The survey itself will be launched starting from October 2004: because of the preliminary survey which is necessary for the groups, the data collection is planned to last up to March 2005.