

# Strategic Chronicle™

*A Newsletter for Clients and Associates of KLM, Inc.*

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## Strategy for Delivering Social and Cultural Benefit

The theory and practice of professional strategy is reaching into the world of philanthropic and non-profit organizations and driving the creation of new strategic performance measurement systems that promise to optimize the delivery of social and cultural benefit to society.

Until recently, executives and leaders in both philanthropic and nonprofit organizations have not typically set strategic performance objectives nor employed formal performance management and measurement systems. From the philanthropic side of the equation, this has often led to “throwing money” at social problems without achieving the desired societal benefit. From the side of the nonprofit organizations, this has largely led to noble intentions with limited accountability to donors, society, or culture.

In consequence, the lack of meaningful or consistent performance information has delayed the development of a highly efficient philanthropic marketplace, one that would be characterized by effective giving and the delivery by the nonprofit sector of measurable benefits and the solid accomplishment of specific goals.

**...new strategic performance measurement systems (for nonprofits) promise to optimize the delivery of social and cultural benefit to society.**

In 2000, there were over 57,000 nonprofit foundations in the U.S. and a philanthropic marketplace exceeding \$160 billion, all promoting the social and cultural good in some respect, but with little sense of whether or not good was being achieved. Larry Ellison, the well-know CEO of Oracle Corporation, gave voice to this uncertainty when

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he recently commented, “I’ve given away a half-billion dollars, but I’m not particularly proud of that because I can’t point to a single truly great accomplishment yet.”<sup>1</sup>

The classic “good works” business model, based upon giving and feeling good about it, and receiving and doing good with it, is coming under a new scrutiny. Today, both philanthropists and nonprofit organizations must demonstrate, to themselves and others, that good has been done, results have been achieved, and money has been well-spent. This complementary new demand for philanthropic results and nonprofit accountability promises to revolutionize the nonprofit sector through the development of new ways to achieve and measure the delivery of social and cultural benefit.

Many believe that nonprofit inefficiency exists because both nonprofits and their supporters have failed to think strategically about their goals and to set the right performance measurements for their enterprises.

Of course, philanthropists can report to whom they have granted funding and how much they have given, and nonprofit organizations can report their fund-raising success and how they have used their resources. However, the success of “good works” should not be based upon either measures of how much was given or how much was raised.

1) “Larry Ellison Has A Science Project: Courting Biologists,” by David Bank, Wall Street Journal, January 9, 2003, page 1.

Rather, the real measure of both philanthropic and nonprofit success should be the actual delivery of meaningful social and cultural benefit.

This then raises the question: How can philanthropists and nonprofits effectively measure social and cultural contribution and enterprise performance?

The simple answer is through the rigor of strategic thinking and planning, as practiced in the most successful U.S. corporations.

At present, most philanthropists and nonprofits lack a sense of how to grasp and report their often intangible and elusive goals and contributions. This is because they lack a formal practice of strategy and an understanding of how it can generate more effective and accountable action in the world. Strategy in the nonprofit sector is often non-existent, partial, or weak, by the standards of successful, strategy-focused for-profit organizations. Nonprofits often think strategy begins and ends with the creation of a mission and a statement of their values. Even when there are specific strategies, objectives, and plans, they often are poorly aligned with the mission, they lack orchestration, and they are not crafted to allow meaningful measurement and full accountability.

However, many nonprofits, as they struggle to become accountable and to deliver results, are changing in ways that can bring new stature and significance to the entire sector. By striving to demonstrate cash-value societal relevance and operational effectiveness, they are adopting the strategic thinking that has achieved success within the for-profit world.

Leaders and executives in the nonprofit sector are increasingly realizing that accountability holds the promise of the greater social effectiveness that has always been expected from both nonprofits and philanthropies. Simultaneously, donors are bringing strategic precision to their philanthropic goals and nonprofits are discovering how to target and measure their delivery.

In the past, traditional strategy models have not seemed applicable to the nonprofit world, mainly because the primary objective of nonprofits has been social and cultural good, and not financial success. However, as professional strategy becomes more about optimizing intangibles like brands, intellectual property and knowledge, the traditional presentation of strategy has changed to encompass the delivery of the intangible benefits that also characterize nonprofit activity.

Whether for profit or social benefit, strategy is essential to achieving the clarity and focus necessary to define enterprise deliverables and achieve success.

Today, nonprofits are adopting sophisticated strategic planning tools to craft objectives and strategies, and to provide the metrics necessary to enhance managerial

effectiveness, fund-raising, and to achieve their social and cultural goals.

What is becoming important for nonprofit organizations is the ability to benchmark and improve performance against metrics that allow donors to assess the wisdom of their support, and society to see the degree of social and cultural good delivered.

## Towards a Strategy of Valuing Patents as Intellectual Capital<sup>1</sup>

### The Need for a Patent Valuation Methodology

Patents are a major force in the world economy, and one of only a few metrics commonly employed to gauge the tides of new ideas and innovation that are driving our economy.

Even with the present declining rates of R&D investment, leading nations spend over \$1 billion dollars each day generating intellectual property.

<sup>1</sup> Because the assessment of damages in patent litigation are statutory and fixed by the court (35 U.S.C. sec 284), this article does not address patent valuation within the framework of patent infringement litigation.

**... the real measure of both philanthropic and nonprofit success should be the actual delivery of meaningful social and cultural benefit.**

Today, there are over 7 million patents in force worldwide, growing at 12 to 14% per year. Patent licensing revenues are growing at 25 to 35% per year, generating global revenues in excess of \$150 billion. In the U.S., the leading patent generating nation in the world, annual patent issuances have nearly doubled from 96,727 in 1990 to 187,822 in 2001. And, during 2002, 45 to 75% of the market capitalization of the Fortune 500 companies consisted of intangible, intellectual capital assets such as brands, patents, and knowledge.

While top brands have been valued, tracked, indexed, and published annually for years, we remain generally unaware of patent values. As of yet, we have no generally accepted accounting practices in place to segment and specify the patent element of market capitalization. Although we may suspect there are many valuable patents other than those that make headlines, and certainly portfolios of patents that are very valuable, we do not know this with any specificity. Thus, under normal business circumstances, we cannot benchmark or report these assets, nor manage and exploit them for gain to advance our society, culture, or global civilization.

### **Brand Valuation as a Model for Valuing Intangible Assets**

After a decade of debate and experimentation, brand valuation, as the most visible form of intangible asset valuation, has resulted in an elegant theory and practice that is nearing final formalization with the imminent imprimatur of the Financial Accounting Standards Board. This is likely to be followed with the formulation of Generally Accepted Accounting Practices.

The same cannot yet be said regarding patent valuation, where the whole body of knowledge seems so inchoate, confusing, and inadequate. The present state of the discipline allows only incomplete evaluation, resulting in ongoing uncertainty relative to

the more confident practice of brand valuation and the long-accepted, and nearly absolute practices surrounding tangible assets like plant, property, and equipment.

### **A Strategy for Patent Valuation**

Accounting as a discipline has laid down the “hard science” of asset valuation. So, to be broadly accepted and functional in real business, the valuation of any intangible asset must follow this basic accounting model. It should follow, as closely as possible, the traditional assessments of cost, market, and income while also advancing a category-specific asset calculus.

Patent valuation has seemed unamenable to the traditional asset valuation provided by the cost, market, and income approaches.

Why is this? These fundamentals, when applied to the valuation of brands have proven to be entirely satisfactory when supplemented with an integrative calculus that allows a qualitative assessment of a

brand per se. Why hasn't patent valuation reached such a broadly accepted practical usefulness?

Part of the reason is the innumerable special situations and considerations under which a patent or patents may need to be evaluated. These can range from the need to set value for a licensing arrangement or acquisition, to segmenting market capitalization or monetarizing a patent. Yet these special circumstances are no less existent in brand transactions.

It seem harder to get a handle on patents primarily because they rarely, individually or as a portfolio, intersect directly with the public marketplace in the way brands do. While both brands and patents always imply usage in a marketplace, patents per

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se rarely reach into the marketplace. With the exception of a breakthrough patent, patents are usually incremental improvements to known devices or processes, thus submerging their respective value within the overall invention or procedure. But this obstacle is only superficial, and falls away upon closer examination. In fact, we have a patent valuation method for any patent or set of patents when we look at it in the right manner, i.e., following the same model employed with brands and traditional tangible assets to achieve consensus and set acceptable value. We don't need to "reinvent the wheel," or make the setting of the value of any intangible asset more occult than setting the value of, for example, real estate.

Thus, following generally accepted accounting practices now used with brands, we have an approach that ensures both adequacy and completeness and allows patent valuation decidability. Building on the foundation used to assess other assets, we need only proceed to assess the qualitative value dimensions of the asset.

The primary dimensions for patent strength assessment can be portrayed along a five-point scale from least to most. As generally practiced by patent managers, these are, briefly:

### 1) Degree or Scope of Innovation

Innovation falls into three general categories: breakthrough, major, minor. Breakthrough patents, ones that establish whole new platforms or paradigms, are among the most valuable, with each of the other classifications falling along the scale.

### 2) Market/Industry Applications

The number and value (dollar size) of markets and industries for which the patent has significance is a leading indicator of the potential value of the patent. Similarly, we must consider whether or not a patent is central to the core of an enterprise, is more tangential, or is relevant to a non-business application.

### 3) Term

Early-term patents are generally more powerful than those that have been in force beyond a few years, and certainly more valuable than those which are beyond their midpoint.

### 4) Third-Party Citations

While clearly a "lagging indicator," the degree to which other patents have been issued around the technology of a given patent is a measure of the significance of that patent. Patent citation mapping can quickly suggest the significance of a patent and its contribution to subsequent invention.

### 5) Special Considerations

a) Ability to expand patent scope: Are there significant areas within which an invention may be subject to further expansion?

b) Use in bracketing or clustering strategies and tactics: Can this patent be instrumental in blocking another patent, or providing additional competitive advantage by filling out an existing portfolio?

c) Patent equity transfer into a brand: Can the equity in this patent be converted into a brand?

**With patents increasingly sharing the spotlight with brands in the world of intellectual capital assets and market capitalization analyses, it has become essential that patents join brands in lining up against traditional approaches to setting asset values.**

As we consider and balance these various perspectives we derive the value of the patent. At the same time we see that we do have the theory, with asset-specific modifications, for valuing any intangible asset, since the valuation of any intangible asset can be approached in this same manner.

### **Summary**

With patents increasingly sharing the spotlight with brands in the world of intellectual capital assets and market capitalization analyses, it has become essential that patents join brands in lining up against traditional approaches to setting asset values.

Despite the many factors impacting the value of a patent, the methods successfully pioneered by brand valuation provide the model for patent valuation methodology and the key to intangible asset valuation. A composite valuation, which consists of the three core elements of all asset valuation (cost, market, and income assessments) coupled

with a patent strength assessment, provides a reliable method for setting patent valuations. Both in theory and practice, this is no different than tangible asset valuations for complex entities such as real estate.

Those responsible for patent valuations need to focus their efforts on answering the traditional asset valuation questions, rather than eventuating yet another idiosyncratic or unduly complex calculus to set patent value.

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## Branding Radioactive Waste

One of the biggest problems in branding is branding across cultures and on a global basis. However, even such a difficult undertaking as global branding is dwarfed by the magnitude of branding radioactive waste, not only across global cultures, but thousands of years into the future!

This is the challenge confronting the U.S. Department of Energy, as it faces the responsibility of identifying the new Yucca Mountain radioactive waste storage site in Nevada, so that any intelligent creature in the very distant future will realize its danger.

Congress recently approved Yucca Mountain as America's first permanent high-level radioactive waste storage facility. The U.S. Nuclear Regulatory Commission requires that this facility be marked and its danger clearly indicated by a system of identification that will prevent future entry until the year 12,000 A.D.

The challenge of communicating to such a diversity of people and cultures even long after we and our civilization are gone, is put into perspective when we consider that the oldest known evidences of civilization and symbolic communication on earth only reach back an estimated 5 to 7,000 years.

## Branding at the Limits of Civilization and Meaning

If there ever was a brand challenge, this could be it. How can we communicate the mortal, and almost unending, danger of radioactive waste across all present and future cultures and civilizations and possibly, even to non-human alien beings from outer space?

The essence of good branding is creating an identity, with a specific meaning, that endures through time. Thus the challenge of univocally communicating or branding radioactive waste into the future is a unique case study in both the nature and the limits of branding.

Fortunately, the DOE has already had some practical experience in this respect in Carlsbad, New Mexico, where the Waste Isolation Pilot Plant (WIPP) already stores mid-level radioactive wastes. The WIPP has taken a "Rosetta Stone" approach to communicating the risk and danger of radioactivity, opting to communicate a single message in multiple languages and with the most broadly recognized symbols. The WIPP was branded by using monuments in multiple languages, information centers, metal and magnetic "signatures" for radar detection, and the dispersal of "site archives" to locations throughout the world.

Such a brand strategy evidences ingenuity to be sure, but all of its systems of meaning may only be meaningful to modern civilization and

to human consciousness as we know it. Its predominantly written communications might be culpable in some distant day after the roots of our present meaning structures are lost, forgotten, or become meaningless to our own species.

Yucca Mountain is expected to adopt the approaches of Carlsbad, while simultaneously taking a more visual, symbolic, and even dramatic approach, including the possible creation of symbolic architecture, such as ominous tall, sharp spikes designed to suggest fear.

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But again, perhaps even this symbology is only meaningful to humans as we know them. Successfully branding radioactive waste requires the creation of symbols of identity that push beyond the limits of known human civilization and the ways that humans currently create meaning. Effective solutions must reach beyond our ability to think about the problem and will require an anticipation of what cannot even be imagined. To this end, Yucca Mountain strategists have invoked the thoughts of scholars, philosophers, anthropologists and even artists in this endeavor, challenging them to articulate the means for dramatizing the dangers of stored radioactive waste.

Many believe the future risk is overblown, and that any future society or civilization that has the capability of opening Yucca Mountain, once it has been closed, would understand the danger of radioactivity, and also would possess the capability of detecting and registering its risk.

Fortunately, those responsible to resolve this issue have time. The new Yucca Mountain site is expected to remain "open" for the next 300 years, ultimately receiving 70,000 metric tons of nuclear waste, at which time it is to be closed and sealed *forever*.

### **Symbolic Warning to Natural and Supernatural Beings**

This endeavor to find a universal communication to mark radioactive waste through time, one that makes it intelligible to all intelligent beings, is an awe inspiring undertaking.

Identifying a mix of symbolic and written communication that is understandable across the span of beings, language, culture, and nationality, and still remains relevant so far into the future, is a metaphysical task indeed. Is there even a symbolic portrayal possible that will reliably mean danger and death, 10,000 years from now? And, is there

such a symbol that would also be immediately intelligible to alien beings?

While it would quickly be granted that we should employ the "Rosetta Stone" approach, there is also the concern that no communication can ever be enough to speak the danger and risk of radioactive waste across all cultures, beings, and time. By employing drama and architecture, the hope is that the reach will be extended and the "brand" made cogent for an infinite target audience. The hope is that if something looks terrible and inspires horror and awe, it may portray the danger of radioactive waste.

This may have been how the creators of gargoyles during the era of Gothic architecture thought about their choice of symbolism that was meant to ward off both natural and supernatural beings.

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