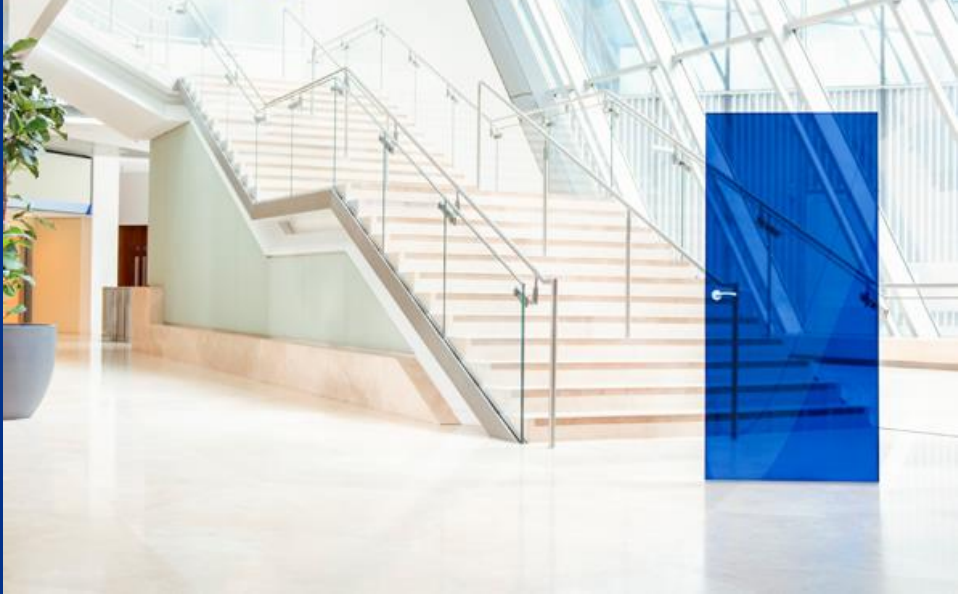
KPMG

Protecting intangible assets

KPMG Board Leadership Centre



The largest increases in market capitalisation in the last decade have been happening in the technology sector, where a significant proportion of the value of these businesses can be attributed to intangible assets. And, with the acceleration of digital business models, amplified by COVID-19, the value of intangibles could now increase much further, becoming a major driver of overall business success across many industries.

In collaboration with Lloyds of London, KPMG in the UK have published a new report, Protecting intangible assets, providing a comprehensive analysis of the main risks impacting eight key intangible assets and the five actions risk owners and management can take to enhance their risk management practices and to increase their preparedness for the ever-changing risk landscape.

A new reality with new assets and new threats

COVID19 has disrupted global supply chains and has moved the world towards de-globalisation. It has changed working arrangements, businesses' ability to trade, consumer behaviours, and the role of the state. It has also created a new social contract between business and society. In many ways, it has accelerated underlying market trends such as the shift to remote workforces and digital transactions.

The fundamental shift towards a new world dominated by intangible assets like reputation, human capital, and intellectual property, started decades ago, long before any detailed discussions about looming pandemic risks. Step-by-step, the importance of intangible assets grew– from around 17% of S&P asset value in 1975, to 32% in 1985, to 68% another decade later in 1985, and ultimately exceeding 80% in the last 10-15 years. This has been closely linked to the changes in the economic landscape, with technology-driven service companies becoming increasingly prominent, while industries famous for their holdings of property, machinery, and other tangible assets, have slowly given way.

Restrictions enforced for public health purposes have accelerated progression towards a new reality. An increasing number of executives have started questioning the return to normal even after COVID-19 disappears. That means that we suddenly have a world where most of the workforce and business data (including potential trade secrets) is scattered across thousands of living rooms, kitchens, and bedrooms, while expensive office buildings are kept empty.

Not only does it become more difficult to manage intellectual property in such an environment, but additionally the traditional ways of managing teams and culture have to be rethought.

Similarly, as the new postCOVID-19 world drives anxiety levels to new highs, businesses are also more prone to making reputational mistakes that can leave lasting impact in the way their customers, employees, distribution partners, and other stakeholders perceive the character of their business. This is particularly important as various activist events keep pushing the corporate environment from traditional shareholder capitalism to stakeholder capitalism.

The recent 'BlackLivesMatter' protests have demonstrated the power of social activism and the need for businesses to embrace the changing social norms. We could well see activist movements growing in the next few years to address some of the well-known global challenges, ranging from climate change to income inequality.

Risk owners in businesses across all industries will have to be alive to these changes to make sure they have the right tools to keep enhancing their corporate value. They will have to rethink the optimal ways of using risk management practices to build internal resilience and become proficient at safeguarding their existing and new intangible assets.

Five key actions boards can encourage management to adopt with a view to enhancing risk management practices and increasing preparedness for the ever-changing risk landscape are set out over the page.

The way forward – five actions for management

1. **Assess the total intangible value of your organisation** – what is the value of intangible assets on your balance sheet? Do you have other 'hidden' intangibles that are valuable but not visible on your balance sheet (e.g. human capital and reputation)?
2. Form inter-departmental working groups to assess the relative value of different types of intangible assets in your organisation; **determine which are critical to your success.**
3. Perform 'war-gaming' exercises and horizon scanning to **test your resilience to risks impacting intangible assets**; determine your weaknesses and act on them. Try to prevent risks from happening.
4. Assess your **ability to adequately monitor intangible asset value changes** over time and assign each asset a clear risk owner. Consider using corporate partners, such as communications agencies, to further understand risks and value.
5. Determine if there are risks you cannot deal with within the organisation **and evaluate what financial or other solutions may be available**.

The types of intangible assets organisations have to protect and the risks impacting these assets are very diverse. Each risk scenario will, therefore, require a unique set of preventative and response measures. Organisations will have to think beyond financial implications to achieve long term success.

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

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