



Athena Alliance

Exploring the promise and pitfalls of the global information economy

Annual Report – 2004

Athena Alliance, a 501(c)(3) non-profit corporation located in Washington, DC, is in the vanguard of identifying, understanding, analyzing and educating on the information, intangibles and innovation (I³ or I-Cubed) economy. Information, knowledge and other intangibles now drive economic prosperity and wealth creation. Economic rules have changed; public policy has not caught up. Policy makers are grappling with the urgent need to frame policy questions in light of the changing economic situation. Athena Alliance helps close that gap through activities to reshape the debate and craft new solutions.

Summary

In 2004 Athena Alliance was heavily involved as a technical advisor in drafting legislation to create a Commission on the Future of the U.S Economy. Our vision and policy agenda is embodied in this legislation. We began the year with expansion of the scope of our policy forums series to the broader topic of *The Intangible Economy*. Research this year also covered corporate reporting of intangible assets, monetization of intangible assets and development of a research agenda to help local communities address challenges of the economic transformation. Throughout the year, we conducted briefings on the information and intangible economy for policy makers and published four papers or articles. Athena Alliance also welcomed Jonathan Low of Predictiv, LLC , an expert on intangible assets, to its Board. For more on Athena Alliance, see Appendix A.

Activities

The Commission on the Future of the U.S. Economy Act of 2004

One highlight of Athena Alliance's activities in 2004 was crafting S. 2747: *The Commission on the Future of the U.S. Economy Act of 2004*. This idea grew out of the Policy Forum event in October 2003 with Clark Eustace of the EU PRISM group. Acting at the specific request of Senator Joseph Lieberman (D-CT) Athena Alliance served as technical advisor in drafting this legislation. Our President, Dr. Kenan Jarboe worked closely with Senator Lieberman's staff throughout the spring and summer on the legislation and background materials. The concept was first proposed in a speech by Senator Lieberman on May 10; the legislation was introduced on July 22 (see *Congressional Record*, pages S8731 – S8734). The legislation and background materials outlines Athena Alliance's view on how the competitiveness issue has changed and the public policy agenda that we must pursue.

Thus, the concepts embodied in the legislation serve as both a statement of Athena Alliance's vision and as our working agenda. Our vision of the new Information, Innovation and Intangible (I-Cubed) Economy includes:

- the fusion of manufacturing and services into complex networks and the rise of new business models;
- the need to go beyond quality and productivity to address issues of increased customization, speed and responsiveness to customer needs;
- the broad nature of the innovation system that encompasses basic research, technological development, venture capital, new product development, design and aesthetics, new business models and development of new markets;
- the need for new and better ways of fostering the types of skills needed in a knowledge and information economy; and,
- the challenge of unlocking value of underutilized knowledge assets.

Our policy agenda encompasses:

- transforming the education and training process into a true system of life-long learning;
- upgrading skills of the United States workforce to compete effectively in the new economic environment, including mathematics and science skills, critical thinking skills, communication skills, language and intercultural awareness, creativity and interpersonal relations essential for success in the information age;
- promoting a broad system of innovation and knowledge diffusion, including non-technological ingenuity and creativity as well as science-based research and development;
- fostering development of knowledge and information assets in all sectors of the United States economy, particularly those in which rates of productivity and innovation have lagged, and in United States companies of all sizes, particularly small and medium-size ones;
- developing jobs that are rooted in local skills and local knowledge assets in order to lessen displacement resulting from ongoing global competition;
- improving access to, and lowering the cost of, capital by unlocking the value to financial markets of underutilized knowledge assets;
- strengthening efficiency and stability of the international financial system (taking into account the roles of foreign capital and domestic savings in economic growth);
- developing policies and mechanisms for managing the increasing complexity of globalization;
- adjusting to the impacts of global demographic changes in the United States, other developed countries and developing countries;
- improving economic statistics and accounting principles to adequately measure all sectors of the new economic environment, including the value of information, innovation, knowledge and other intangible assets; and
- improving understanding of how the Federal Government supports and invests in knowledge and other intangible assets.

Policy Forums: The Intangible Economy

In 2004, Athena Alliance broadened the focus of its discussion series co-sponsored by the Program on Science, Technology, America and the Global Economy of the Woodrow Wilson Center for International Scholars. The series is now called *The Intangible Economy*, reflecting a wider set of issues than previous discussions on *Owning and Counting Intangibles*. Meetings continue to take place at the Wilson Center.

This re-focused discussion series explores the concepts and controversies surrounding issues of the Information, Innovation and Intangibles Economy. In this I-Cubed Economy, the rules have changed. Information, knowledge and other intangibles now drive economic prosperity and wealth creation. Intangible assets – worker skills and know-how, informal relationships that feed creativity and new ideas, high-performance work organizations, formal intellectual property, brand names – are the new keys to competitive advantage. Intangibles and information power our innovation process, which is a combination of formal research and informal creativity. These elements combine to produce the productivity and improvement gains needed to maintain prosperity.

But public policy has not caught up with this new economic environment. Governments are struggling with ways to utilize information, foster development of intangibles and promote innovation and competitiveness in the new global information economy. Policy makers are grappling with the urgent need to frame policy questions in light of the changing economic situation.

Issues of developing and managing intangibles underlie discussions on a variety of subjects, such as intellectual property rights, education and training policy, economic development, technology policy and trade policy. Crafting new policies in these areas will require infusing a better understanding of intangibles and the information economy into the public debate. The discussion series will include managing and regulating intangible assets, fostering innovation and creativity and improving international competitiveness. Our goal is to increase understanding of how we utilize intangibles so that everyone benefits from the transformation to the information economy.

The first event was a discussion on “Patent Donations and the Problem of Orphan Technologies” with David Martin of M-CAM and Peter Bloch of Light Years IP. Patents are a key part of our innovation system. However, some estimates claim that anywhere from 25 to 97 percent of patents have no economic value; 70 to 80 percent of U.S. corporate patents are classified as “orphans” (patents that will never be developed into marketable products). One way of exploiting these orphan technologies is by donating them to non-profit groups (such as universities) who can nurture and develop them. But concerns over the potential for abuse in this process of patent donation have become so great that both the IRS and Congress are taking steps to reign in such donations. David Martin described his international intellectual property auditing system and discussed his work with the IRS and Congress on problems of patent donation abuses. Peter Bloch described his work as a consultant to the International Intellectual Property Institute where he co-authored the research paper, *IP Donations: A Policy Review*.

This event was paired with a business breakfast briefing earlier that day by Dr. Martin on patent donations co-hosted by Athena Alliance and the Washington Network Group. We will continue to look for opportunities to pair our discussions with other briefing opportunities.

The second event was with Professor Maryann Feldman of the University of Toronto on “Constructing Jurisdictional Advantage.” One of the myths surrounding the I-Cubed Economy is that “place” – the physical location of economic activity – no longer matters. With the “death of distance” we are told that economic activity can occur anywhere – as the current debate over offshoring illustrates. But, in a highly interconnected global economy, place may become even more important. In response to criticisms of offshoring, we hear over and over from corporate leaders that they must go to where the resources and talent are located. Local intangible assets are becoming key factors in a company’s competitive advantage. And the uniqueness of those local assets becomes ever more important.

Drawing on theories of corporate competitive strategy, Professor Feldman outlined a new approach to local economic development based on a community’s unique characteristics—arguing that jurisdictional advantage is established through a strategy of differentiation rather than low costs. This new approach offers a strategic grounding for moving beyond current economic development paradigms of information-era smokestack chasing and fixation on high-tech to a paradigm based on local intangible assets and innovation.

European Intangibles Repository Study

During 2004, Athena Alliance and McCue, Inc. worked as a subcontractor on a European Commission (Enterprise Directorate General)-sponsored project to conduct a feasibility study on creation of a European enterprise data repository on intangible assets. The prime contractor was Mantos Associates, led by Clark Eustace (who is also associated with the European research group on intangibles known as PRISM). The team also included representatives of the International Accounting Standards Board (IASB).

Athena’s portion of the project was a review of the US experience in financial reporting and reporting of intangibles. Two reports were produced. The first report *Reporting Intangibles: Lessons from the U.S. Experience* was delivered on May 14, 2004 and covered both the history of the U.S. reporting systems, such as the SEC’s EDGAR system, and specific efforts to report intangible assets. The second report, *Creating a System for Reporting Intangibles*, was delivered on July 31, 2004 and contained insights and recommendations based on the U.S. experience.

These reports were incorporated into the final Mantos report of November 2004: *Report On The Feasibility Of A Pan-European Enterprise Data Repository On Intangible Assets*. (Note: the report was released by the European Commission in January 2005).

A portion of the first report, focused on U.S. experience with reporting intangibles, will serve as the basis for a separate Athena Alliance white paper, to be published in 2005.

Publications

During 2004, Athena Alliance published the following papers:

“Constructing Jurisdictional Advantage,” by Professor Maryann Feldman, in conjunction with her Athena/Wilson policy forum.

“Building on Local Information Assets,” by Kenan Patrick Jarboe, published in the Summer, 2004 issue of *Rural Matters*. This paper was an outgrowth of the USDA proposal described below.

“Competitiveness Revisited,” by Kenan Patrick Jarboe, published in *New Technology Week*, June 7, 2004. This paper was written in conjunction with drafting the *Commission on the Future of the U.S. Economy Act of 2004*.

“National Innovation Policy: An Urgent U.S. Need,” by Kenan Patrick Jarboe, published in *New Technology Week*, May 3, 2004

All of these papers are available on the Athena Alliance website at www.athenaalliance.org.

Research activities

In January 2004, Athena Alliance, with the Rural Communities Assistance Program (RCAP) and the Center for Regional Economic Competitiveness (CREC), submitted a proposal to the U.S. Department of Agriculture (USDA) to undertake a series of case studies on how communities are using intangibles in their economic development activities. Unfortunately, the proposal was not funded. However, we view it as the starting point for a research agenda to create tools and techniques to help local communities address the challenges of the economic transformation. We will continue to work with our partners in securing funding. (Preliminary discussions for possible funding from the Appalachian Regional Commission did not bear fruit). The proposal was also the basis for the *Building on Local Information Assets* publication mentioned above.

In the Fall of 2004, Athena Alliance commissioned a review paper on use of intangibles in financing decisions and monetization of intangible assets. The paper is specifically focused on how intangible assets can be used to finance all manner of company activities (including innovation and the creation of future intangible assets). The scope is limited to a literature review supplemented by interviews with experts and financial market participants. Purpose of the review is both to provide a synopsis of the issue for policymakers and to serve as a guide for possible future inquiry. Two individuals were contracted with to produce the paper, which we expect to publish in 2005.

Other activities

As part of our outreach activities, Dr. Jarboe attended numerous meetings, conferences, presentations and events. As part of his activities for Athena Alliance, he also taught a module of the University of Southern Mississippi’s Masters in Economic Development program.

Internal Activities

New Board Member

At the June 24 meeting, Jonathan Low, an expert on intangible assets, was elected to the Board of Directors. Mr. Low is a Partner and Co-Founder of Predictiv, LLC and co-author of *Invisible Advantage: How Intangibles are Driving Business Performance*. He concentrates on management performance and organizational effectiveness, primarily in valuation of intangibles such as strategy execution, brands, intellectual capital, innovation, alliances and organizational transitions.

Before forming Predictiv, Mr. Low was a Senior Fellow at Cap Gemini Ernst & Young. Under his leadership, the organization published four major reports on the growing role of intangibles in valuation. He co-hosted an annual conference with *Forbes ASAP* on Measuring the Future. Mr. Low also served as Co-Chair for Strategic and Organizational Issues of The Brookings Institution's Task Force on Understanding Intangible Sources of Value and was an advisor to the European Community's sponsored research consortium E*KNOW-NET. His work has appeared in *The Wall Street Journal*, *The New York Times*, *Business Week*, *Forbes* and other publications and he has presented his findings to the Securities and Exchange Commission, Financial Accounting Standards Board, Organization of Economic Cooperation and Development and the Federal Reserve Bank of New York.

Mr. Low has also served as Deputy Assistant Secretary (Acting) for Work and Technology Policy of the U.S. Department of Labor.

A graduate of Dartmouth College and Yale University School of Management, he is a Fellow of the National Knowledge and IP Task Force and a member of the Board of Visitors of Dartmouth College.

Other organizational issues

At the June Board meeting, the Board took certain steps to conform the by-laws to the forthcoming status of a private foundation. Specifically, the Internal Revenue Service requires that private foundations have certain tax-related provision in their governing instrument to ensure their 501(c)(3) tax-exempt status. The Board added additional language to the Athena Alliance by-laws taken directly from IRS Publication 557. The five clauses added to the by-laws implement the following requirements needed to maintain tax-exempt status:

- 1) Restrictions on self-dealing between private foundations and their substantial contributors and other disqualified persons;
- 2) Requirements that the foundation annually distribute income for charitable purposes;
- 3) Limits on their holdings in private businesses;
- 4) Provisions that investments must not jeopardize the carrying out of exempt purposes, and
- 5) Provisions to assure that expenditures further the organization's exempt purposes.

Addition of these provisions will not substantially change Athena Alliance's operations. They will require a minor change in how the President, as a disqualified person, is reimbursed for office expenses to avoid the appearance of self-dealing.

Appendix A

About Athena Alliance

Athena Alliance is a non-profit organization dedicated to public education and research on the emerging global information economy. It seeks to bring together organizations and individuals to help meet the challenges posed by the emerging information economy.

The information, intangibles and innovation (I³ or I-Cubed) economy is now a reality. Information, knowledge and other intangibles now power economic prosperity and wealth creation. Intangible assets – worker skills and know-how, informal relationships that feed creativity and new ideas, high-performance work organizations, formal intellectual property, brand names – are the new keys to competitive advantage. Intangibles and information drive our innovation process, a combination of formal research and informal creativity. These elements combine to produce productivity and improvement gains needed to maintain prosperity.

Reshaping the Debate

The economic rules have changed; public policy has not caught up. Governments are struggling with ways to utilize information, foster development of intangibles, and promote innovation and competitiveness in this new economy. Policy makers are grappling with the urgent need to frame policy questions in light of the changing economic situation.

Issues of developing and utilizing information, managing intangibles and fostering innovation underlie discussions on a variety of subjects, such as intellectual property rights, education and training policy, economic development, technology policy and trade policy. Crafting new policies in these areas requires infusing a better understanding of intangibles and the information economy into the public debate.

Athena Alliance undertakes outreach activities to help members of Congress, the Administration, constituency groups and the media better understand the issues and craft policies and programs.

Crafting Strategies, Policies and Tools

This economic shift calls for different ways of thinking about economic activity, different means of promoting and organizing economic opportunities and activities, and different economic policies and programs. But, understanding is not enough. We must also enlarge the repertoire of strategies, mechanisms, tools and capabilities that individuals, firms and communities can use to shape their own positive economic futures, with special attention to those in danger of being left behind. A key issue is the ability of all Americans to participate, both economically and socially, in the emerging new information economy. In this regard, Athena Alliance undertakes practical policy research aimed at creating new solutions to this new set of problems.

Building Partnership and Sharing Knowledge

Numerous groups and individuals are actively seeking to understand the challenges of the global information economy and develop new tools to confront those challenges. These include: academic and scholarly research; corporate policy, research and strategic activities; and practical on-the-ground efforts by community activists and economic development practitioners. Athena Alliance seeks to bring these activities together, into the public debate, through conferences, workshops, research activities, publications and reports and public education activities.

Athena Alliance officers

Richard Cohon, Chairman of the Board of Directors

Kenan Patrick Jarboe, President, CEO and Director

Joan Wills, Secretary/Treasurer and Director

Jonathan Low, Director

Contact:

Athena Alliance
911 East Capitol Street, SE
Washington, DC 20003

info@athenaalliance.org
www.athenaalliance.org