

Managing Intangibles

By making the traditionally intangible aspects of an organisation tangible, managers can benefit from superior information and greater choice. This new perspective combines insights and knowledge that would previously only have been available by chance alone with a comprehensive view of the organisation in question.

Factors that Drive Intangibles

The recognition and subsequent rise in the importance and value of intangibles has been an ongoing feature of management for some time. Examples such as Knowledge Management, Balanced Scorecards (BSC) and Strategic Planning all attempt to quantify and make tangible aspects of an organisation that are initially intangible in nature.

While there are many examples of tools and techniques to make information more tangible, it is also useful to ask why this trend has been put in motion and what advantages are available from it. The three ideas below are by no means exhaustive, but are an attempt to shed light on the factors that drive the importance of intangibles.

- Economics
- Execution
- Experience

The economic aspect of intangibles

looks at two main areas. The first is a broad consensus that intangibles contribute to superior financial performance. Examples include linking activities such as brand valuation¹, human capital² and innovation³ to increased shareholder returns. A second economic aspect of intangibles looks at increasing efficiency and reducing costs through an improved understanding of intangible costs and the factors of production. Activity based costing⁴ is one example of this approach and by better understanding the tangible and intangible costs of production⁵, it is possible to generate improvements and efficiencies in resource allocation.

The second idea, execution, is perhaps best summarised by the maxim 'you can't manage what you can't measure'. Turning this on its head, one might propose that being able to define or measure an intangible aspect of an organisation makes its control, management and related execution possible.

The third idea concerns experience. In particular, some of our experience as

managers is built around the realisation that we directly control very few things. By extension, much of what we manage is intangible⁶ and therefore we are best guided by our experience. This idea is perhaps best summarised by Albert Einstein who said, "the only source of knowledge is experience". By building on and codifying our experiences (where possible), we are able to turn the intangible, tangible and in doing so, we are able to create a larger pool of knowledge from which to draw. Furthermore, as we increase our pool of knowledge, we are able to ask more probing questions about what is currently intangible and seek new ways to manage it and make it tangible.

The Value of Intangibles

Whilst economics, execution and experience may not be the only factors influencing intangibles, when combined, they go some way to explaining the increasingly important role that intangibles play in modern management⁷. Equally, intangibles impact on three key constituents of an organisa-

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tion, namely its values (cultural and financial), processes (how work is done) and resources (e.g. human, IT, facilities). By simultaneously impacting on the values, processes and resources (Christensen’s VPR framework)⁸ of an organisation, intangibles offer new ways to manage and influence aspects of an organisation that are historically very difficult to administer.

The Use of Other Tools

While there are numerous tools and techniques to help manage intangibles, particularly around people, they have tended to focus on discrete parts of an organisation, rather than offering a complete or holistic view. Continuing Christensen’s Values, Process and Resources based view of the firm, it is possible to examine a variety of tools which aid the management of intangibles. With this framework in mind, it is possible see which tools impact on values, processes and resources.

The following table details thirteen management tools⁹ and their primary organisational and VPR focus¹⁰.

As can be seen the tools tend to converge on the process component of an organisation. Equally, while BSC and Strategic Planning do span the three elements of VPR, achieving this coverage from other tools requires them to

be used in conjunction or combined with one another.

It is also worth acknowledging that some of the tools could cover alternate parts of the VPR framework, creating a different table from the one above. For example, organisations such as

Tool	Values	Process	Resources
Balanced Scorecard (BSC)	✓	✓	✓
Business Process Reengineering		✓	
Core Competencies		✓	✓
Knowledge Management		✓	✓
Lean Operations		✓	
Mission and Vision Statements	✓		
Offshoring		✓	
Outsourcing		✓	
Shared Service Centers		✓	
Six Sigma		✓	
Strategic Planning	✓	✓	✓
Supply Chain Management		✓	✓
TQM		✓	✓

Motorola or GE might well consider that they have ‘Six Sigma values’ as part of their corporate culture. Likewise, it would be simplistic to suggest that offshoring and outsourcing have no impact on the resources of the organisation in question. With these exceptions in mind (and there are more besides), the key consideration for the selections made in the table came from each tool’s area of organisational impact or primary focus.

What about the Balanced Scorecard?

From the table above, it would appear

that the BSC and to a lesser extent, Strategic Planning offers the perfect tool for managing intangibles and equally providing a holistic view of an organisation’s values, processes and resources. While it would be wrong to suggest that this isn’t the case, there are some relevant intangibles that the BSC can fail to capture, in particular those associated with the learning and growth perspective.

While it is beyond the scope of this article to present a comprehensive overview of the BSC, there are a few observations that can be readily made,

particularly in light of linking together intangibles around values, processes and resources. Perhaps the best starting point comes from Kaplan and Norton’s own writing where they state that “the three principal categories for the learning and growth perspective are: employee capabilities, information systems capabilities and motivation, empowerment and alignment”¹¹. What is particularly striking about this extract is how one could quite easily substitute the three constituent parts above¹² for Christensen’s VPR framework. The table below illustrates these overlaps.

In essence therefore, we are back to where we started. In trying to better manage intangibles and in particular those around people, we are left with a choice of tools which focus on discrete parts of an organisation, rather than tools which offer a holistic overview, linking the learning and growth perspective and/or values, processes and resources together.

A 4G Perspective

Given this brief overview of management tools and in particular, the BSC

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and the VPR framework, there are two potential conclusions that can be drawn. The first is that as we have seen above, BSC and VPR focus on discreet, as opposed to interlinked aspects of people focused intangibles. The second conclusion, as evidenced both by the BSC's raison d'etre and the diversity of management tools as covered by Bain

Learning and Growth Perspective from the Balanced Scorecard	Christensen's Values, Processes and Resources Framework
Employee Capabilities	Resources
Information Systems Capabilities	Processes
Motivation, Empowerment and Alignment ¹³	Values

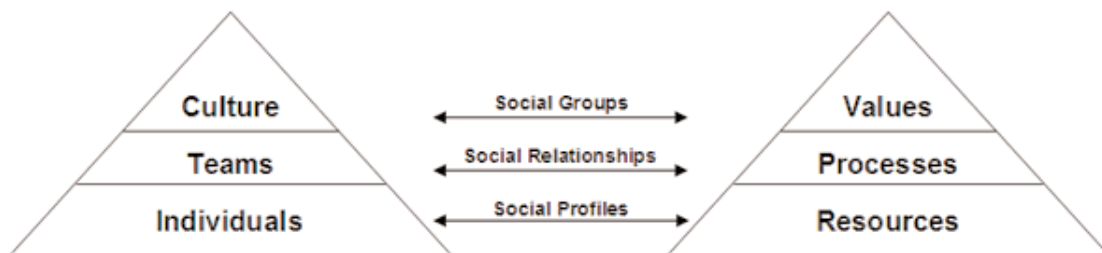
and others¹⁴, is that management tools which provide a holistic view, rather than discreet view offer greater value. Building on these two ideas, 4G¹⁵ offers a means of simultaneously analysing the people based intangibles

and aspects of the BSC/VPR perspective. At its heart, 4G offers insights into three key areas, namely;

- Understanding individual's behaviours and personality (Social Profiles)
- The prediction and articulation of relationships (Social Relationships)
- The definition and measurement of culture and values¹⁶ (Social Groups)

The diagram at the bottom of the page illustrates how Social Profiles, Relationships and Groups link to VPR ideas.

By understanding and predicting the interlinked roles played by individuals, their relationships and group culture, it is proposed that 4G goes some way to providing managers with new tools and techniques for getting more from their people. Equally, such a perspective offers insights that historically would have only been available by chance alone.



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Footnotes and references

1. <http://tinyurl.com/5pf8hq>
2. <http://tinyurl.com/5trapx>
3. <http://tinyurl.com/5dfhfv>
4. <http://tinyurl.com/5r9efq>
5. This analogy can also apply to transaction costs and better understanding the costs associated with various organisational processes, again with a view to increasing efficiencies.
6. Examples of intangible factors that are managed on a day to day basis might include; relationships, processes, costing structures and tacit knowledge, amongst others.
7. By way of example, of the 25 management tools given in Bain's Management Tools survey, at least 8, or 32% are concerned with the management of intangibles. <http://tinyurl.com/6g6vt8>
8. <http://tinyurl.com/5qwshk>
9. The 13 tools are a subset of the 25 tools detailed by Bain at http://www.bain.com/management_tools/
10. The remaining 12 tools listed by Bain are felt to bypass the VPR framework in that they are a combination of specific technologies, customer management and methods focussed on dealing with the external environment.
11. <http://tinyurl.com/5fx4fp>
12. Further thoughts on the Balanced Scorecard and attempts at linking and improving the management of the learning and growth perspective can be found in the CIMA and INSEAD paper entitled "Effective Performance Management with the Balanced Scorecard" <http://tinyurl.com/5vu5z7>
13. For the sake of completeness, one might wish to focus solely on the overlap between alignment and values, but this may be a case of splitting hairs.
14. <http://www.valuebasedmanagement.net/>
15. http://www.fourgroups.com/4g/4g_faq.html
16. <http://tinyurl.com/6xhvse>