

Managing intangibles

A Guest Article by Bruce Lewin
November 2009

Managing intangibles

A Guest Article by Bruce Lewin for TCii Strategic and Management Consultants

A new perspective on intangibles

By making the traditionally intangible aspects of an organisation tangible, managers can benefit from superior information and greater choice. The new perspective described in this article 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, the balanced scorecard (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.

1. Economics

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 valuation, human capital and innovation 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 costing is one example of this approach, and by better understanding the tangible and intangible costs of production, it is possible to generate improvements and efficiencies in resource allocation.

Managing intangibles

A Guest Article by Bruce Lewin for TCii Strategic and Management Consultants

2. Execution

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.

3. Experience

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 intangible 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 into the tangible. In doing so, we are able to create a larger pool of knowledge on 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

While 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 management.

Equally, intangibles impact on three key constituents of an organisation, namely:

- its values (cultural and financial)
- its processes (how work is done)
- its resources (e.g. human, IT, facilities).

By simultaneously impacting on the values, processes and resources (Clayton Christensen’s VPR framework, as described in his book *The innovator’s dilemma: when new technologies cause great firms to fail*) of an organisation, intangibles offer new ways to manage and influence aspects of an organisation that are historically very difficult to administer.

Managing intangibles

A Guest Article by Bruce Lewin for TCii Strategic and Management Consultants

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 offer 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 that aid the management of intangibles. With this framework in mind, it is possible see which tools impact on values, processes and resources.

Table 1 below details 13 management tools and their primary organisational and VPR focus.

TABLE 1: THE PRIMARY FOCUS OF MANAGEMENT TOOLS			
Tool	Values	Process	Resources
Balanced scorecard	✓	✓	✓
Business process reengineering		✓	
Core competencies		✓	✓
Knowledge management		✓	✓
Lean operations		✓	
Mission and vision statements	✓		
Offshoring		✓	
Outsourcing		✓	
Shared service centres		✓	
Six Sigma		✓	
Strategic planning	✓	✓	✓
Supply chain management		✓	✓
TQM		✓	✓

Managing intangibles

A Guest Article by Bruce Lewin for TCii Strategic and Management Consultants

As can be seen, the tools tend to converge on the process component of an organisation. Equally, while the balanced scorecard 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 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 – offer 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 the writing of the balanced scorecard's originators, Robert Kaplan and David Norton. They state that the three principal categories for the learning and growth perspective are:

- employee capabilities
- information systems capabilities
- motivation, empowerment and alignment.

What is particularly striking about this is how one could quite easily substitute the three constituent parts above for Christensen's VPR framework. Table 2 illustrates these overlaps.

Managing intangibles

A Guest Article by Bruce Lewin for TCii Strategic and Management Consultants

TABLE 2: OVERLAPS BETWEEN THE BSC AND THE VPR FRAMEWORK	
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	Values

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 that focus on discrete parts of an organisation, rather than tools that offer a holistic overview, linking the learning and growth perspective and/or values, processes and resources together.

Our perspective

Given this brief overview of management tools – and in particular the BSC 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 discrete, as opposed to interlinked, aspects of people-focused intangibles.

The second conclusion, as evidenced both by the BSC’s raison d’être and the diversity of management tools, is that management tools that provide a holistic view rather than a discrete view offer greater value.

Bruce Lewin
Managing Director – Four Groups

If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.