



Future Value Drivers

LEVERAGING YOUR INTANGIBLE ASSETS

Bernard Marr

What is the issue?

In most (if not all) organizations, intangibles are the supreme drivers of future success. The problem is that most organizations struggle to identify, measure, and manage these vital assets.

Why is it important?

The future success and value of your organization depends on intangibles such as customer relationships, brand image, know-how, or intelligence data. An organization's success hinges on its ability to identify and leverage these intangibles.

What can be done?

To ensure future success, organizations need to identify, map, measure, manage, and report on their intangibles.

MANAGEMENT ACCOUNTING GUIDELINE

OVERVIEW

Introduction to the Concept

Organizations are generally good at measuring and managing financial performance. The problem is today's financial performance is a lagging indicator. It tells us whether or not we have done the right things in the past. We can't actually influence today's financial performance because it is an outcome of past actions, and we can't go back in time to change things.

Furthermore, when we look at what has led to (good or bad) financial performance today, then we find it is usually things like having innovative products, happy and engaged customers, a strong reputation and brand image, excellent relationships with partners and distributors, and skilled, knowledgeable, and engaged employees, etc. All of these are called intangibles, and they drive an organization's success.

For that reason, it is critical to identify, measure, and manage intangible assets to ensure we deliver good financial performance in the times ahead. The problem is most organizations are still struggling to do this. Success and future value creation in today's economy depend on the ownership and appropriate management of intangibles. Superior performance is no longer driven by traditional physical assets, but instead primarily by intangibles.

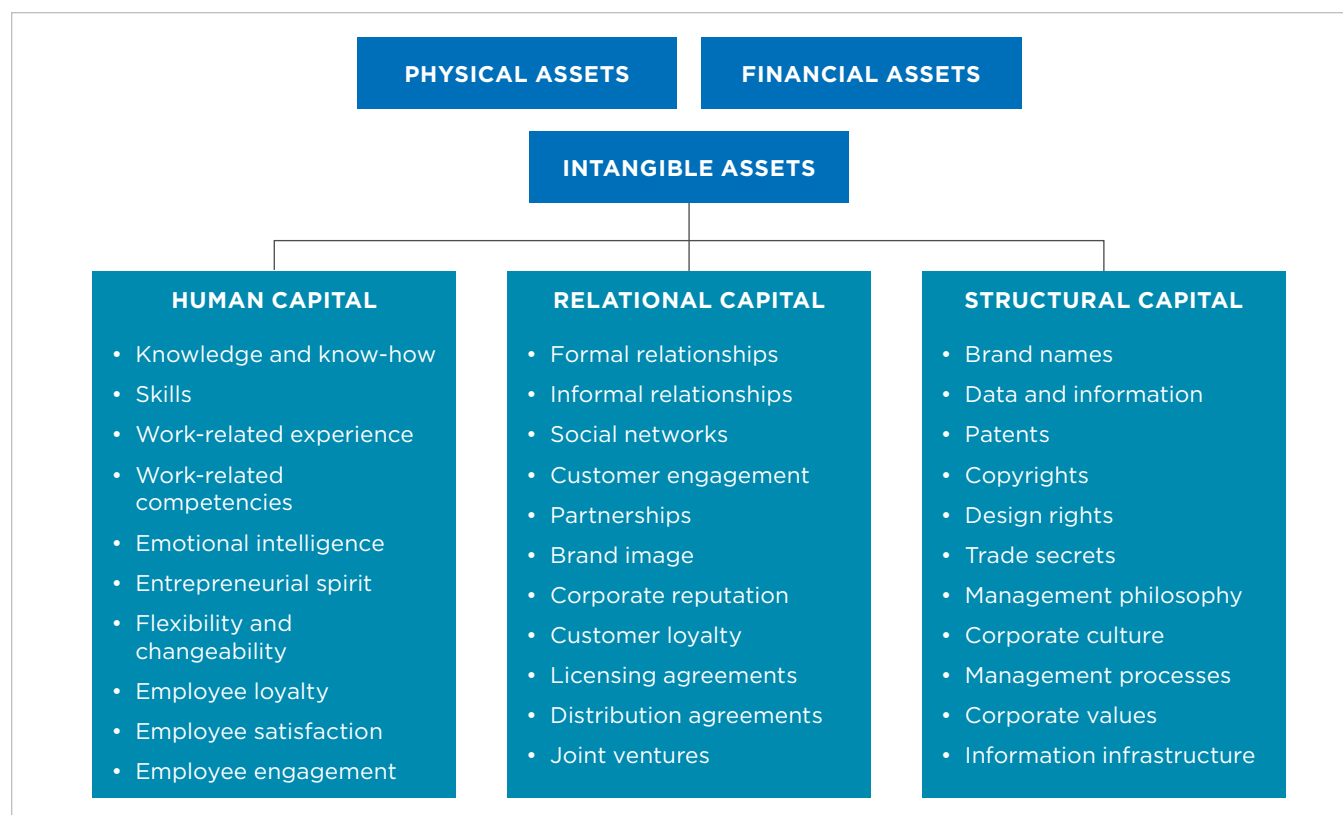
What are Intangibles?

The term intangibles includes a wide spectrum of value drivers that are vital to the success of organizations, including knowledge, experience, skills, brand image, corporate reputation, relationships, information and data, and customer engagement, as well as processes, patents, trust, or an innovative and performance-driven organizational culture. Intangibles can be split into three component classes: (1) human capital, (2) relational capital, and (3) structural capital ([Figure 1](#)).

It is important to understand that not all intangibles are automatically valuable to an organization. An intangible is only valuable if it helps to deliver organizational objectives and future success.

The five essential steps of managing intangible assets are: (1) identifying intangibles, (2) mapping intangible value drivers, (3) measuring intangibles, (4) managing intangibles, and (4) reporting intangibles.

FIGURE 1: INTANGIBLES



Why does the Management of Intangibles Matter?

To positively impact future value, organizations require a better understanding of their intangibles and the latest tools available to identify, measure, and manage these important value drivers. The [guideline](#) *Future value drivers: Leveraging your intangible assets using a five-step process* provides such understanding, and outlines the latest tools that will equip managers and accountants with the necessary skills to better manage intangibles to improve organizational performance and drive future value. The [guideline](#) also looks at the latest tools for external reporting of intellectual capital, for the purpose of improving the external communication of the organization's value to its shareholders and stakeholders.

How do Intangibles Ensure an Enterprise is Sustainable (RAISE)?

As the marketplace continues to evolve at a rapid pace, organizations are faced with the dilemma on how to be resilient, adapt and innovate in their quest not only to sustain a competitive advantage and meet customer/client needs but also to remain as a viable ongoing concern. A useful ideology for ensuring successful implementation of intangibles is CPA Canada's RAISE philosophy (whereby Resilient + Adaptive + Innovative = Sustainable Enterprises).

Properly managed intangibles have consistently shown to provide ongoing value and relevance. They not only change the way organizations effectively operate; they also provide a repeatable and sustainable method for deriving ongoing value from an organization's customer/client base while the organization reaps ongoing value in return.

At its core, the RAISE philosophy can help guide an organization (or enterprise) towards a unique customer-centric and competitive strategy that provides an ongoing sustainable edge. Intangibles leverage these philosophy drivers by developing resiliency in the face of challenges within competitive customer environments, adapting to sudden market changes, and innovating in response to the ever-evolving market needs. When these drivers of success are combined and leveraged, the outcome is a highly sustainable and successful enterprise. This concept is explored further in this [guideline](#).

How do Professional Accountants in Business Add Value?

Professional accountants (CPAs) understand that the information requirements of all organizations go beyond financial information and, with their tools and understanding, professional accountants can quickly and effectively start providing information on intangibles.

The skill and expertise of the accounting professional will be critical facilitators and enablers in identifying, measuring, and reporting of intangibles in the form of:

Enabling Value

- **Mapping intangibles:** Professional accountants play a key role in the mapping of intangibles to create a visual map of how they support the strategy of the organization. This ensures the strategy and all intangible value drivers are integrated, and also enables easy communication of the strategy and the importance of intangibles in delivering the strategy.

Reporting Value

- **Identification and measuring:** Professional accountants provide guidance in identifying and measuring intangibles.
- **Report development and ongoing assessment:** Professional accountants are also involved in the developing and presenting reports to disclose the value of intangibles to stakeholders for better decision-making.



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This publication is one in a series on *Future Value Drivers*. The entire series of [overview](#), [guideline](#) and [case study](#) are available on our [website](#). For additional information or for general inquiries, please contact us at mags@cpacanada.ca.

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LEVERAGING YOUR INTANGIBLE ASSETS USING A FIVE-STEP PROCESS

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MANAGEMENT ACCOUNTING GUIDELINE

GUIDELINE

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Intangibles as Drivers of Future Success

Today's financial performance is a result of having (or not having) done the right things in the past. Success is a result of having in place the right intangible elements, such as (a) people with the right competencies and knowledge, (b) innovative ideas, (c) a respected brand and a good reputation, (d) strong relationships with suppliers or partners, (e) possession of critical patents and data (such as market or customer intelligence), or (f) an energetic and innovative organizational culture. It is exactly factors like these that will determine future business success.

In today's world, intangibles have moved from the periphery to the core of modern organizations. A recent survey commissioned by the consulting firm Accenture confirmed most executives around the world believe intangibles are critical to the future success of their organizations. However, the same survey finds most of those executives also agree their current approaches to measuring and managing intangibles are either poor or non-existent.

Organizations therefore require better understanding, measures, and reporting mechanisms to improve (a) the external communication of the organization's value to its stakeholders and (b) enhance their internal management of these critical drivers of organizational performance. The former is about producing better external reports that allow key stakeholders to understand the real value and performance of organizations. The latter is about better internal management of intangibles in order to improve organizational performance and drive future value creation. This guideline will address both the external reporting and the internal management perspective, and therefore provide the reader with a five-step process to help organizations understand, measure, and report their intangible value drivers.

What is RAISE and How does it Apply to Intangibles?

In the current global economy, the business environment is always changing. Some changes are so dramatic that everybody notices them but others may slowly creep up over the years until they can no longer be ignored.

Fortunately, leveraging intangibles is one such tactic (in an arsenal of many) that an organization may employ to address how it will respond to these ever-evolving business challenges. Intangibles can also ensure an organization focuses on what matters most (versus reactively responding to "fires" or "crises")—its customers or core stakeholders—in an effort to respond to external market forces and focus an organization's efforts.

A useful ideology for showcasing the importance of intangibles is CPA Canada's RAISE philosophy (where Resilient + Adaptive + Innovative = Sustainable Enterprises). By adopting a resilient, adaptive and innovative philosophy as a foundation for our profession, we will not only be poised to take advantage of the present landscape of unprecedented change but also uniquely position us to champion the creation of sustainable enterprises for years to come. Ultimately, the RAISE philosophy can help guide CPAs and organizations (or enterprises) towards a unique strategy that provides an ongoing sustainable edge. The key drivers are explored next.

Organizations today must demonstrate their **resilience** in the face of constant turmoil and disruption. They need to respond quickly to these constant and unexpected external changes while at the same time sustaining regular business operations. Intangibles refocuses an organization's efforts back to what is important as these crises arise and enables organizations to isolate such problems proactively so that strategic focus and awareness are maintained.

Organizations more than ever need to be **adaptive** in their ability to adjust to these ongoing market shifts in the competitive landscape. Given this changed environment, they need to be nimble and flexible enough to “proactively” respond to any and all competitive or market changes. Intangibles employs methods to adapt.

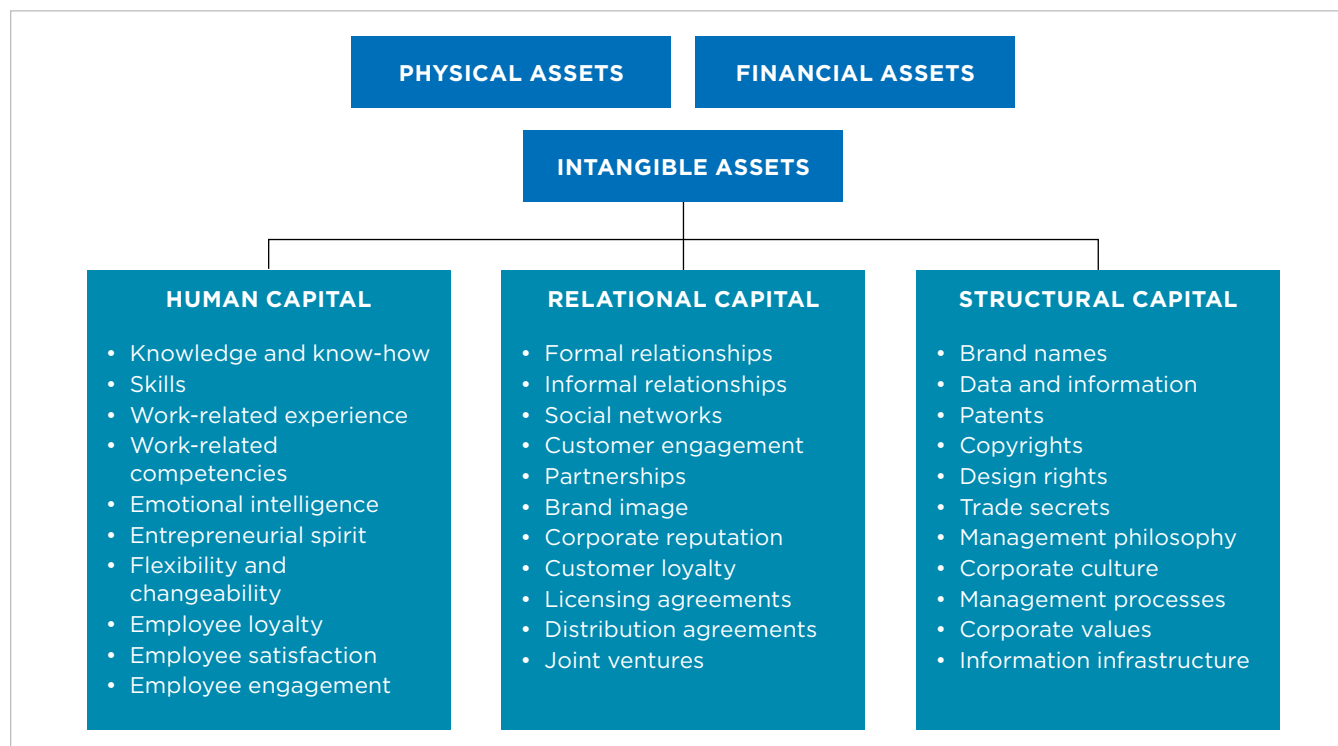
Opportunities to **innovate** are typically a primary contributor to organizational success and longevity. However, it is one area that many fail to adequately explore or execute upon. Intangibles are one such vehicle that can be leveraged to communicate the importance of innovation in achieve its strategic and operational objectives.

Embracing such drivers as key components of an organization's strategic and operational plans and decisions, ensures an organization's (or enterprise's) **sustainable** competitive edge. Combining the resilient, adaptive and innovative drivers of success results in a unique and robust strategy for adopting and implementing intangibles as future value drivers as explored throughout the course of this guideline.

What are Intangibles?

Intangibles are one of three types of company assets, the other two being: physical (buildings, machinery, equipment, etc.) and financial (investments, cash, etc.). Intangibles are defined as non-tangible assets that are attributed to an organization and that contribute to the delivery of organizational success. Intangibles can be split into three component classes: (1) human capital, (2) structural capital, and (3) relational capital ([Figure 1](#)).

FIGURE 1: INTANGIBLES



Human Capital

The principal subcomponents of an organization’s human capital are naturally its workforce’s skill-sets, know-how, depth of expertise, and breadth of experience. Human resources can be thought of as the living and thinking part of intangibles. Human resources include the (a) skills, knowledge, and competencies of employees, as well as (b) know-how in certain fields that are important to the success of the enterprise, plus the aptitudes and attitudes of its staff. Employee loyalty, motivation, and flexibility will often be significant factors too, because a firm’s “expertise and experience pool” is developed over a period of time.

Relational Capital

Relational capital looks at the relationships that exist between an organization and any outside party, both key individuals and other organizations. These can include customers, intermediaries, employees, suppliers, alliance partners, regulators, pressure groups, communities, creditors, or investors. Relationships tend to fall into two categories—those that are formalized through, for example, contractual obligations with major customers and partners, and those that are more informal.

Structural Capital

Structural capital covers a broad range of vital factors. Foremost among these factors are usually the organization’s essential operating processes, the way it is structured, its policies, its information flows and content of its databases, its leadership and management style, its culture and its incentive schemes, but can also include legally protected intangible resources. These resources can be sub-categorized into culture, practices and routines, and intellectual property:

- Culture resources embrace categories such as corporate culture, organizational values, and management philosophies.

- Practices and routines can be important organizational resources. These include internal practices, virtual networks and review processes; these can be formal or informal procedures and tacit rules.
- Intellectual property — owned or legally protected intangible resources — is becoming increasingly important. Patents and trade secrets have become a key element of competition in high-tech organizations. Here, intellectual property is defined as the sum of resources such as patents, copyrights, trademarks, brands, registered design, trade secrets, database content, and processes whose ownership is granted to the organization by law.

Five Steps to Successful Intangible Management

There are five key steps for successfully managing intangibles ([Figure 2](#)).

The first step is to identify an organization's intangibles. It is important to understand that not all intangibles are automatically valuable to an organization. An intangible is only valuable if it helps to deliver organizational objectives and future success.

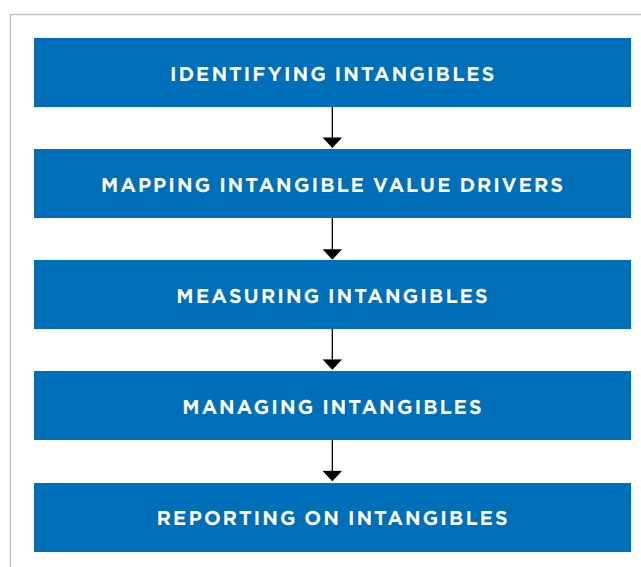
Step two assesses the relevance of intangibles, by mapping the strategy (with its intangible value drivers) onto a strategic map.

The third step is to extract meaningful management information from measuring intangibles.

In step four, this management information can then be used to analyze performance and to develop management insights that inform organizational decision making and learning.

Finally, in step five, external reports can be produced to communicate the value of intangibles to internal and external stakeholders.

FIGURE 2: FIVE-STEP INTANGIBLE MANAGEMENT MODEL



STEP 1 Identifying Intangibles

The first step, an inventory check, requires identifying an organization's intangibles. The categorization outlined above can be used to facilitate a discussion about the current stock of intangibles. It can be used to create a template that informs people about the different categories, and prompts them to think about their different types of intangibles ([Figure 3](#)).

FIGURE 3: IDENTIFYING RESOURCE STOCK

RESOURCE CATEGORY	EXAMPLES OF SUB-CATEGORIES	INTANGIBLES WITH A SIGNIFICANT PRESENCE IN OUR ORGANIZATION
HUMAN CAPITAL	Knowledge, education, technical knowledge and expertise, skills, know-how, attitudes, experience, motivation, flexibility, commitment, creativity, etc.	—
RELATIONAL CAPITAL	Customer relationships, supplier relationships, reputation, image, trust, contractual relationships, informal relationships, alliances, relationships with regulators, partners, etc.	—
STRUCTURAL CAPITAL	Processes, tacit routines, organizational structure, governance and management approaches, organizational culture, social capital, shared identity, patents, brand names, copyrights, trade secrets, codified information and knowledge, e.g. in databases or process manuals, etc.	—
PHYSICAL CAPITAL	Property, plants, location of buildings, information and communication infrastructure, machines, equipment, natural resources, physical infrastructure, office design, etc.	—
FINANCIAL CAPITAL	Cash, investments, bonds, loans, budget, etc.	—

Intangibles can be identified through conducting interviews, facilitated workshops, or via mail or online surveys. From experience, individual face-to-face interviews or surveys work best, as they allow everyone to have a say, free of the suppressing influence of stronger or more dominant participants in workshops.

Intangibles Underpin Competencies

Even though most organizations possess a wide variety of intangibles, some will contribute more to the delivery of future success than others. This is because (a) the value of intangibles depends on an organization's specific strategy, and (b) intangibles dynamically interact with each other and depend on other resources.

- The value of intangibles depends on an organization's specific strategy. For example, the know-how of building engines is essential for a car manufacturer, but of little value to a financial services firm; likewise, the competencies associated with creating light and durable composite materials so essential for successful Formula One motor racing teams is of little value to a telecommunications firm.
- Intangible elements are not static — they dynamically interact with each other, and often depend on other resources for their value. For example, the brand awareness and reputation of an online retailer, although critically important, would rapidly fade without its efficient distribution network, well-designed internal processes, and strong supplier relationships. It is therefore impossible to value a brand name without taking into account all other important factors, such as reputation, people, processes, etc.

To understand the role and strategic importance of intangibles in any organization requires a clear understanding of the firm's strategic direction and objectives.

Assessing the Strategic Value of Intangibles

The relative importance or strategic value of intangibles (Figure 4) can only be assessed in the context of the existing organization. The questions to ask are: “How important are our different intangibles to achieving our overall strategy?” Or, “How strong are our existing resources and how can we utilize them more effectively?” Independently assessing (a) the importance of the different resources to delivery of your strategy, and (b) your resource strengths, allows organizations to perform a gap analysis. This lets you understand whether you are nurturing the appropriate intangibles to drive future organization success, or whether you are under- or over-investing in certain areas.

Taken together, the strategic value of intangibles fulfilled both the resilient and adaptive drivers in RAISE as the overall objectives were meant to be strategic and long-lasting, able to withstand and adapt to the ever-evolving demands of both customers and the changing dynamic of the market.

FIGURE 4: ASSESSING THE IMPORTANCE OF INTANGIBLES

IDENTIFIED ASSETS	RELATIVE STRENGTHS OF THESE RESOURCES IN OUR ORGANIZATION	RELATIVE IMPORTANCE OF THESE RESOURCES TO DELIVERING THE STRATEGY
EXAMPLES	0 = Not at all Important 10 = Very Important	0 = Not at all Important 10 = Very Important
Our specific subject knowledge	7	10
Our perceived reputation	4	9
Relationships with key partners	4	6
Our patent for X	9	2
Our brand X	8	7
Etc.		

STEP 2 Mapping Intangible Value Drivers

The aim of this second step is to create a visual map of how the intangibles support the strategy in your organization. Mapping your key value drivers into a visual map has two primary functions. The first is to ensure the strategy with all its intangible value drivers is integrated and coherent; the second is to enable easy communication of the strategy and the role and importance of intangibles in

delivering that strategy. Such a visual map brings together the key elements of an organizational strategy, namely its mission and vision, its strategic deliverables, as well as the underpinning intangibles.

- Vision and mission identify an organization's purpose and its roles and deliverables. A mission statement articulates the organizational purpose, basically why the organization exists, what it does, and for whom. A vision statement outlines the goals and aspirations for future results. It creates a mental picture of a specific medium-term target and is as a source of inspiration.
- Strategic deliverables are the vital few things an organization has to deliver (e.g., to its customers) to achieve its vision and mission. They essentially define (a) what an organization should focus on, and (b) what differentiates it from others.
- The enabling value drivers are the other strategic objectives an organization requires to deliver its strategic deliverables and, ultimately, its vision and mission. These enabling value drivers derive from the assessment of the organization's asset architecture and intangibles.

These components are then placed in a cause-and-effect relationship and displayed on a single piece of paper to create a completely integrated and coherent picture of the strategy. A strategic map therefore visually represents an organization's unique strategy at a specific time. This means that such maps have limited lifespans and have to be revised regularly (usually annually). The value of the drivers comes to the fore when the past is not a good predictor for the future, and disruptive change occurs (which demonstrates an organization's need to demonstrate their resilience and adaptability — as part of the RAISE philosophy). The basic template of such a strategic map is shown in [Figure 5](#).

Many organizations use the strategy map template to map their intangibles and define (a) financial objectives, customer-related objectives, and internal process-related objectives, as well as (b) learning and growth objectives (including human capital, organizational capital, and information capital). See [Figure 6](#) for the generic strategy map template.

FIGURE 5: STRATEGY MAP TEMPLATE

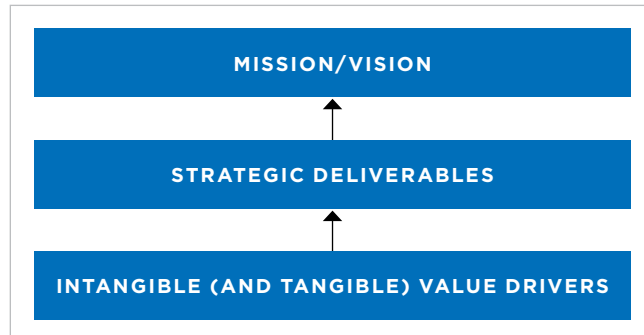
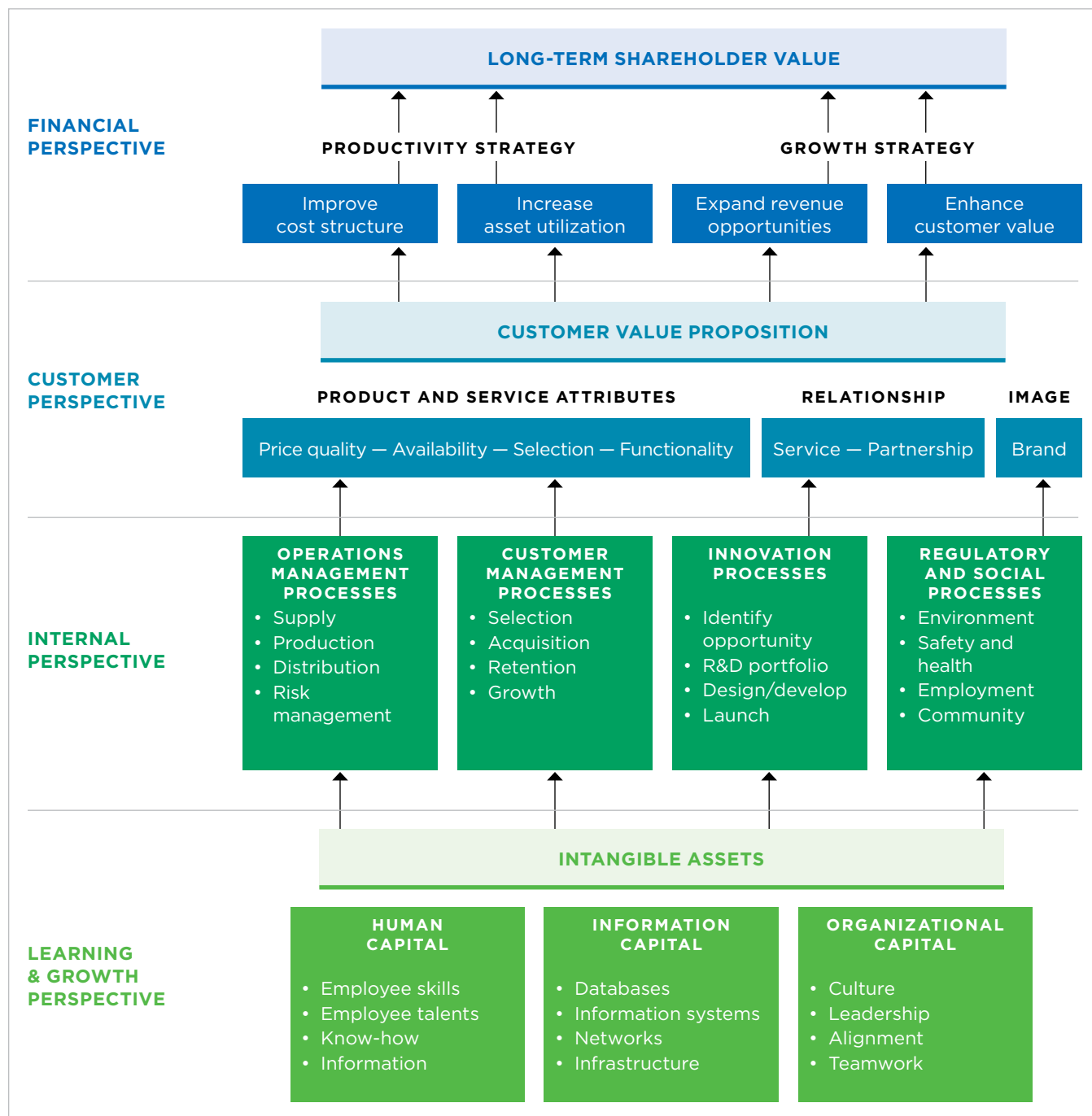


FIGURE 6: STRATEGY MAP TEMPLATE



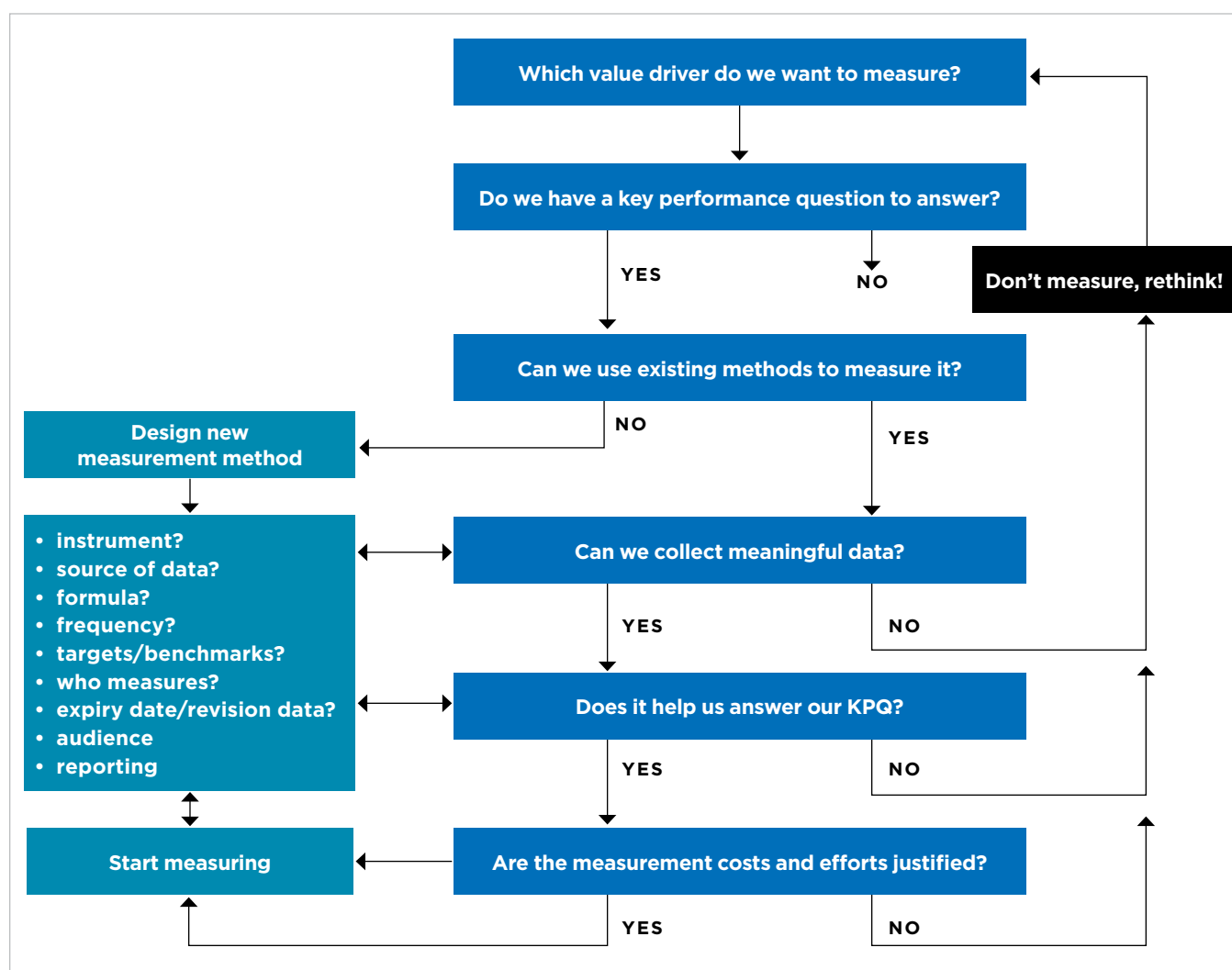
(Source: Robert S. Kaplan and David P. Norton)

STEP 3 Measuring Intangibles

After identifying and mapping the intangible value drivers, organizations can start measuring them. We often have a misconception that intangibles are difficult or impossible to measure. This is not the case. Many tools and techniques are available to measure intangibles, and it is most probably easier to measure than you think. This section outlines a model that will assist you in developing metrics for your intangible value drivers.

[Figure 7](#) shows the indicator design model. It is a decision-support model that starts with identifying which intangible you want to measure. Every intangible value driver on the strategy map should be measurable—therefore, drivers should be tested using the indicator design model. After you have decided on the intangible driver to measure, it is important to decide whether it is worth measuring in the first place.

FIGURE 7: INDICATOR DESIGN MODEL



Measuring the performance of anything should provide us with meaningful information that helps to reduce uncertainty, and enables us to learn about the intangible value driver and its performance. Measuring performance should help us to make better informed decisions that enable us to improve our performance. An excellent way of determining whether an indicator is worth measuring is to establish the question(s) the indicators will help to answer. So-called key performance questions (KPQs) are

designed to identify what managers want to know about the various intangibles. KPQs make sure any measure has a clear purpose. If there is no question that needs to be answered, then there is no need for measurement.

Having identified that a question should be answered, you should think about how to collect the measurement data. At this point, you can assume this intangible value driver has probably been measured before, and that someone has designed a method for measuring it, so don't reinvent the wheel. Do some research on already developed measurement methods. This can usually be done with simple Internet searches.

If methods already exist (the most likely case), then it is important to assess whether any of them are appropriate to use. Not all methods will be useful for your purpose. If no appropriate methods seem to exist, you will need to design new measurement methods.

For both existing and newly developed methods, it is important to assess (a) whether it is possible to collect meaningful data, and (b) whether the data will help to answer your questions. Finally, it is important to assess whether the resulting data warrants the cost and efforts of measurement (which can be significant).

If (a) no meaningful data can be collected, (b) the data is not really helping you to answer the KPQ, or (c) the costs are not justified, then it is necessary to rethink and design different indicators.

After you have developed indicators, it is necessary to identify (a) the measurement instrument, i.e., how the data will be collected (e.g., survey or interviews), the source of the data, (c) the formula used to compute the indicator, (d) the frequency of measurement, (e) any targets or benchmarks, (f) who will measure, (g) how long the indicator will be collected before it needs to be reviewed, (h) the target audience for this indicator, and (i) the reporting formats.

Tools to Measure Intangibles

Here are some commonly used measurement methods to measure intangibles in business:

- **Surveys and questionnaires** provide a relatively inexpensive way of collecting data on intangibles from a large pool of people who might be at different locations. This can be done via mail, email, Internet, or telephone. One big problem with this is the huge influx of surveys over the past few years, as more and more organizations require data for their nonfinancial indicators. As a consequence, it is now harder to persuade people to complete a survey. It is always a good idea to reduce the amount of time and effort required to collect performance data, not only for your organization, but also for your customers, employees, suppliers, etc. Surveys are regularly used to measure intangible value drivers such as employee engagement, corporate culture, customer attitudes, innovation climate, or brand image.
- **In-depth interviews** are guided conversations with people, rather than the structured queries found in surveys. They put forward open-ended (how, why, what) questions in a conversational, friendly, and non-threatening manner. Interviews can be conducted face-to-face, or via telephone or video conference. Interviews, which enable interaction directly with respondents, may provide new insights about performance. They provide examples, stories, and critical incidents that are

helpful in understanding performance more holistically. In-depth interviews can, for example, be used to assess intangible value drivers such as relationships with key customers, suppliers, or partners. In addition to providing a performance score, they can also yield invaluable contextual information about, for example, how to improve relationships between key customers, partners, or employees.

- **Focus groups** are facilitated group discussions (5–20 participants) in which participants can express and share their ideas, opinions, and experiences. They provide a unique and interactive way to gather information, and allow the collection of rich, qualitative information. Focus groups are good ways of assessing employee- and customer-related intangible value drivers such as customer experience, customer or staff engagement, team working climate, or trust.
- **Mystery shopping approaches** assess a service by using a “secret shopper” posing as a client or customer. Some companies hire their own mystery shoppers; other firms hire external suppliers to provide this service. The beauty of this assessment approach is that it is less intrusive than surveys or interviews. Many retail organizations, banks, and hotels have used mystery shopping to assess customer experience. Trained mystery shoppers can also be used for many other intangible assessments, such as assessing an organization’s culture or atmosphere.
- **External assessments** are independent surveys that measure the brand recognition, customer awareness, or market share in specific segments. An independent organization creates a set of criteria, and then measures everyone against these criteria to assess, for example, the relative position or values of brands or corporate reputations. The advantage of external and independent assessments is the data they provide allows comparisons between organizations. However, external assessments might be too generic, and often use assessment approaches that don’t provide the answers to the internal KPQs. External assessments are best used to supplement, cross-check, and validate other internal indicators.
- **Peer-to-peer evaluation** is the assessment of performance by participants who vote on or assess each other’s performance, whether openly or anonymously. This enables people to learn from each other, and to consider their own performance from the perspective of others. Peer-to-peer evaluations have been successfully used to gauge intangible value drivers, including trust, knowledge and experience, teamwork, and relationships.

The Indicator Template

The following template can be used when designing indicators ([Figure 8](#)).

FIGURE 8: INDICATOR AND INDEX DESIGN TEMPLATE

TEMPLATE FOR DESIGNING KEY PERFORMANCE INDICATORS	
Intangible element being assessed	Name the strategic element from the strategy map that is being assessed with this indicator.
Key performance question(s)	Name the question(s) related to performance that this indicator is helping to answer.
Ownership/person responsible/champion/coordinator	Identify the person(s) or function(s) responsible for the delivery/performance of the measured strategic element.
Indicator name	Pick a short and clear indicator name.
Data collection method/instrument:	Describe how the data will be collected.
Source of data	Describe where the data will come from.
Frequency	Describe how frequently this indicator will be collected. If possible, include a forward schedule.
Formula/scale/assessment	Describe how performance levels will be determined. This can be qualitative, in which case the assessment criteria need to be identified, or it can be numerical or using a scale, in which case the formula or scales with categories need to be identified.
Targets and performance thresholds	Identification of targets, benchmarks, and thresholds for traffic lighting.
Data entry	Name the person or role responsible for collecting and updating the data.
Expiry/revision date	Identify the validity date of this indicator, or when it will have to be revised.
How much will it cost?	Estimate the costs incurred in introducing and maintaining this indicator.
REPORTING	
Audience/access	Name the key audience for this indicator and clarify who will have access to it.
Reporting frequency	Outline how frequently this indicator will be reported to the different audiences (if applicable).
Reporting formats	Describe how the performance indicator will be presented (numerical, graphical, narrative formats). Here, it is good to especially think about visual representation that makes it easy to understand and digest.

The top part of the template states the intangible element that is being assessed, the KPQ, and ownership of the question. Ownership identifies the person(s) or function(s) responsible for managing the intangible value driver that is being assessed. Every indicator should be given a clear name.

- The data collection method describes the method or instrument used to assess the intangible value driver.
- Source of the data identifies where the data comes from.
- Frequency of data collection identifies how often the data for that indicator should be collected.
- Formula/scale/assessment identifies what formula, scale or assessment criteria are used to determine performance.
- Targets and performance thresholds identify the desired level of performance in a specified time- frame (e.g., 5% increase of market share by the end of March next year).
- Data entry identifies the person, function, or external agency responsible for data collection and data updates.
- Expiry/revision date indicates how long the indicator is valid or when the indicator has to be revised.
- Estimated costs calculates the costs involved in collecting the data and maintaining the measure.
- Reporting identifies how to report the performance indicator, identifying the audience, access restrictions, the reporting frequency, and reporting formats.

When it comes to intangibles, a single performance indicator will rarely give us sufficient information. We therefore recommend combining different measures into one index. This provides organizations with a more rounded and balanced view on their intangibles. Human health allows us to illustrate the point. Only taking your blood pressure to assess your health would not be sufficient. However, taking blood pressure, cholesterol and blood tests, together with a number of other tests, and combining these into a health index, provides a much more balanced and reliable assessment of physical health. The same is true in organizations. If an organization wants to measure customer relationships, a number of indicators such as loyalty, trust, commitment, profitability, and referrals can be measured and combined into a customer relationship index.

STEP 4 Managing Intangibles

Measures allow organizations to manage. This applies to management of intangibles in the same way it applies to anything else. Without relevant assessments, it is impossible (a) to understand current performance levels, (b) to know whether the intangible assets have improved or deteriorated, and (c) to understand whether any activities and initiatives have affected performance or value. Organizations with meaningful performance information about their intangibles can use it to test and review strategy and to manage risks associated with their intangibles.

Test and Review the Strategic Impact of Intangibles

The strategic assumptions expressed in the strategy maps are principally just that — assumptions. The performance data derived from the performance indicators can be used for that purpose, and the strategy map, or parts of it, can be verified and tested (accounting for both the resiliency and adaptability drivers in the RAISE philosophy).

Organizations can identify subsets of their causal logic or individual linkages between elements of the map, and then “test” those using statistical tests such as regression and correlation analyses. Mapping and verifying how intangible value drivers impact firm performance is powerful, and can support reviews of the strategy. These reviews can lead to different resource allocations, outsourcing or insourcing, and decisions whether to buy or sell intangibles, as well as mergers and de-mergers. Intangibles that are central to the strategy of organizations need to be tightly managed internally.

The absence of important intangibles can lead to purchasing, licensing-in, or merger and acquisition decisions. At the same time, if an organization possesses intangible assets that are not relevant to the strategy, then decisions could be made to sell or monetize this in other ways.

Manage Intangible Asset Risks

After identifying the critical intangible value drivers, organizations need to manage any related risks. Although companies are familiar with the management of financial and disaster risks, the risk management of intangible assets is usually underdeveloped. When it comes to intangibles there are risks such as:

- **Human capital risks:** A key risk that is regularly overlooked in organizations is risk related to its staff and to the knowledge they possess. Organizations are often unaware some individuals with critical knowledge and expertise could walk out any day.
- **Structural capital risks:** Risks to structural resources include (a) threats to organizational processes and routines, and (b) threats posed by losing database contents and software because of hackers and viruses. There is also an increasingly common risk of intellectual property theft, as well as the danger to organizational success posed by more powerful regulatory regimes that are rightly intolerant of “old school” exploitation practices.
- **Relational capital risks:** In today’s net worked economy, relationships are crucial ingredients for all organizations in both the private and public sectors. Their reputation hangs on these vital relationships, and often the risk needs to be managed throughout the supply chain that helps to deliver the products and/or services the organization sells or provides.

Using classic risk management tools (such as risk logs and risk matrices) for the risks associated with intangibles will allow an organization to assess and mitigate any potential threats to their business.

STEP 5 Reporting on Intangibles

The final step is then to report on your intangibles, which can be done for different reasons. However, they all share one key objective, which is to provide information about the intangibles of an organization to its stakeholders. However, different stakeholders have different information needs:

- To make better informed investment decisions, shareholders and investors want to know more about the intangibles an organization possesses.
- Employees want to understand the health and position of their organization, and today, intangibles are essential elements of this health and position.

- The organization has an interest in communicating its position to partners, suppliers, the wider public (including potential future employees), all of whom have an interest in understanding the future value of an organization.

The Limitations of Traditional Financial Reporting

The answer to whether or not traditional financial reporting can deliver on these information needs is simply: No! There is now widespread agreement the current financial reporting system is incapable of explaining the value of intangibles. Restrictive accounting rules mean most intangibles cannot be included on the balance sheet, especially if it is internally developed. Instead, all cost incurred to develop intangible assets must usually be directly charged as expenses in the income statement. The restrictive accounting rules have caused huge confusion in understanding the available information on intangibles in traditional financial reporting, making them unsuitable as useful information sources about intangible assets.

Voluntary Reporting of Intangibles

Various initiatives to address the limitations of traditional financial reporting have created frameworks and guidelines for separate reports to disclose information on intellectual capital. These initiatives have mainly been in Europe, where various governments and the European Commission have sponsored such projects.

The various guidelines are all very similar. They all (a) provide a breakdown and classification of intangibles (which are in line with the classification outlined in this guideline), (b) provide some guidance on identifying and measuring intangibles, and (c) outline a template or blueprint for reporting intangibles in intangible statements.

Building on the different guidelines and blueprints for intangible reports produced to date, we encourage organizations to produce and publish intangible reports. These reports can be used to communicate the importance of intangibles, both internally to staff as well as externally to organization partners, suppliers, investors, and the wider public. However, they are only successful if they are set in the context of the organizational strategy, and if they go beyond the mere reporting of measures to include narrative and interpretive commentary.

Good reports about an organization's intangibles contain the following elements:

- A brief introduction outlining the strategic context and the key strategic challenges the organization will be facing.
- A brief narrative description of the strategy and visual representation of the organizational strategy map. It is important to highlight the interdependencies and causal relationships between the different elements of the strategy and, in particular, how the intangible value drivers help to deliver the strategy.
- Descriptions of each of the intangible value drivers. More detailed descriptions should be provided for each of the intangible value drivers, outlining the objectives, strategic targets, and associated activities for each.

Success and value creation of any organization in today's economy will depend on their intangibles. To drive future success, it is therefore critical to manage the intangible assets that underpin your strategy. This guideline introduced five key steps for successfully managing intangibles, namely: (1) how to identify the intangibles in your organization, (2) how to map their impact, (3) how to measure them, (4) how to manage them, and (5) how to report them.

Practical and easy-to-apply tools and techniques have been introduced, including (a) a classification and identification approach, (b) strategy maps to show how intangibles underpin the strategy, (c) KPQs to guide the design of indicators, (d) techniques of measuring intangibles together with an indicator design template, (e) an intangible risk management approach, as well as (f) guidelines on how to report on intangibles. Together, these tools and techniques should provide a solid platform enabling practicing managers and accountants to better manage their intangibles—a skill that will become ever more critical to organizations in the global knowledge economy.

Intangibles are an effective and powerful financial performance initiative for the CPA in business to implement so that it can help keep an organization at its peak of competition. It represents a cohesive set of assumptions that describes a view of the future that is then used to develop a forecast or to test a strategy, plan or strategy. Such future foresight ultimately represents an operating philosophy that governs the mindset, decisions and actions of an entire organization. All organizations have an opportunity to leverage such a philosophy in their organizations to mitigate some of the uncertainty, volatility and unpredictability they face and in turn, derive unprecedented and ongoing value. The tools, techniques and steps provided in this guideline enable organizations to effectively and efficiently conduct their own intangibles initiative and to successfully implement where others have failed.

Intangibles have applications in all sectors (i.e., private, public, not-for-profit, and government) and at all levels of the organization and across all departments.

Professional accountants in business by their very nature can leverage their know-how and expertise in guiding organizations towards implementing such a unique customer-centric and competitive strategy. The ability of strategy mapping to drive alignment and focus across an organization demonstrates how powerful a tool (or program) it can be (if implemented correctly).

This facilitates the ability for an organization to maintain and sustain itself as a resilient, adaptive, innovative and sustainable enterprise (per the RAISE philosophy) in competitive marketplaces. Ultimately these drivers will aid both the CPA in business and organizations in ensuring successful adoption while equipping themselves to engage in the Canadian ideal of good business.

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This publication is one in a series on *Future Value Drivers*. The entire series of [overview](#), [guideline](#) and [case study](#) are available on our [website](#). For additional information or for general inquiries, please contact us at mags@cpacanada.ca.

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Future Value Drivers

LESSONS FROM THE FIELD

Bernard Marr

MANAGEMENT ACCOUNTING GUIDELINE

CASE STUDY

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Leveraging Your Intangible Assets

Here are some practical examples of how organizations have applied the principles of managing intangible assets in practice, and how they have applied the tools outlined in the [guideline](#), *Future Value Drivers: Leveraging your intangible assets using a five-step process*, to identify, measure, and manage their invisible drivers of future success ([Figure 1](#)). Some of the names used in this document have been changed to protect the commercial interest of the organizations involved.

Identifying and Mapping Intangibles at DHL

DHL is the global market leader in international express, air and ocean freight, overland transport, and logistics. With annual revenues of nearly C\$3 billion in 2004, DHL offers innovative and customized solutions from a single source. DHL has more than 170,000 full-time employees in about 4,400 offices and 450 hubs, warehouses, and terminals around the globe. DHL ships more than one billion shipments each year for its 4.2 million customers. DHL combines worldwide coverage with an in-depth understanding of local markets.

DHL wanted to better understand their key intangible value drivers. The example in this case study was developed for one of their European operations. In this specific market, DHL was the dominant player and clear market leader. However, with other competitors entering this market, DHL's goal was to maintain its high market share through delivering superior customer service.

To establish the mission and vision, the strategic deliverables, and key performance drivers, two surveys and a set of in-depth interviews and workshop sessions were conducted. An internal survey of DHL employees explored their views on the mission/vision, strategic deliverables, and intangibles value drivers. At the same time, a survey of 300 key customers was conducted to ascertain their perceptions of the value DHL is delivering to them. The insights from these two surveys were then explored further in a set of interviews with the senior management team as well as a selection of middle managers and front-line employees. This gave DHL a comprehensive understanding of their value drivers.

DHL identified high-quality shipments together with superior customer service as the key output deliverable in order to deliver sustainable financial performance and shareholder value (representing the adaptive driver of the RAISE philosophy). To deliver these, DHL needs core competencies in the harmonization of their processes and networks, as well as an ongoing competence in understanding changing customer needs. For this, relationship and structural resources were most critical, followed by human and physical resources. [Figure 2](#) shows the asset map with the key components of DHL's strategy, namely its value proposition, core competencies, and resource architecture.

FIGURE 1: FIVE-STEP INTANGIBLE MANAGEMENT MODEL

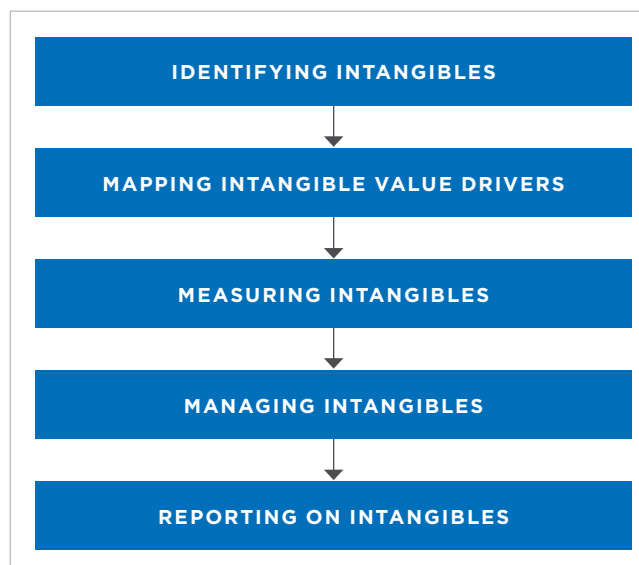
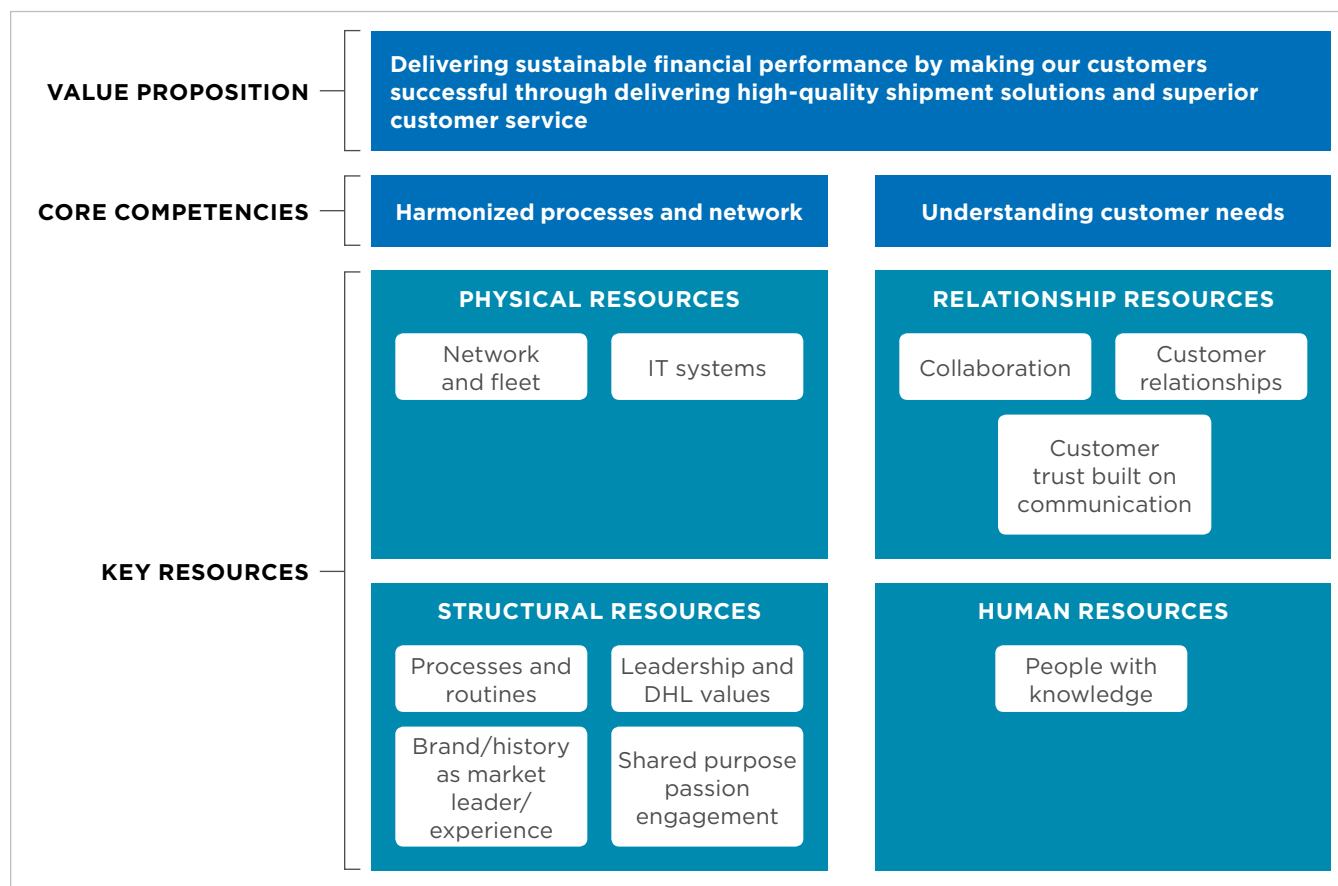


FIGURE 2: ASSET MAP FOR DHL



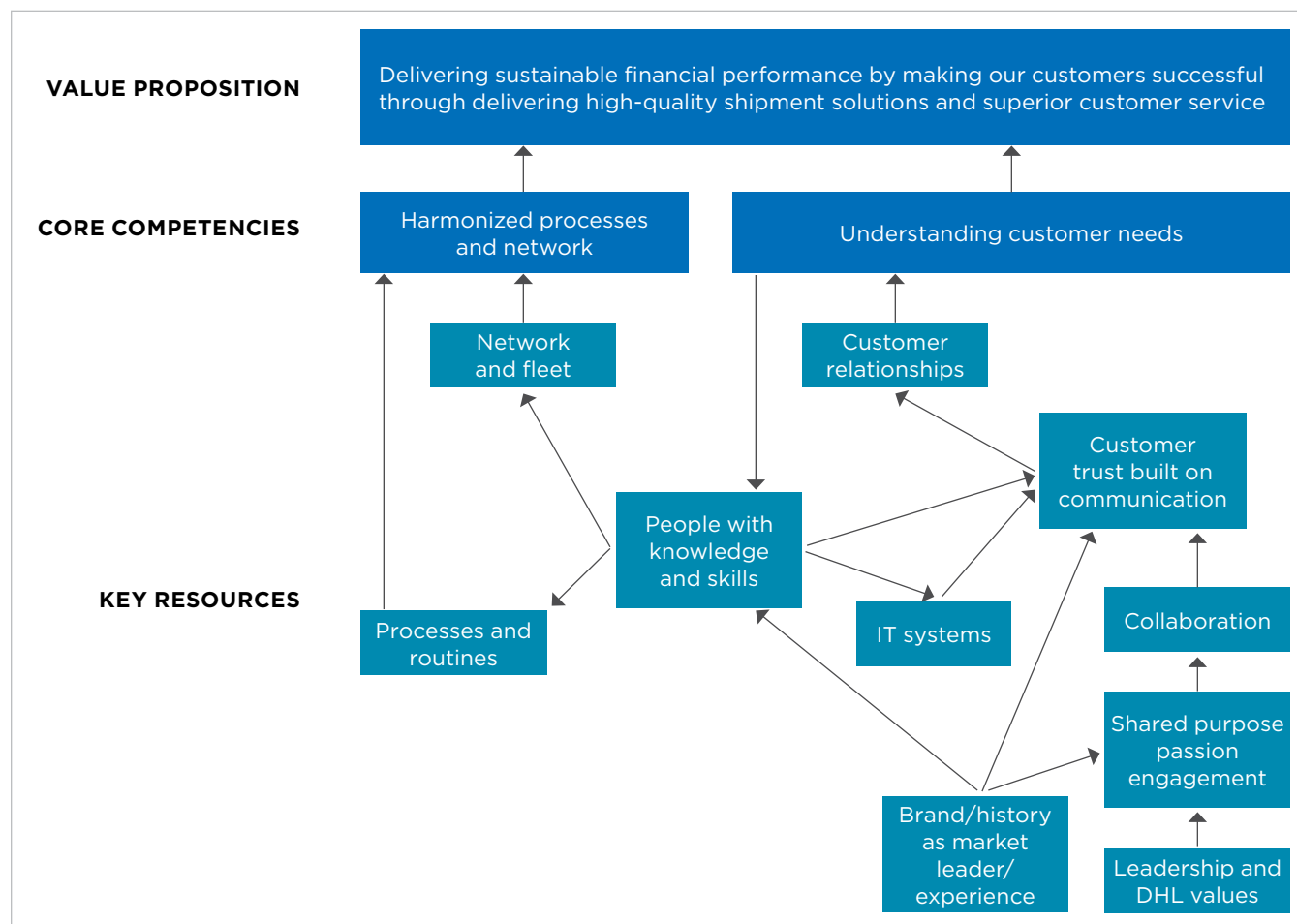
After the asset map had been created, a set of in-depth interviews and workshop sessions were used to identify the key interdependencies between the different value drivers. [Figure 3](#) shows the map with its interdependencies. The map shows how the key resources interact to demonstrate the most important interdependencies. At the bottom of the map are the DHL values and the leadership style, as well as the strong brand reputation that DHL has in this market. DHL is seen as a clear market leader with the strongest brand and a multinational reputation, which in turn allows DHL to recruit the best people and build stronger customer trust (demonstrating both the resilient and adaptive drivers in the RAISE philosophy).

The leadership style and values is what shapes the organizational culture in DHL, which is open and entrepreneurial. Values include (a) integrity (internally and externally), (b) accepting social responsibilities, and (c) a continuous drive for excellence. The flat hierarchy, which passes responsibility onto front-line employees, is seen as important. This in turn changes the way people feel about their jobs.

It provides a shared purpose and engages people. In the interviews, many employees and managers talked about “being part of the family” and “going the extra mile.” The shared purpose and passion for the job is a key enabler for collaboration within and between the different departments, which in turn builds customer trust based on communication. Consequently, customers understand and feel good about working with DHL, as there is openness, and DHL provides customers with honest information.

For this to work well, it is also important to have the relevant IT systems in place and have employees with the right skills and knowledge. Together, they provide the foundation for customer relationships, the key driver for understanding customer needs. On the left-hand side, it is the people with their skills and know-how that allows DHL to (a) refine its processes and routines, and (b) build the appropriate network and fleet that allows DHL to harmonize its processes.

FIGURE 3: DHL'S VALUE CREATION MAP WITH INTERDEPENDENCIES



For DHL, it is important that the two core competencies of harmonizing processes and understanding customer needs be on the same level. This provides the balance between efficiency needed for a multinational corporation with remembering its customers and their changing needs. This balance allows DHL to provide many innovative solutions customized to the needs of specific industries or customers, in order to make them more successful.

Mapping Intangibles at Thomas Miller

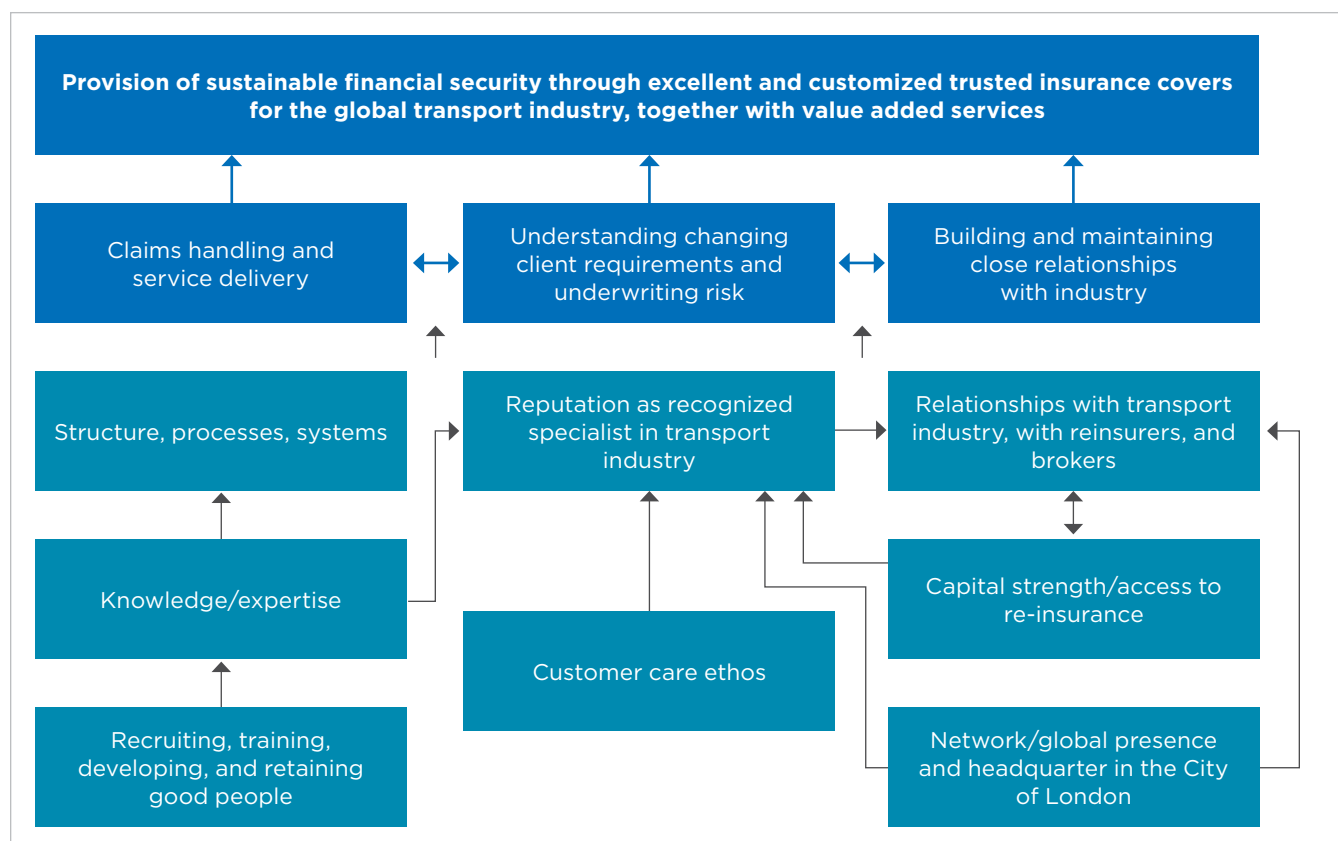
The Thomas Miller Group is a global insurance group that includes mutual insurance organizations (known as Clubs). The TT Club, one of the group's key organizations, is a leading provider of insurance and related risk management services for the international transport and logistics industry. The

TT Club has its global headquarters in the City of London, the central hub for insurance firms, but has 20 office locations around the world.

Its customers range from (a) the world's largest shipping lines, busiest ports, global freight forwarders, and cargo handling terminals, to (b) smaller organizations operating in niche markets. Since its inception over 20 years ago, the TT Club has steadily grown its premium income at an average rate of 10% per annum. Customer loyalty has been an essential factor in this growth. Indeed, 90% of its customers renew their policies with the TT Club each year.

Developing a strategic map (with cause-and-effect links) was part of the TT Club's strategic planning cycle. It wanted to better understand its strategic value drivers, with an emphasis on the non-financial and intangible performance drivers. Developing the value creation map involved a set of interviews with members of the senior management team, the CEO, and board members. The map was finalized in a facilitated one-day planning workshop with the senior management team. The strategic map for the TT Club is shown in [Figure 4](#).

FIGURE 4: DHL'S VALUE CREATION MAP WITH INTERDEPENDENCIES



The TT Club decided its value proposition was to provide sustainable financial security for the global transport industry, by offering excellent customized insurance covers and value-added services customers trust (representing both the resilient and adaptive driver in the RAISE philosophy). They identified three core activities: (a) claims handling and delivery of services, such as risk assessments and advice, (b) understanding the industry and changing client demands and underwriting

requirements, and (c) building and maintaining close relationships with the industry, which gives the TT Club the status of an independent body within the industry.

These competencies are delivered through the current structures, processes, and systems supported by the reputation and recognition of the TT Club as a specialist member of the transport industry. These competencies are also delivered through relationships not only within the transport industry, but also with reinsurers and brokers. At the foundation of the value creation map is the ability to recruit, train, develop, and retain good people who help to create the needed knowledge and expertise. This knowledge and expertise together with the strong customer care ethos, helps to shape the TT Club's reputation in the industry. Knowledge and expertise also shapes the development of its processes, structures, and systems.

Another key enabler is capital strength and access to reinsurance, one of the strongest resources of the TT Club. Access to reinsurance depends on a strong and dynamic relationship with reinsurers. Capital strength is also an important driver of reputation; without capital strength, TT Club's reputation would suffer very quickly.

The TT Club's global presence helps it to create local relationships, which in turn help its reputation and recognition in the field. Having its headquarters in London enables the TT Club to develop the crucial relationships with (a) brokers who sell their products, and (b) reinsurers to make reinsurance deals.

Using the Balanced Scorecard to Map Intangibles at Saatchi & Saatchi

Since its launch, the Balanced Scorecard has been popular with both for-profit and not-for-profit organizations, and there have been numerous examples of quite stunning successes. For instance, consider the New York-headquartered communications agency, Saatchi & Saatchi Worldwide. Saatchi & Saatchi used the Balanced Scorecard as its strategic management framework for transforming the firm from the brink of bankruptcy in 1995 to being purchased by the Paris, France-headquartered Publicis Groupe SA in September 2000 for close to \$2.5 billion (indeed, it is still a scorecard user today). This represented a multiple of about five times the organization's then market worth, and is powerful evidence of the agency's success in strategy implementation.

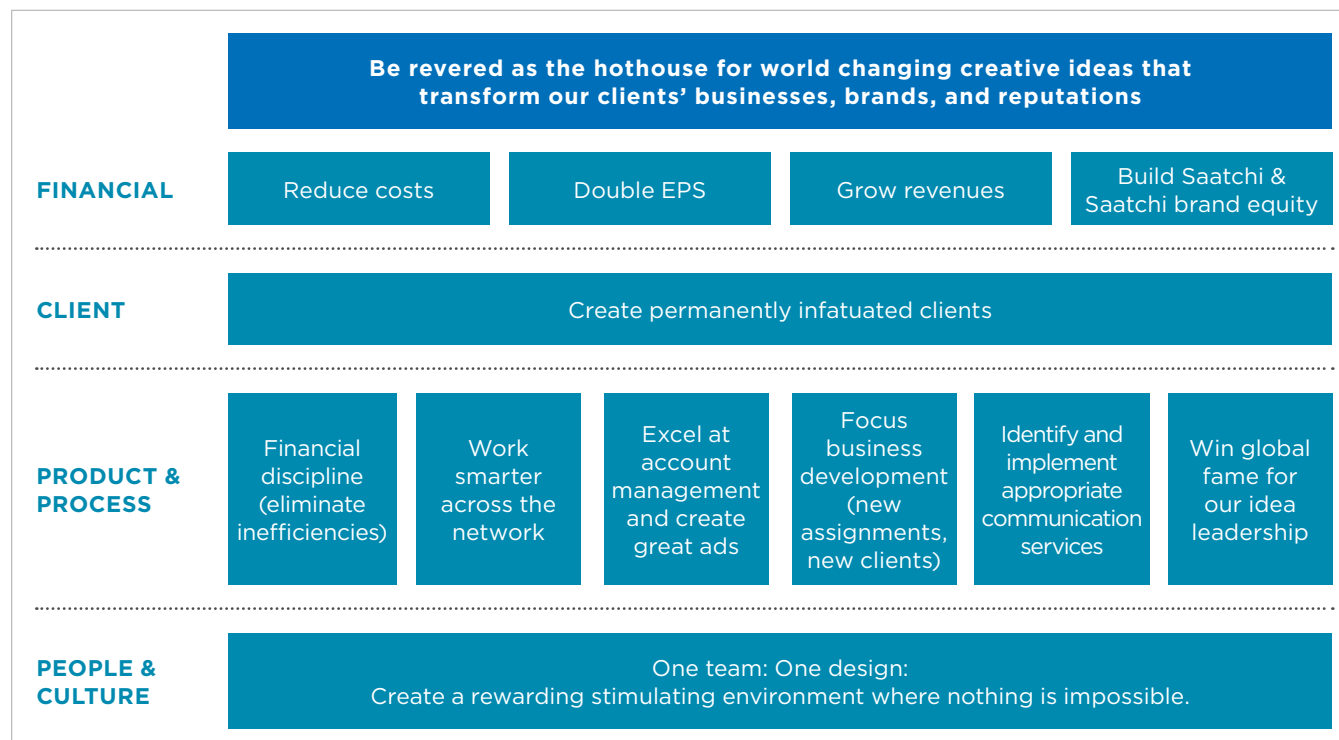
The strategy map used by Saatchi & Saatchi in the late 1990s is shown in [Figure 5](#); it identifies a number of intangible value drivers of the organization. Note how simple the map is, with just 12 strategic objectives.

When the new management team was put in place in 1997 (led by CEO Kevin Roberts), Saatchi & Saatchi was a highly complex and fragmented organization that had largely grown by acquisition in the 1980s and early 1990s. The organization contained many different cultures and had little commonality of focus on key customers or what the organization had to do to drive value to those clients.

In 1997 Roberts and his senior team spent several months visiting the organization's 45 country-based organization units to understand the challenges and to shape a new unified vision for the organization (it now has 150 offices in 86 countries and 6,000 employees). It is notable that Roberts and his team focused on answering two core questions (apart from the obvious one—how to return to financial profitability). These questions essentially concerned:

- What must we do to inspire our clients?
- How can we get an organization that is culturally diversified to act and behave as one global team?

FIGURE 5: DHL'S VALUE CREATION MAP WITH INTERDEPENDENCIES



Saatchi & Saatchi's vision was seen as powerful, because it contained a value proposition to (a) the employee (organizations such as Saatchi & Saatchi compete for some of the most creative people on the planet who might be attracted by the idea of working for an organization that is "revered as the hothouse for world-changing creative ideas"), as well as to (b) the customer—"transform our clients' organizations, brands and reputations." Such a powerful proposition was indicative of fulfilling all drivers—resilient, adaptive and innovative—in the RAISE philosophy. As an aside, consider the power and inspirational value of this mission compared to most visions that are found within organizations that typically focus on "being the number one supplier to the customer," or something equally as uninspiring.

Note in implementing this vision, Saatchi & Saatchi settled on just one strategic objective for the client perspective ("create permanently infatuated clients"). It even went as far as to identify which were the top customers that it had to permanently infatuate worldwide; therefore, if those clients asked for something, they got priority.) There is also only one strategic objective for the people and culture perspective: "One team: One dream: create a rewarding, stimulating environment where nothing is

impossible.” Core to this objective was the cementing of a common, unified culture across the culturally diverse 45 organization units. To drive the new vision and to create globally infatuated clients and a common culture, every organization unit was required to use the same strategy map, although local targets might differ.

Crucially, in deploying the strategy map and delivering on the vision, everything the organization did had to visibly support the critical few strategic objectives that appeared on the map.

It is interesting to note that so successful has Saatchi & Saatchi’s vision been that the core components are still highly visible and still driving the organization’s decision-making processes.

However, it no longer has a vision, rather stating it has “a purpose.” On its website, the organization notes that: “... we have a purpose with these components: our inspirational Dream, to be revered as the hothouse for world changing ideas that create sustainable, profitable growth for our clients. Our Focus: To fill the world with Lovemarks. Our Spirit: One team, one dream, nothing is impossible.” Saatchi & Saatchi is today one of the most successful creative agencies and one of the most respected (by clients and the industry alike). This is a far cry from its position in the mid-1990s.

Designing Indicators: KPQs at Google and InterCorp

Key performance questions (KPQs) can be used to identify the real measurement needs around intangibles. An example of how powerful KPQs can be in identifying information needs and developing indicators for intangibles comes from Google—one of today’s most successful and most admired organizations.

Google’s executive chairman, Eric Schmidt, says: “We run the organization by questions, not by answers. So in the strategy process we’ve so far formulated 30 questions that we have to answer. You ask it as a question, rather than a pithy answer, and that stimulates conversation. Out of the conversation comes innovation. Innovation is not something that I just wake up one day and say ‘I want to innovate.’ I think you get a better innovative culture if you ask it as a question.”

Another organization that uses the approach of KPQs well is InterCorp. As part of its strategy, InterCorp identified partnerships with their suppliers as a key intangible value driver. In order to understand and monitor progress, it needed to find ways of measuring and assessing its partnerships. In their quest to find measures, they came across an external organization that specialized in partnership evaluations and had designed a generic questionnaire to measure partnerships. InterCorp was pleased about this. They signed up to this survey and outsourced their data collection to this outside organization, who then started to collect the partnership data twice a year.

InterCorp was pleased with the service, as the external organization provided them with detailed reports containing graphs, tables, and trend analyses on about 50 different questions they asked in their survey. Although InterCorp was happy with how things were going, the partners were telling a different story. When I spoke to some of their key partners, it became apparent very quickly that they were not happy with the way InterCorp was collecting their data.

One manager of a partner organization said: “InterCorp is an important partner of ours and of course we want to ensure that we create a good relationship.

However, I am getting really annoyed with them. Twice a year they send me a six-page long survey which I need to complete. To collect all the information takes me about three days and is a lot of work. The problem is I can't see why they need all of this data, a lot of the questions seem completely irrelevant to our partnership."

When this was fed back to InterCorp it very quickly became clear that all of the data they were collecting was "interesting to know," but that was it. Not one decision had been taken based on the survey data over the past three years. So in conclusion, they were creating a lot of unnecessary work for themselves, and most importantly for their partners, which started to undermine the very relationships they were trying to improve. This example is not a one-off—there are similar problems in organizations all over the world.

So how did KPQs help? In the case of InterCorp, they went back to the drawing board and identified the question(s) they really wanted answered. The KPQ they came up with is "How well are our partnerships progressing?"

Once they had a KPQ, they then asked themselves what data they would need to answer this question and what the best method would be to collect the data. They needed data that would assess the relationships, but they didn't want to use the same survey again as it was collecting too much unnecessary data. After some deliberation, they agreed the best way forward would be to ask their relationship managers or account managers for an assessment. InterCorp realized that with their account managers they had people in place able to make this assessment without the need for a lengthy survey.

They designed a system that automatically emailed a very simple form to the account managers with just two questions: "How would you assess the relationship with organization X?" and "How well is the partnership with organization X progressing?" Next to the question, the form included a scale. Initially this was a 10-point scale from very bad to very good. This was later refined into a three-point scale. In addition to the scale, the form also included a field for a written comment. Account managers were asked to assess the partnerships by ticking a box on a scale and by providing a short written comment on why they made that particular assessment.

InterCorp realized by only asking the account managers it might get a biased view on the situation, so they decided to also email the form to their partner organizations. Preferring not to ask for any written assessment, the form used for the partner organizations only included the two scaled questions.

After the account managers and the partner organization had completed the short survey, the results were compared in a database. In over 95% of the cases, the internal and external assessments were identical.

Where major differences in opinion occurred, the database triggered another email to the internal account manager prompting him or her to pick up the telephone and discuss any potential issues (demonstrating the resilient and adaptive drivers of the RAISE philosophy) with the partner organization. InterCorp also realized it was not collecting such data frequently enough. It decided that monthly data was required in order to be able to react to potential issues early enough before they became big problems. InterCorp now has a very simple monthly data collection system in place, which allows it to get all the information they need to answer its KPQ.

Measuring Staff Engagement at TradeBank

TradeBank is a leading trading bank that believes its people, with their skills and knowledge, are its most important intellectual capital value drivers. TradeBank believed one of the key enablers of success was the level of staff engagement. In the past, they had conducted traditional staff satisfaction surveys, but found even though people might have indicated satisfaction with their jobs, many were not engaged. Managers in TradeBank believed engagement is much more important than staff satisfaction, as it indicates how passionately people feel about their jobs, and how connected they feel to the organization.

According to the Gallup Organization, engaged employees (a) are passionate about what they do, (b) feel a strong connection to their organization, and (c) perform at high levels every day while looking for ways to improve themselves and the organization as a whole. Unengaged employees on the other hand show up every day and put in just enough effort to meet the basic requirements of their jobs. Without passion or innovation, these employees neither commit to the organization's direction, nor do they work against it. Actively unengaged employees present a big problem for organizations. Negative by nature, these people are unhappy in their work, and they compound their lack of productivity by sharing this unhappiness with those around them. According to Gallup Research, an average organization has about 25% of engaged employees, just over one-half unengaged employees, and just under one-fifth actively unengaged employees. TradeBank was keen to improve its ratio and ensure more employees were closely engaged.

Managers in TradeBank agreed to the following KPQ: "To what extent are our employees engaged?" In their research into existing data collection methods, they came across the Q12 survey tool that was developed by the Gallup Organization. This 12-question survey was designed to assess engagement, especially on an emotional level. After some deliberation, TradeBank felt this survey would allow it to gain the information to answer its KPQ. In addition, the survey would allow TradeBank to benchmark itself with its competitors. The following 12 questions, based on the Q12 survey, were incorporated into TradeBank's staff survey:

1. Do I know what is expected of me at work?
2. Do I have the right materials and equipment I need to do my work right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days, have I received recognition or praise for doing good work?
5. Does my supervisor or someone at work seem to care about me as a person?
6. Is there someone at work who encourages my development?
7. At work, do my opinions seem to count?
8. Does the mission/purpose of my organization make me feel my job is important?
9. Are my coworkers committed to doing quality work?
10. Do I have a best friend at work?
11. In the last six months, has someone at work talked to me about my progress?
12. This past year, have I had opportunities at work to learn and grow?

TradeBank decided to poll a representative sample of its employees every month to regularly check for possible changes. Each employee still receives a survey only once a year, but the organization gets valid data every month to answer its KPQ question, and to test the impact of staff engagement on retention, satisfaction, and performance levels. In TradeBank, the results of staff engagement are

reported to the senior management team monthly. The data is provided in aggregated form (staff engagement index) and compared with competitor positions. Engagement is best reflected by changes over time. The data is therefore presented in a trend chart over time, together with a narrative commentary by the human resources director that puts the assessment into context and extracts the key learning points.

Making M&A Decisions Based on Intangibles—PharmaLab

A potential merger between PharmaScience and PharmaLab was on the cards. Initial pre-merger investigations were conducted to analyze the resource architecture of both organizations. This analysis showed the two firms had an almost identical resource structure, with complementary products for similar markets. The initial conclusion was that by merging them, both could enjoy better economies of scale and economies of scope: $1 + 1 = 3$ (fulfilling both the resilient and adaptive drivers of the RAISE philosophy).

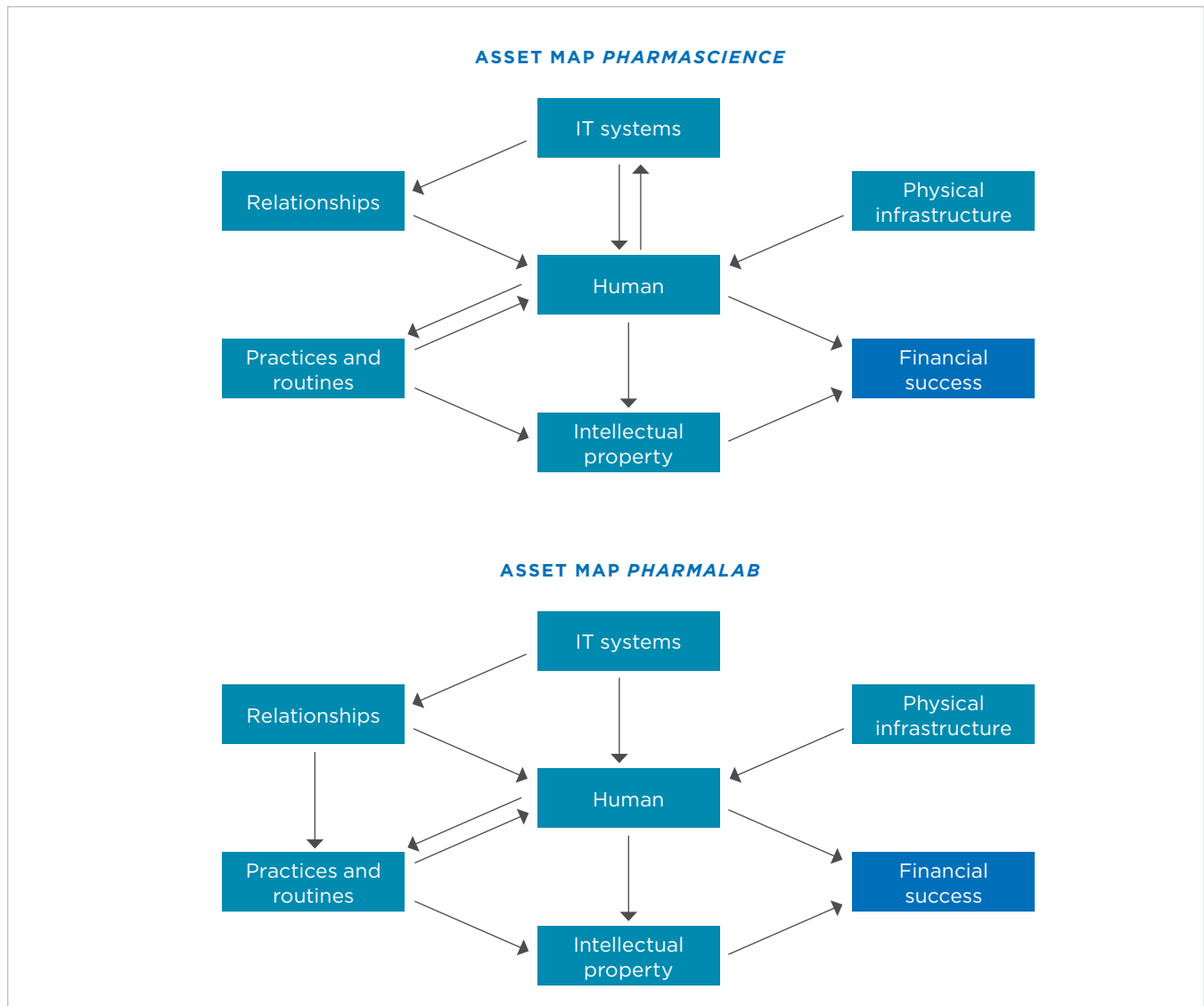
This meant asset maps were created for both organizations in order to kick off the pre-merger planning. However, what these revealed was that, even though the resource structure was almost identical, the value creation logic wasn't. [Figure 6](#) shows both asset maps showing interdependencies between the different assets. Both maps show different causal logics and different emphases illustrated by the widths of the arrows.

Creating the two maps revealed that in PharmaScience each team had one or two “stars”—highly creative team leaders who generated much of the R&D output themselves. These individuals were able to bring ideas together by being open-minded, but also had a very strong ability to consolidate ideas into outputs. They were backed by a culture of support from their teams who worked towards the ideas of one leader. Knowledge was only shared within teams and little knowledge was shared between teams in PharmaScience.

Most team members had regular communications with the team leader, and most of these communications took place face-to-face and via email. The key component of this communication structure was the strong support culture with the team leader in the center. The majority of knowledge sharing was bi-directional between leader and team member, whereas there was little sharing between individual team members. Each team had shared databases, which were also used to codify and consolidate information for access by the team leader. Much of the knowledge transfer was one-directional, from the team member to the team leader.

PharmaScience had a strong focus on codifying knowledge among team members and storing this information for access by the leader. The emphasis of the leader was then to apply this knowledge in order to produce valuable output. The value creation map of PharmaScience showed how the support culture strongly influences the people, particularly the leaders, who then convert this gathered knowledge into intellectual property as well as directly into products and services, which generate financial success. The way team members interact is supported by practices and routines, such as regular meetings and shared databases. The physical infrastructure influences the well-being of the team members in PharmaScience.

FIGURE 6: VALUE CREATION MAPS FOR PHARMASCIENCE AND PHARMALAB



Even though the resource base for PharmaLab was almost identical, the way R&D output was produced was very different. Creating the value creation map revealed PharmaLab operated on a significantly different model to PharmaScience. Instead of having a strong support culture for the leaders, the teams in PharmaLab functioned as real teams and freely shared knowledge within the team, as well as with other teams in the organization.

The culture was open and promoted the transfer of knowledge between internal and external stakeholders. This impacted the practices and routines and the way team members interacted. There were many more ad hoc meetings between team members, and outputs and solutions were developed in teams. Team leaders had more of a coordinating role and were less autocratic. Teams in PharmaLab developed output, which was then turned into processes, patented, and sold. Fewer services were delivered directly by the team leaders than at PharmaScience. The predominant value creation logic in PharmaLab was a much more collaborative R&D development that involved all members of the organization.

When these differences became apparent, it was decided a merger would not be the best way forward. The value creation logics were too different, and it was believed trying to merge them would not work and, therefore, it wouldn't deliver the desired economies of scope and scale. Instead, critical areas were identified, and a joint venture approach was used to bring together some of the core competencies of the two organizations.

Reporting of Intangibles

Many organizations and public sector organizations now make their strategic maps and scorecards publicly available. A good example is the Federal Bureau of Investigation (FBI) in the United States. On their website, the FBI articulates its intangible value drivers and describes their importance as part of the strategy map documentation. The intangible value drivers identified include (among others):

- Enhance relationships with law enforcement and intelligence partners
- Enhance relationships with the private sector and the public
- Improve internal communications
- Improve recruiting, selection, hiring, and retention
- Train and develop skills and abilities of our workforce
- Link skills and competencies to needs
- Identify, develop, and retain leaders throughout our organization

These practical examples provide some useful insight into how organizations are managing their intangibles to derive tangible benefits (and an ongoing sustainable edge as demonstrated by fulfilling the drivers of the RAISE philosophy). The next step now is for you to start applying the principles, in whatever big or small steps are appropriate for your organization.



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