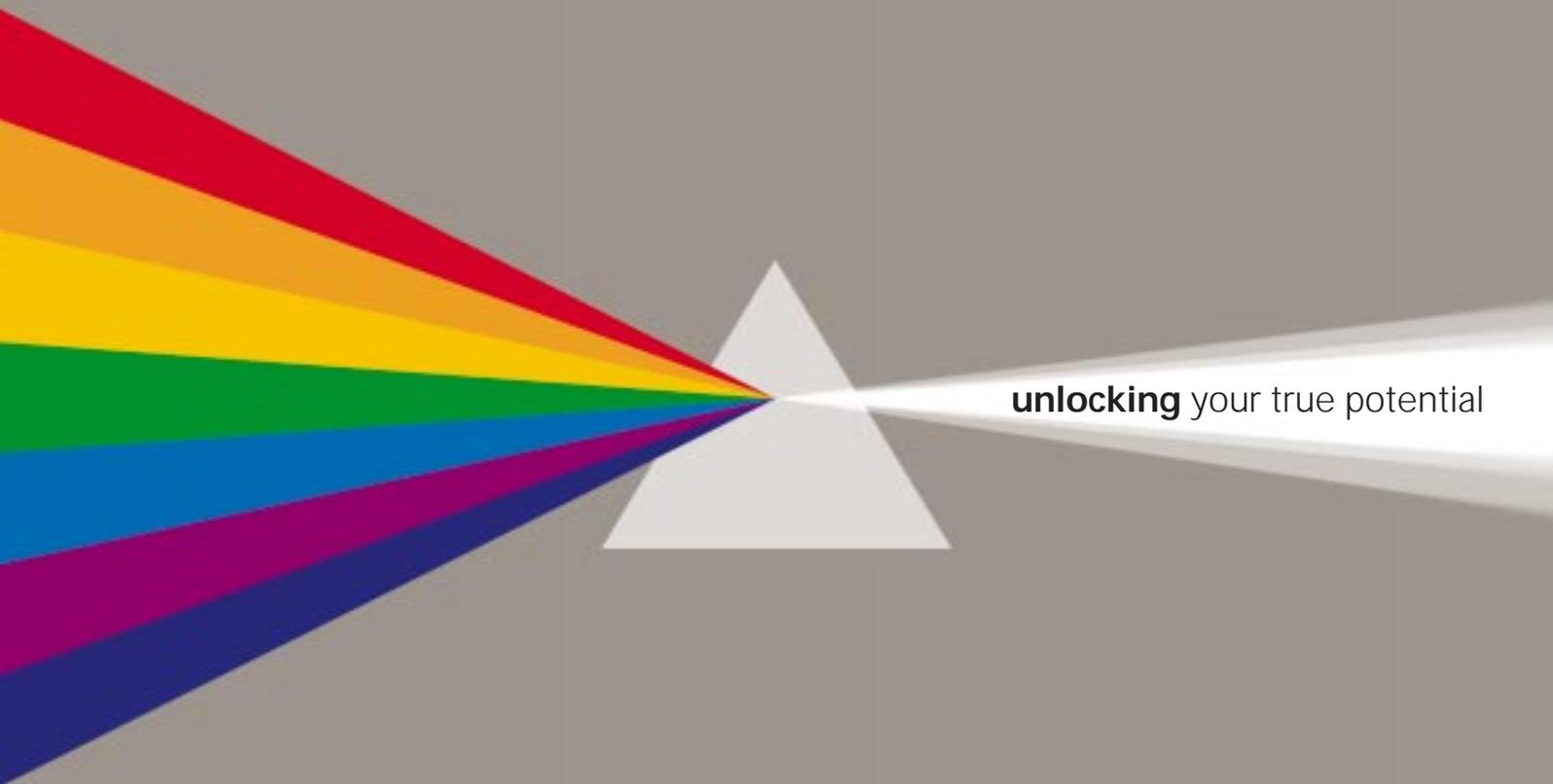


creating value from your intangible assets



unlocking your true potential

dti

Department of Trade and Industry

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Executive summary

The combined impacts of globalisation, new technology and increased competition means that all companies are facing the prospect of continual incremental and, occasionally, radical change.

In practice, there are few sources of competitive advantage that cannot be duplicated and matched by competitors.

Ultimately, a company's ability to flourish in this environment will depend on its ability to create value from intangibles.

Irrespective of sector, innovative companies recognise that to maintain their competitive advantage they must continually seek to identify, develop and make best use of all their available resources so that they can continue to offer new and improved products and services.

This report, which draws on the experiences of some of the UK's most successful companies, highlights how successful companies in all sectors of the economy are meeting this challenge through the effective utilisation and exploitation of their intangible assets.

The companies interviewed stressed that the following intangible assets were essential ingredients upon which their company's future success would be built.

- **Relationships**
- **Knowledge**
- **Leadership and Communication**
- **Culture and Values**
- **Reputation and Trust**
- **Skills and Competencies**
- **Processes and Systems.**

The challenge ahead

The challenge for all companies is therefore to look beyond their existing financial statements which provide historic "accounting" records of tangible assets and to consider the wider perspective of how to invest in and make best use of all the assets of the business, tangible and intangible.

Ultimately, the ability of your organisation to meet not only its current goals and objectives, but also to grasp future opportunities, will depend on its ability to create value from the intangible assets. It is only by identifying, managing and developing the full spectrum of intangibles that you will be able to unlock your full potential.

Background

This report is based on in-depth interviews between secondees to the Department of Trade and Industry's Future and Innovation Unit and 50 successful organisations. It also draws on the assistance of a high level advisory group and input from partner organisations.

The conclusions outlined are drawn from the general question:

'What have you got that is valuable that is not included in the balance sheet?'

The language that the organisations used to respond to this simple sounding question provides a basis for understanding what these missing 'intangibles' are and how they contribute towards business success for any organisation.

Analysis of the diversity of responses has provided a framework of important areas for reflection in order to add value to the quality of planning and problem solving.

Linking intangibles to goals and problems

Intangible resources are important to all organisations. Weak areas tend to constrain aspirations whilst areas of strength help to generate new opportunities. Recipes for success depend on talented people acquiring and using the right mixture of tangible and intangible assets to achieve goals and overcome both identified and latent problems.

Whilst individual aspects of the overall resource mix may contribute differently depending on context, organisations should consider their vision for how these intangible areas should be contributing to business success and how to invest to build their resources and capabilities in areas considered key to success.

Keeping track of intangible investments

Financial reporting systems focus on historic balance sheets, profits and cash flow, but you don't get the right perception of the prospective value by looking at history. Value, in an uncertain world, depends on both objective and subjective assessment of future options and flexibility as well as an extrapolation based on historic and current performance. Making sense of the value to be derived from careful investment in intangibles lies in considering your 'future focus' on potential opportunities and uncertainties rather than by focusing on historic costs.

Tracking progress requires thought. There are the usual dangers of 'managing only what is measured' and of 'measuring only the things that are easy to measure rather than measuring the right things'. However, attempting to measure everything is time consuming, costly and tends to result in 'analysis paralysis'. Avoiding the issue by 'keeping your head in the sand' risks a lack of focus on critical success factors.

What are the right things to measure in your business?

A small number of Key Performance Indicators that are understood and valued by everyone is much better than a prescriptive set of rules which don't appear to have obvious business benefit. KPIs, like customer satisfaction levels, may be viewed from the perspective of each intangible area in turn to help identify areas of strength and weakness, hence opportunities and threats. To the need for selective KPIs, we would add the view that anecdotes and stories can be a powerful way of communicating the importance of intangibles.

- **What Key Performance Indicators, anecdotes and stories have you developed to highlight the importance of your intangibles?**
- **How well do you communicate the risks and opportunities that your business faces?**
- **How attractive is your organisation, as an employer, a supplier, a partner or as part of the community?**

Options and flexibility

All organisations have a diverse mix of assets, both tangible and intangible, which, if managed in a strategic and forward looking way, will yield new areas of business and profit. Whilst all organisations are different, and no simple formula will fit all circumstances, we identify seven intangible value streams that require investment and maintenance in order to sustain current and future business prospects.

The seven areas that we identify are:

- **Relationships**
- **Knowledge**
- **Leadership and Communication**
- **Culture and Values**
- **Reputation and Trust**
- **Skills and Competencies**
- **Processes and Systems.**

These areas comprise the intangible raw materials that talented people use to collaborate with each other in order to achieve goals, solve problems and seize opportunities.

External reporting

We also highlight the need for organisations to improve the quality of dialogue with a variety of stakeholders, in communicating risks and uncertainties. Ultimately the quality of dialogue affects both 'licence to operate', which includes issues like consent to and support for activities from **non financial stakeholders**, and 'cost of capital' which is influenced by the attractiveness of the overall business proposition to **financial stakeholders**.

- **What are the risks and uncertainties associated with our plans that we wish to understand and communicate?**
- **What stories and anecdotes do we currently use to help others understand the context and importance of key issues?**
- **What Key Performance Indicators do we currently use to track progress towards goals and solutions to problems?**

Planning investment in intangibles

For each of the seven areas, organisations should reflect on their own individual business environment and consider the answers to two separate sets of questions:

1. CURRENT ACTIVITIES

The focus here is on improving efficiency and effectiveness of current activities, reviewing what you do and reflecting on where improvements might be achieved in ways that increase the value of the business.

- **Where are we now?**
- **Where do we want to go?**
- **How do we get there?**

2. FUTURE ACTIVITIES

The focus here is on building options and flexibility for the future, investing in understanding how the business context is likely to change and what needs to be done to position the business to handle uncertainty and to drive or at least take advantage of change.

- **What is changing?**
- **What do we want to change?**
- **How should we invest for the future?**

Relationships



The challenge facing your company

Only by developing an effective strategy for managing and maintaining excellent relationships with all its key stakeholders can a company hope to achieve its full potential.

A successful company is one that looks constantly to build on its existing relationships, be they **external** (customers, suppliers or anyone else whose ideas and co-operation may assist in meeting goals and solving problems) or **internal** (different functions and their teams working together to seize opportunities and create value).

Understanding how to identify, develop, organise and sustain an appropriate network of relationships that bring new ways of working, ideas and opportunities plays a key role in the quest for competitive advantage.

- **Do your people enjoy working with each other and does this extend to your external relationships?**
- **How well does your organisation work as a team to look after, learn from and make best use of your network of internal and external relationships?**
- **Do you have appropriate people with the right talents, training and outlook to maintain key relationships and to communicate the value of these within your organisation?**



**'Over the years
we have made an**

**enormous investment in
building the trust of our
suppliers: this is reflected
in things like the credit
terms provided to us'**



What companies told us

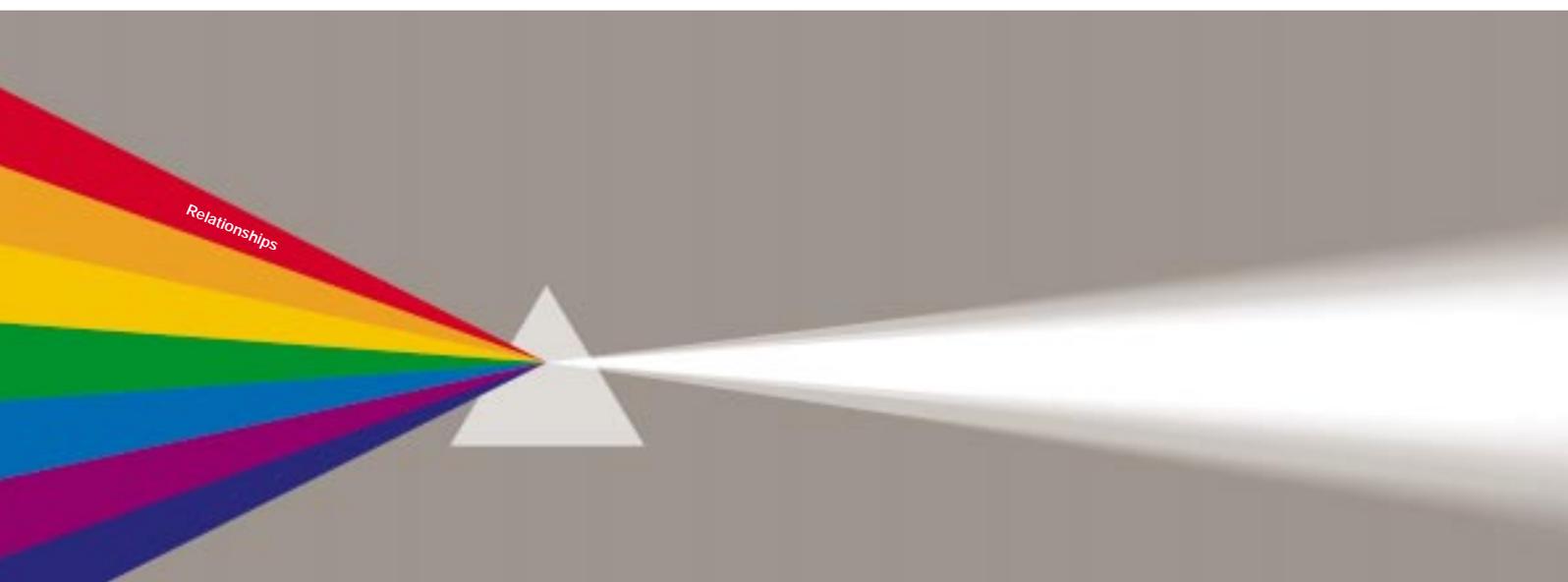
The interviews conducted as part of this work indicated that both internal and external relationships needed to be addressed if a company was to be successful.

The discussions highlighted that for internal relationships, the key issues are things like how well the people work together to solve problems and achieve success, how much they cared about the way they worked and the quality of the environment in which they worked. This applies equally to external relationships.

Managing relationships with customers is obviously important, but whatever its resources, no organisation can do everything on its own and there will always be additional value to be gained from investing in a sensible network of external relationships. Successful companies continually acquire knowledge, ideas and other resources by developing relationships with a diverse range of useful contacts. Learning from both in-house operations and externally, perhaps through collaboration, consultation or investment, provides the inspiration for innovation and imitation.

Whether internal or external, sustainable relationships rely on each party continually providing value, or at least the prospect of value to the other party. Value may be simply money earned, but it might also be considered in terms such as knowledge or experience gained and successfully applied, reputation enhanced or a problem solved. Losing the trust of important relationships ultimately destroys value, profitability and competitiveness. Relationships based purely on legal documents miss the all-important "human" factors.

'We seek to build relationships with all those who can bring valuable things to the organisation, from raw materials to technology'



'We need to stay close to our customers to learn from them and support them in order to keep ahead of competitors'

Next steps and key questions

For your company to reach its full potential in this area it is essential that you not only consider how you can develop and improve your current relationships, but that you also carefully consider how you can develop and improve the relationships necessary for your future success.

Detailed here are some key questions to allow you to consider how best to tackle this important area.

Relationships Checklist

Focus on the current business environment (Improving the way you currently do things)

Focus on the future business environment (Creating options and flexibility to take advantage of change)

Where are we now? (SWOT)

What do we offer that encourages others to work with us? Why don't some choose to work with us? What might we do better? What is at risk if we don't attract and sustain the relationships we need?

What is changing?

How should we seek to take advantage of new ways of working enabled by technology and outsourcing? Despite change, what critical ingredients of our ways of working must we maintain?

Where do we want to go?

What are our goals for increasing the value of the goods and services we currently offer and the ideas and experiences we gain from our relationships?

What do we want to change?

What are our goals for creating new sources of value for existing and prospective relationships?

How do we get there?

What are the most important 'relationship' problems that we need to solve?

Investing to create future value

What are the key relationships that we need to secure to help achieve our future aspirations?

'Without people, you don't have any value in your

business. Value creation is all about developing good relationships'





Knowledge

The challenge facing your company

The way in which a company manages and utilises its knowledge has always been crucial to success. However, against a background of increased competition and the increasing impact of new technology and electronic commerce, the added value a company can achieve from the effective use of its knowledge and expertise is becoming increasingly important.

For a company to survive and flourish in this environment it is essential that it not only continuously looks to develop its knowledge base, but also ensures that this knowledge is shared and used effectively throughout the organisation. Explicit or codified knowledge can be written down and as such is easily replicated and copied. Tacit knowledge is held in the minds of individuals and is shared through stories, contact and discussion.

Without 'knowledge management' companies may fail to identify and respond fast enough to key knowledge opportunities and gaps. Failure to share knowledge also makes them more vulnerable to a sudden loss of knowledge, for example through a key employee leaving.

- **Are you confident that your organisation is doing all it should to acquire and utilise the knowledge you need to build and sustain the organisation?**
- **What active steps have you taken to ensure that knowledge is shared throughout the organisation?**
- **How easy would it be for competitors to replicate your knowledge and ways of working? What steps have you taken to protect the organisation from losing critical knowledge at the wrong time?**

'We build on previous projects through talking to each other, we share knowledge and ideas to spark off thoughts on how to solve particular problems'

What companies told us

The interviews conducted highlighted that successful companies are the ones that take active steps to acquire, retain and effectively deploy new knowledge. They also identified the need to keep it up to date rather than allowing it to go stale.

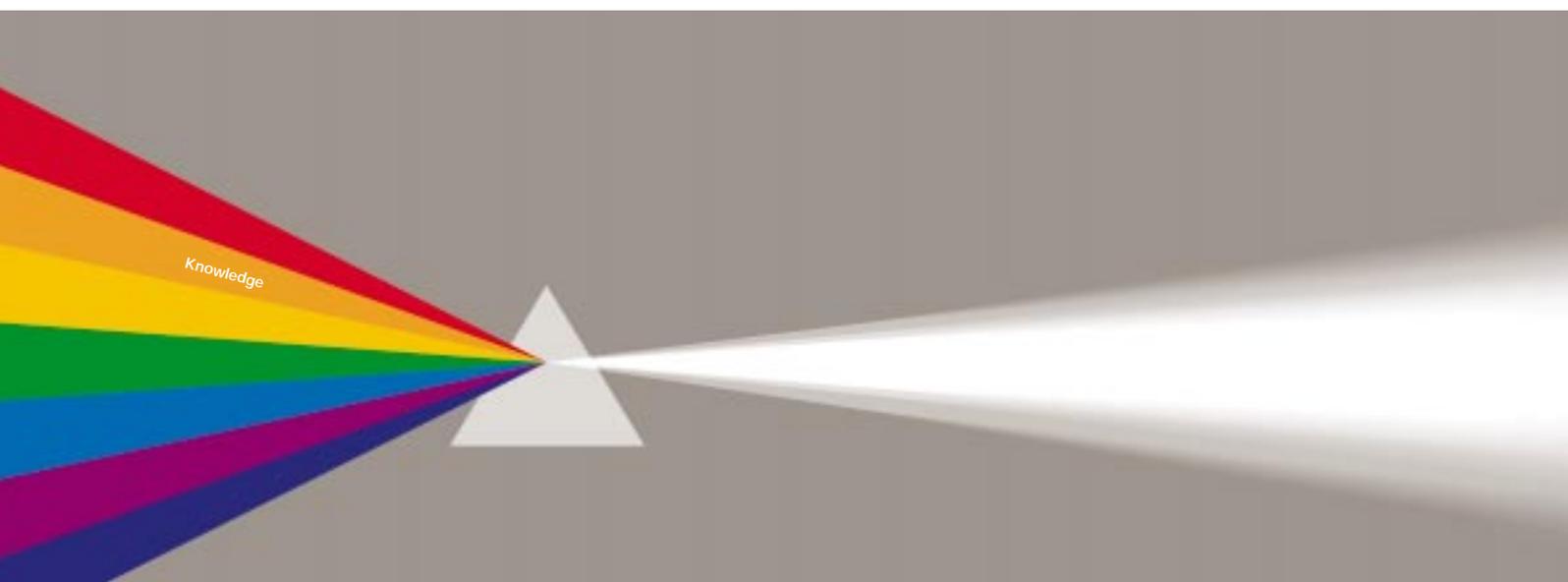
Some knowledge is unique and can be protected by law, patents, design rights and copyrights; other knowledge is kept secret in an effort to sustain competitive advantage. Whilst some 'intellectual property' can be given a 'value for accounting purposes' most knowledge is excluded from the balance sheet. This is because accounting rules focus on factual 'historic cost' measurement rather than engaging in speculation on the potential future monetary value of knowledge and understanding and the degree of uncertainty and opportunity.

In addition to traditional knowledge assets, successful companies also consider the value of the overall knowledge base in terms of the way that it can be used to create value in the context of relationships. This includes knowledge about people or things, about how something is done, about problems, opportunities, context and so on. They also mentioned things like reputation and prestige that arise from being considered knowledgeable.

The companies that were interviewed also recognised that most of the knowledge and understanding necessary to operate business functions is not unique and that good ideas tend to be copied and ways of working replicated as soon as their value is appreciated. They therefore constantly sought to learn and improve and recognised that a good way of doing so was via the exchange of knowledge through their relationships with their key partners.

Having knowledge is only half of the equation: having it somewhere within the organisation is very different from ensuring that those who need it have access to it and use it to create value in the context of relationships. All companies should therefore keep in mind the following key criteria if they are to maximise the benefits of their knowledge base.

- **That sharing knowledge is vitally important if the organisation is to reach its full potential.**
- **Understand how to use their knowledge effectively in the context of each key relationship.**
- **Learning the wrong things or applying learning in the wrong way can turn this crucial intangible asset into a liability.**



**‘We need to understand our customer’s preferences,
how to package and how to market’**

Next steps and key questions

For your company to reach its full potential in this area it is essential that you not only consider how you can acquire and utilise the knowledge required for your current activities, but that you also carefully consider what knowledge you will need for your future success.

Detailed here are some key questions to allow you to consider how best to tackle this important area.

**‘The more experience is
gained with different
bespoke solutions, so
the easier it is to
leverage this knowledge
into new solutions for
new relationships’**

Knowledge Checklist

Focus on the current business environment (Improving the way you currently do things)

Where are we now? (SWOT)

What knowledge gives us a competitive advantage? What knowledge lies unused? How might we manage our knowledge better? What risks do we need to manage?

Where do we want to go?

What are our goals for improving the flows of knowledge and experience necessary to sustain our key relationships?

How do we get there?

What are the most important gaps in our knowledge that we need to fill?

Focus on the future business environment (Creating options and flexibility to take advantage of change)

What is changing?

What current knowledge will we need to build on to take advantage of the future marketplace?

What do we want to change?

What are our goals for creating new products and services that will generate value by solving problems for our relationships?

Investing to create future value

What are the key knowledge gaps that need to be addressed to secure our future aspirations?



‘We invest in gathering knowledge. Knowledge underpins everything we do’

Leadership and Communication

The challenge facing your company

If companies are to achieve their full growth potential it is essential that clear goals and aims are set and are embedded throughout the organisation. This can only happen through strong leadership and effective communication. Successful companies have such qualities and are the ones in which everyone is aware of the role they play in the company's success.

Clarity of purpose helps to encourage a culture that considers the customer relationship first, rather than the command structure, because people understand the balance between the goals of the organisation and the day to day needs of sustaining the goodwill of customers. Everyone remains motivated towards achievement of goals, but innovative and creative thinking is encouraged to enhance competitive advantage and brand value.

- **Is your leadership actively involved in the change process, do all your people understand what the priorities are, how they should contribute and are they predisposed and motivated to behave in this way?**
- **Do you use 360° reporting in the context of all your relationships to find out what they think?**
- **Can you map your most important internal and external communication channels, the important flows of knowledge and sharing of insight that helps achieve goals and solve problems?**

'We didn't start off with a strategic vision, we started with an operational need. Clarity about what you want to do is valuable'





What companies told us

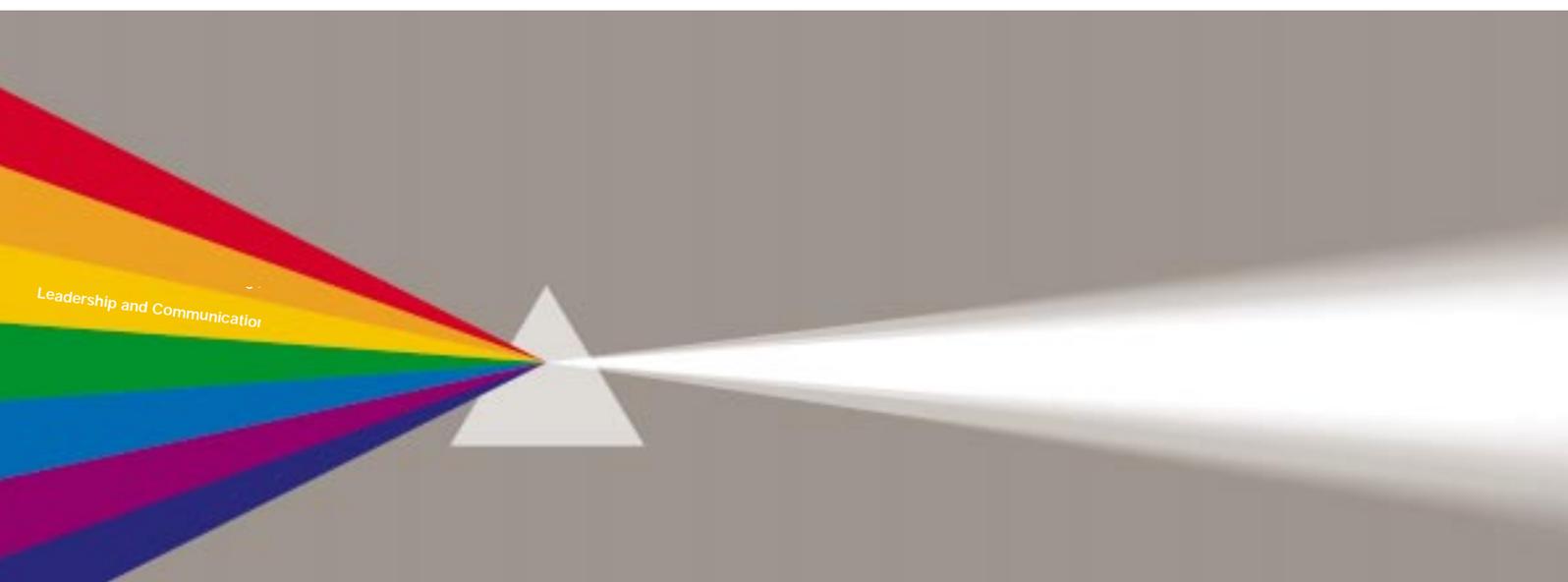
If the company's leaders are to provide effective direction and support they must behave themselves in the way they would like others to behave. They must consider the ways in which people are inspired to pull together to solve problems and to achieve goals.

This is not just about people understanding what they are supposed to do, it is also about commitment because they believe that it is the right thing to do. This goes further than simply understanding mission statements and targets, but requires a much deeper understanding of context. Examples were given when all too often it is disaster rather than foresight that acts as the catalyst for change. To avert this, everyone needs to be clear on how to contribute and why their contribution is important to the future prospects of the organisation.

Successful companies achieve this through the clarification of goals, reinforced by leadership commitment and support for the development of an atmosphere that encourages continuous learning, creativity and innovation. The potential reward is not seen simply as that of improving efficiency and effectiveness. Whilst these are important short-term and long-term goals the potentially bigger prize is about enhancing image and brand.

Such an approach, reinforced by appropriate motivation and reward packages, not only releases the energy and commitment of its people, but also enhances the prospect of attracting and retaining talented people and partners.

The companies we met also stressed that a crucial component of a company's future success was the ability to think ahead when developing the business strategy. No organisation has the resources to do everything. Successful leaders distinguish between what must be done within the organisation and what should be done outside. They achieve valuable options and flexibility through outsourcing, collaboration, joint ventures, strategic investment and spin out of valuable but non-core activities.



'Identification of the opportunity is one thing; selecting and investing in the right exploitation route is quite another'

Next steps and key questions

For your company to reach its full potential in this area it is essential that you not only consider how effective the current leadership and communication channels are in your organisation, but that you constantly seek to improve to meet future challenges.

Detailed here are some key questions to allow you to consider how best to tackle this important area.



Leadership & Communication Checklist

Focus on the current business environment (Improving the way you currently do things)

Where are we now? (SWOT)

Is everyone clear on the mission and values of the organisation and do these reach the hearts and minds of our people? Are goals and responsibilities clear? Are risks and potential rewards clearly understood?

Where do we want to go?

What do we need to change to increase our competitive advantage?

How do we get there?

What action plans do we need to implement to improve teamwork, problem solving, creativity and innovation?

Focus on the future business environment (Creating options and flexibility to take advantage of change)

What is changing?

Does everyone understand how the market is changing? Are responsibilities and priorities clear? Does everyone understand how to contribute to and benefit from success?

What do we want to change?

What are the resources and capabilities we need to support our ambitions for the development of new products and services?

Investing to create future value

What are the aspects of our development plans that will enable us to win and sustain the support of both financial and non-financial stakeholders?

'Prioritisation of projects is based partly on the usual investment appraisal methods but projects also have to fit with strategy – fit with strategy is the first hurdle'



Culture and Values

The challenge facing your company

The speed with which new ways of working are identified and replicated due to faster awareness of market developments highlights the need for ways of working that can adapt quickly to new challenges and grasp available opportunities.

Successful organisations respond to change by encouraging new innovative thinking that seeks a sustainable future rather than seeking to sustain the past.

A key component in a company's ability to achieve this goal is its ability to inspire its people, create outstanding products and services and connect effectively with aspirations and values of all their important internal and external relationships. This means investing in understanding how to reach the hearts and minds of groups who may not all share a common perception of the meaning of value.

These are key intangible assets which your company will be judged on and will form one of the foundation stones of your success.

- **Are you confident that your company has the culture and values necessary for success now and in the future?**
- **How effectively is everyone motivated to behave in ways that contribute to the company's goals?**
- **Within the organisation, who has the power to invest in change or the power to block change?**



'We invest to support a culture where people share not just knowledge but their inner thoughts. Others can copy our systems but they cannot copy a culture of trust that we have built over time'

'We want to build a culture of decision-making based on clear objectives rather than passing the decision up the line'

What companies told us

Successful companies are those which recognise culture and values as valuable resources that help the business to get things done. More importantly, they care about doing things in the right way for each relationship.

Important elements of a culture and values strategy are things like teamwork, willingness to learn and to take measured risks. Whilst you can't expect to be able to tell people to become passionate about things that are suddenly thrust upon them, you can at least explain the context, the way they can help, the reward for success and highlight the risks to the organisation for failure. The key here is to ensure that everybody understands how their role influences the ability of the company to succeed and that they feel empowered to get on with respective roles.

Motivation for desired behaviours, accountability and the need for the creativity and innovation necessary to sustain the organisation as the environment changes are all strongly linked to culture. With increasing competition within and between all sectors of the economy, it is important that all organisations remain responsive to change.

Investing in the right culture and values plays a key role in allowing organisations to meet new challenges and grasp new opportunities.

Whilst you can't change your history, and produce a new successful culture overnight, you can seek to ensure that action plans contribute to goals, objectives and problem solving in ways that contribute to your vision for the brand of the company.

The way people work with their relationships needs to be brand enhancing, both internally and externally. Changing the way you work without thought as to how the brand will be affected can be very dangerous. Imposition of change without winning 'hearts and minds' of those affected may destroy value through conflict and bickering. Likewise, reputation and trust carefully built up over years can be destroyed in a moment by a thoughtless act or statement.

Next steps and key questions

For your company to reach its full potential in this area it is essential that your organisation has the culture and values that will not only help you to meet the challenges facing you today, but also enable the company to grasp future opportunities.

Detailed here are some key questions to allow you to consider how best to tackle this important area.

Culture and Values Checklist

Focus on the current business environment (Improving the way you currently do things)

Where are we now? (SWOT)

What is it about our behaviour that makes it rewarding to work with us? What could we do better? What do we need to do to improve? What can we learn from the way others work?

Where do we want to go?

What are our goals for improving the loyalty and commitment of all our relationships?

How do we get there?

What are the most important problems that we need to solve?

Focus on the future business environment (Creating options and flexibility to take advantage of change)

What is changing?

How do we sustain the ways of working we value whilst embracing new opportunities e.g. those offered by advances in information and communication technologies?

What do we want to change?

What are our goals for improving the climate for creativity and innovation?

Investing to create future value

What do we need to do to sustain the commitment and energy of our people?

'We recognise that different groups have different cultures rather than a single culture. It's important to manage the relationship between different cultures to keep the overall team together'





Reputation and Trust

The challenge facing your company

Whatever sector of the economy, the fact that you have the best product or service in the market, at the most competitive price, will count for little if your reputation with customers, creditors, suppliers and employees is low.



Successful companies recognise the key role reputation and trust play in their ability to compete effectively and therefore invest significant effort in constantly seeking to enhance their reputation and to develop trust both within the organisation and externally. In addition they also seek to recognise issues which could damage these key intangible assets and take steps to reduce this risk as far as practicable.

- **Are you confident that your company is taking the steps necessary to enhance its reputation and to identify potential areas that could damage these crucial assets?**
- **What are the things that you need to do to earn and sustain the levels of reputation and trust that your plans demand?**
- **What are the areas that you worry about most? What are your most important risks and uncertainties?**

'Association with reputable organisations can add value.

Their presence on a list of suppliers or clients adds prestige

and may help to attract other key clients and talent'

‘We are competing against others. We need to be seen as good people to do deals with. This gets us into discussions early’

What companies told us

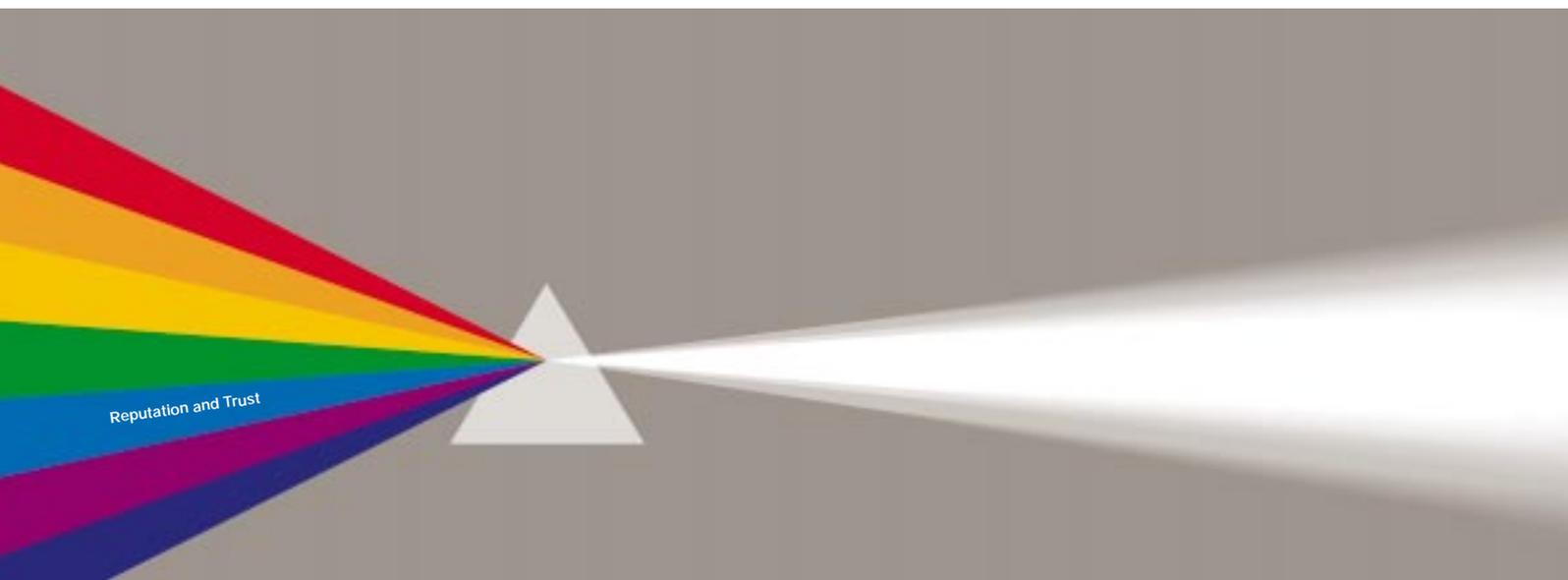
Reputation and trust may be linked to direct experience or third hand reporting. Essentially we are looking at past track record and future confidence based on contextual experiences.

Image and brand are important, but in essence the value of this intangible is very much to do with people and context. All of the areas identified in previous sections of this report can influence perceptions, the way in which an organisation manages its relationships and knowledge, its leadership and quality of communication, its attractiveness as a place to work for or as an organisation to do business with.

The following sections about skills and competencies, processes and systems likewise reinforce the need to think about the importance of not simply thinking about areas in isolation, but in terms of the way in which they interact with each other. The degree of overlap between areas is important just as the relationship and competitive context is important.

A good reputation together with trust in the brand inspires loyalty and tends to attract new relationships, knowledge and talent. It is a vital ingredient for attracting financial resources and will certainly influence the value of a business if it comes up for sale because of its important link to future prospects.

Reputation is built up over time by the behaviours of people in the organisation and the quality of products and services, but activities need to be brand enhancing and increasingly organisations are taking care to associate themselves with partners that share similar values. Successful companies invest significant time and effort into brand improvement, they also seek to recognise, understand and guard against factors that could potentially undermine this effort. Adopting such an approach can significantly enhance your company’s ability to reach and communicate its full growth potential.





‘Our brand is linked to the status of the companies we work for’

Next steps and key questions

For your company to reach its full potential it is essential that it develops the reputation and trust that will support all your other activities. It is also essential that you seek to identify ways to enhance these crucial assets whilst at the same time identifying areas where these assets could be damaged in the future.

Detailed here are some key questions to allow you to consider how best to tackle this important area.

‘Organisations with a good reputation may be able to survive a downturn; those without probably will not. People will expect them to come to a bad end and to an extent it becomes self-fulfilling’

Reputation and Trust Checklist

Focus on the current business environment (Improving the way you currently do things)

Focus on the future business environment (Creating options and flexibility to take advantage of change)

Where are we now? (SWOT)

What have we done to deserve our reputation and the trust of our relationships? Do all our activities enhance our brand? Which of our behaviours need to change? Do we understand the needs and values of our stakeholders?

What is changing?

How does our brand need to evolve to take advantage of the future market place? How should we be seeking to position the company?

Where do we want to go?

What are our goals for increasing the value of our brand?

What do we want to change?

How should we seek to extend the brand?

How do we get there?

What are the important image problems that we need to solve?

Investing to create future value

What new image enhancing activities do we wish to develop and how should we exit activities that don’t enhance the brand?



A photograph of a woman in a dark suit and glasses pointing at a computer monitor. A man in a light-colored suit and dark tie is sitting at the desk, looking at the monitor. The image has a red overlay on the left side.

Skills and Competencies

The challenge facing your company

The ability of a company to compete effectively, meet and exceed their customers needs and realise its full potential is reliant on attracting, developing and retaining the right mix of talented people.

Growth plans rely, not just on the ability to scale up the numbers, but on maintaining things like quality, responsiveness and reliability. If growth is by acquisition or if non core opportunities are to be spun-out then all intangible areas require particularly careful reflection.

- What do you do to attract and retain the people you need to develop the organisation?
- How do you invest to build the capacity of your organisation to unlock your true potential?
- What criteria do you use for selecting partners and collaborators?



'We need a wide variety of skills to grow the capacity of the business; we also need to bring in new skills to develop the scope of the business'

**'The expertise of all employees, not just the acknowledged experts,
is an important part of customer service'**

What companies told us

The value of people is a theme that runs right the way through this report but here we consider the investment in developing and releasing the talents essential to support existing operations and future plans. Successful companies recognise that everyone needs the space and opportunity to continually learn.

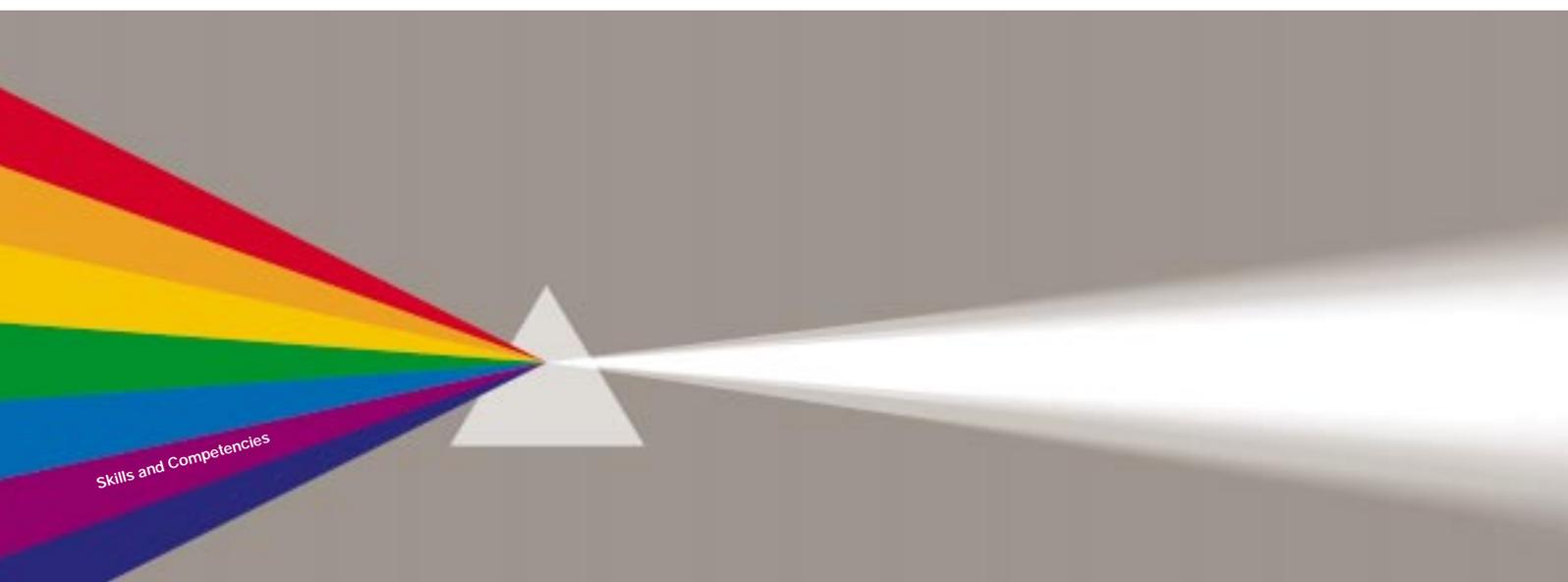
Talented people demonstrate their worth by responding to the problems of dealing with conflicting priorities by 'doing the right thing' because they understand not just their own areas of accountability, but, the organisations goals and the operating context. The less talented blindly follow the historic rulebook. Nobody is suggesting anarchy, but since innovation is the key to survival, a measure of freedom to experiment and learn from both success and failure is important to both individual and organisational development. The skill lies in maintaining a sensible balance between risk and reward.

Many of the companies interviewed highlighted the value of team skills, sometimes above qualifications. They also identified the commitment to see projects through to a successful conclusion and the ability to recognise the commercial potential of developments and to act quickly when the need arises.

The talents, skills and competencies of the workforce, together with external partners, represent the human resource available to sustain the organisation. The scalability and replicability of existing activities needs to be considered alongside the problem of managing potential new activities. The ability to retain talented people will be at risk when their aspirations and your plans don't fit, hence the interest of some in corporate venturing and spin-out activity as a way of extracting value from 'non-core' opportunities.

The ability of your company to reach its full potential will depend on the continued learning and development of all members of the organisation. Many of the companies interviewed stressed the need to fully understand the skills and competencies required to operate and compete effectively and once identified ensuring that the necessary investment is made to provide all staff with the time and space to learn and apply new skills.

Reward, recognition and the opportunity to use them was seen as playing a key role in motivating staff to obtain the skills and competencies needed for current and future success.





Next steps and key questions

For your company to reach its full potential it is essential that you not only attract the right people, but that you also provide them with the opportunity to gain the skills and competencies they need to meet your current needs and future challenges.

Detailed here are some key questions to allow you to consider how best to tackle this important area.

Skills & Competencies Checklist

Focus on the current business environment (Improving the way you currently do things)

Where are we now? (SWOT)

Where are our strengths and where do we need to invest in improvement? What opportunities do we have to make better use of our talents? What do we risk by failure to make best use of all our resources and capabilities?

Where do we want to go?

What are our goals for attracting the right people and the right learning and development opportunities?

How do we get there?

How do we convey the value of working with this organisation?

Focus on the future business environment (Creating options and flexibility to take advantage of change)

What is changing?

What talents will we need to have in order to take advantage of the future marketplace?

What do we want to change?

What are our goals for acquiring the new skills and competencies that we will need to sustain our relationships?

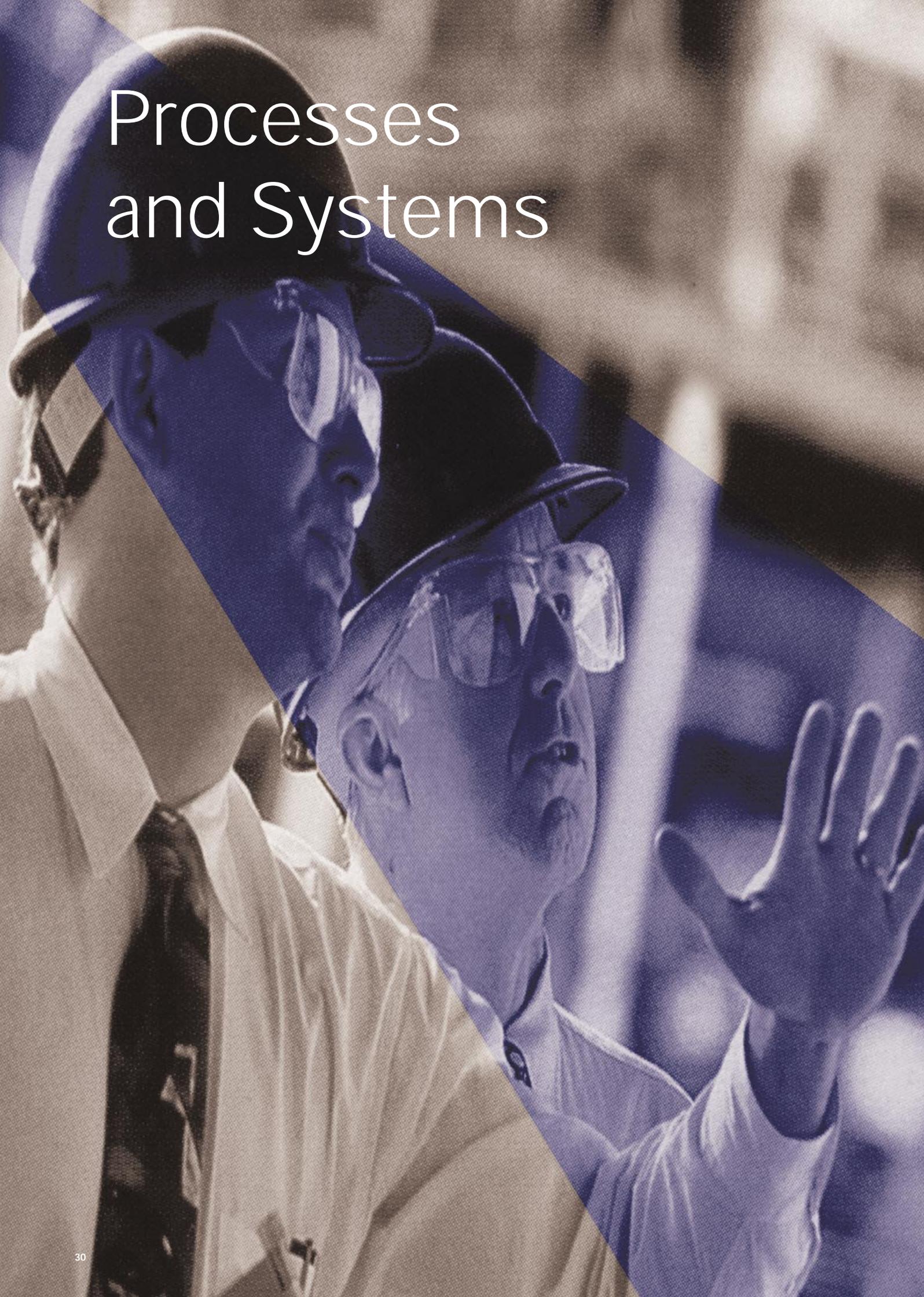
Investing to create future value

What are the gaps that we need to fill?

‘Prospective new employees spend a day with the business, as much an interview for the company as for the individual. That way we end up with a better fit’

‘This is about getting the right, relatively small number of people who, like in football, are key – buy a good striker and goalkeeper’

Processes and Systems



The challenge facing your company

To compete effectively a company needs to ensure that it has in place the processes and systems in the right location to support all its activities and to meet the various demands of its various stakeholders.

The right processes and systems contribute to the efficiency and effectiveness of organisations, but flexibility and adaptability are also important. Successful companies consider these aspects by 'benchmarking' themselves against the best they can find in order to identify improvement areas within their own operations.

- **Are you confident that your company has the information flows needed to evolve the way it works so that it remains competitive?**
- **How do your processes and systems stack up against your most dangerous competitors?**
- **How do you ensure that when important knowledge is discovered by one part of the organisation, that it is applied and shared with others in order to extract its full value?**

'Simplification of process is an important element of knowledge codification and knowledge sharing; we make extensive use of process redesign to simplify processes'

'We invest in systems to improve accuracy of delivery, speed of delivery, stock control and systems to interface with customers and the network of distributors'



What companies told us

This section is about the way in which organisations set about the process of using knowledge to design the right processes to deliver value to relationships. It's about learning how to make best use of their overall portfolio of tangible and intangible assets. It's also about evaluating and using ideas to design operations that are 'customer focused'.

All organisations will have a range of things that they do in a regular and consistent way, things like staff appraisal, project appraisal, budgeting, setting targets, producing financial statements, marketing, planning, project management, compliance with standards and legislation, identification, packaging and management of intellectual property etc – the potential list goes on and on. The detailed ways in which these activities are undertaken will vary from organisation to organisation, context to context. There is obvious overlap with knowledge, skills and competencies. Investing in the right processes and systems relies on understanding how knowledge and know-how are combined, in the right place, at the right time, to create ways of working that provide 'brand enhancing' competitive advantage.

Successful companies recognise that as with all the other areas it is important to consider inter-relationships, the quality of operations has a clear link to reliability and reputation. Equally the effective use of knowledge to improve processes will be dependent on the effectiveness of relationships, which in turn must be supported by the right culture and values.

Whilst operational issues will tend to provide the focus for numerical measurement, for example efficiency ratios, there is a danger of measuring what is measurable rather than measuring what is important. Selection and interpretation of performance indicators and action plans related to the improvement of processes and systems needs to be considered in a holistic way against the overall tangible and intangible asset base. This applies particularly to knowledge flows that arise from each relationship involved in the process.

**'Project management is important,
particularly for IT projects'**

‘Value mapping processes are used to get customers to rank product features; this information is fed straight into the product development and marketing strategies’

Next steps and key questions

For your company to reach its full potential it is essential to consider both the current investments in processes and systems required to support your current activities and those designed to meet future challenges.

Detailed here are some key questions to allow you to consider how best to tackle this important area.



<p>Processes and Systems Checklist</p> <p>Focus on the current business environment (Improving the way you currently do things)</p>	<p>Focus on the future business environment (Creating options and flexibility to take advantage of change)</p>
<p>Where are we now? (SWOT) What do we do really well compared with our competitors and where are we weak? What ideas do we have for improvements in key areas? What risks are we exposed to because of the way in which we currently operate?</p>	<p>What is changing? How should the way we work evolve to take advantage of the knowledge and ideas we get through working with our relationships and by observation of market developments?</p>
<p>Where do we want to go? What are our goals for improving the efficiency and effectiveness of our operations?</p>	<p>What do we want to change? What are our goals for developing our communication flows and making the best use of all resources and capabilities at our disposal?</p>
<p>How do we get there? For each of our operations what are the main problems that we need to solve?</p>	<p>Investing to create future value What are the key investments that we need to make, not just in tangible assets but in the intangibles needed to support them?</p>

‘Investing in systems is primarily about improving efficiency, but do not assume that systems fix processes, they don’t. Processes must be sorted out first, then systems come in to automate them. Putting a system in will not fix a busted process, you have to fix the process first’

Unlocking your true potential

The challenge facing your company

All companies are different and there is no simple formula that fits all. Talented people learn to use the seven intangibles streams identified to provide them with insight into current and potential future ways of working involving all the assets of the business, both tangible and intangible.

‘Our relationship with financial institutions is enhanced by our mutual understanding of intangibles’

‘You can’t do everything at once, focus on the most important things first’

Successful companies seek to improve their value creating potential through the creation of options and flexibility in respect of all their assets.

Understanding the intangible factors that contribute to the value of both tangible and intangible assets, things like, design, location, ease of use, safety, replicability, scalability, flexibility, reliability, quality and for intellectual property things like the scope and degree of legal protection are all important aspects to consider.

- **Do you appreciate that value may mean different things to different stakeholders?**
- **Have you identified the key risks, uncertainties and problems that need to be explained and tracked?**
- **Are your key investment priorities clearly communicated to both internal and external audiences in terms that embrace both financial and non-financial goals?**

What companies told us

- **Relationships and knowledge** are important throughout the value chain. However, all tangible and intangible assets need to be considered together if you are to unlock your organisation's full potential.
- A prescriptive approach to either investment or reporting is not the answer.
- Attempting to place a financial value on specific intangibles was seen as unreliable, potentially misleading and dangerous.
- Values also need to be considered in the context of value to whom and for what purpose. When selling a business or idea, value needs to be considered from the differing perspectives of buyers and sellers.
- Financial statements alone do not provide the answers for either internal or external reporting.
- Forecasting is an uncertain process, but it is important to be able to discuss goals, problems and success criteria in the context of identified risks and uncertainties from both an internal or external communication perspective.
- **Leadership and Communication:** successful leaders consider not just what to do, but when, where and how to do it and with whom. They recognise that business life is a trade off between activities, stakeholder groups, individuals, risk and reward, certainty and uncertainty, cash absorbing and cash generating. They communicate priorities and win the investment needed to ensure that the company's structure and frameworks can adapt and evolve in the light of change.
- **Culture and Values** contributes to the quality of the workplace environment, care for each other and for tangible assets, it links to happiness, safety, openness, team working, co-operation, empathy and so on and this extends to ways of working with external relationships.
- **Reputation and Trust** may be influenced by the first impression given by people and by tangible assets, like look and location of property, the capacity of equipment or by a long list of Intellectual Property. In the long term, however, image and brand are sustained by things like empathy with needs, reliability, quality, security, uniqueness, responsiveness, friendliness and so on, in other words things that help to make the overall relationship experience something to be valued.
- **Skills and Competencies:** it's not sufficient to simply know about things, to possess the tangible facilities or to own the intellectual property, you need the talent to make use of resources to create value for the organisation. The core competencies are identified as the ability to learn alongside ability to seize opportunities at the right time, and place in innovative ways that create value for all concerned.
- **Processes and Systems:** it's not simply a case of considering how to do something, you need to consider the implications of the way you do it, compliance with legislation, with quality standards and the standards demanded by society as a whole. Staying in touch with the mood and aspirations of stakeholders remains an important consideration. This requires a commitment to thinking about flows and availability of knowledge, ideas, materials, cash and other resources, not simply from your own perspective, but from the perspective of the other side of the relationship.

Conclusions

Based on the responses of 50 successful organisations, this study provides a way to focus on the key intangible resources and capabilities that talented individuals use to meet goals, to solve problems and to create the type of innovative climate necessary to offer a sustainable and rewarding future.

This study highlights the need for organisations to look beyond their existing financial statements to consider how a wide spectrum of excluded intangibles contribute to their current and future potential to create value.

It is the overall mix of tangible and intangible investments that differentiates one organisation from another, and within this mix a spectrum of intangibles are identified as key components of brand and competitive advantage.

The intangible 'investment areas' highlighted by this spectrum are:

- Relationships
- Knowledge
- Leadership and Communication
- Culture and Values
- Reputation and Trust
- Skills and Competencies
- Processes and Systems.

Based on the text and questions within this report, organisations may identify the strengths, weaknesses, opportunities & threats associated with the overall spectrum, in order to manage and develop action plans to:

- 1 Improve the efficiency and effectiveness of current activities by targeting investment to where it's most needed.**
- 2 Build the components of value that will provide the options and flexibility necessary to sustain the future.**
- 3 Enable the diagnosis of problems and the identification of critical success factors and key performance indicators.**
- 4 Facilitate internal communication of values, goals, problems, opportunities, risks and uncertainties.**

Based on the above, teams collaborate to identify 'root causes' of problems, decide 'action plan' priorities, and an appropriate basis against which to measure progress. Progress is usually measured regularly by broad indicators, for example customer, supplier or staff satisfaction survey trends, operational productivity ratios, compliance with standards or the achievement of milestones for project work.

As a result of undertaking these internal exercises:

- 5 The insight achieved from the above provide the 'bones' for enhancing external communication and reporting. The 'flesh' on reporting being the quality of the dialogue with specific external groups enabled through an in depth understanding of the overall contributions to existing operations and future aspirations from the various intangibles.**

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