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### Maximizing ROI on Intangibles

#### A peep into the past

Till the early 1980s, the financial worth of an organization was considered the same as its book value. So, if an organization owned a building and five computers, its takeover cost as a whole (market value) would never be more than its components' cost (book value).

However, the emerging role of stock markets in company valuations in the early 1980s changed the entire scenario. The market value of organizations grew at a much faster pace than their book value. As a result, the actual value of an organization is rarely revealed in its balance sheet. Instead, it is hidden in intangibles.

If one were to analyze an organization's income statement, its market value would show a high level of correlation with its earnings. Consequently, two organizations in the same industry having identical profits may vary in market value. The reason for the difference is the variation in intangibles. The higher the return on intangibles, the greater is the price-earnings (PE) ratio.

#### Role of HR

Though a majority of management professionals agree that intangibles play a crucial role in boosting the fortunes of an organization, they are not so convinced about the importance of HR in the same. However, studies conducted across the globe by leading consultancies like Ernst & Young, Hewitt Associates, Gallup and Deloitte have revealed that good HR practices yield favorable outcomes in both financial and non-financial terms.

#### Managing human capital

For getting a better understanding about the ROI on intangibles, it is necessary to understand its architecture. The basic tenets of architecture of intangibles are that an organization should:

- Always live up to its promises and expectations of its stakeholders
- Follow a uniform business strategy that is aimed at generating value through growth
- Aim at building the core expertise, both technical and functional, to implement the strategy
- Constantly strive to improve its unique selling proposition (USP). The USP may be viewed from various perspectives. For example, a company's USP may be in the form of a shared value system (such as a commitment to customer service), speed (such as speed to market), learning (such as the ability to leverage the know-how of a global consulting research team) or leadership (such as the ability to develop leaders both within and outside the company).



## **TenStep Supplemental Paper**

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From the above, it is easy to understand the supporting role of HR in creating an organizational culture, learning or even speed. In the process, HR enables the organization to generate value for its stakeholders. In other words, HR professionals can don the role of architects, coaches, facilitators and deliverers of expertise. Unlike conventional thought, most of such expertise is quantifiable.

In fact, talent and skills of employees can be calibrated in terms of percentage of employees, involvement and productivity. Speed can be evaluated in the form of metrics like time to market, time to change over production and time to market a product. Shared mind-set or culture can be gauged with the aid of surveys of the culture of the focus groups.

### **Revealing the metrics**

A majority of the Fortune 50 organizations have started incorporating HR metrics in their annual and corporate responsibility reports. The information covers the various HR practices like training, communication, safety, diversity and productivity. These practices include making managers responsible for diversity initiatives and results.

### **Endpoint**

In the final analysis, it is important for organizations to deliver the 'vital signs' report. These include metrics that show the state of the organization's health (both in terms of tangibles like profits and intangibles like employee satisfaction and morale.) It should however, be noted that it is often the intangibles that provide the vital clue about the organization's market value.

To get a better insight of the same, an organization should also prepare the 'HR insights report' wherein the quantifiable HR metrics are linked to organizational performance. This will provide the key input for an audit of the intangibles. Thereby the organization can take corrective action wherever necessary to maximize returns on intangibles.