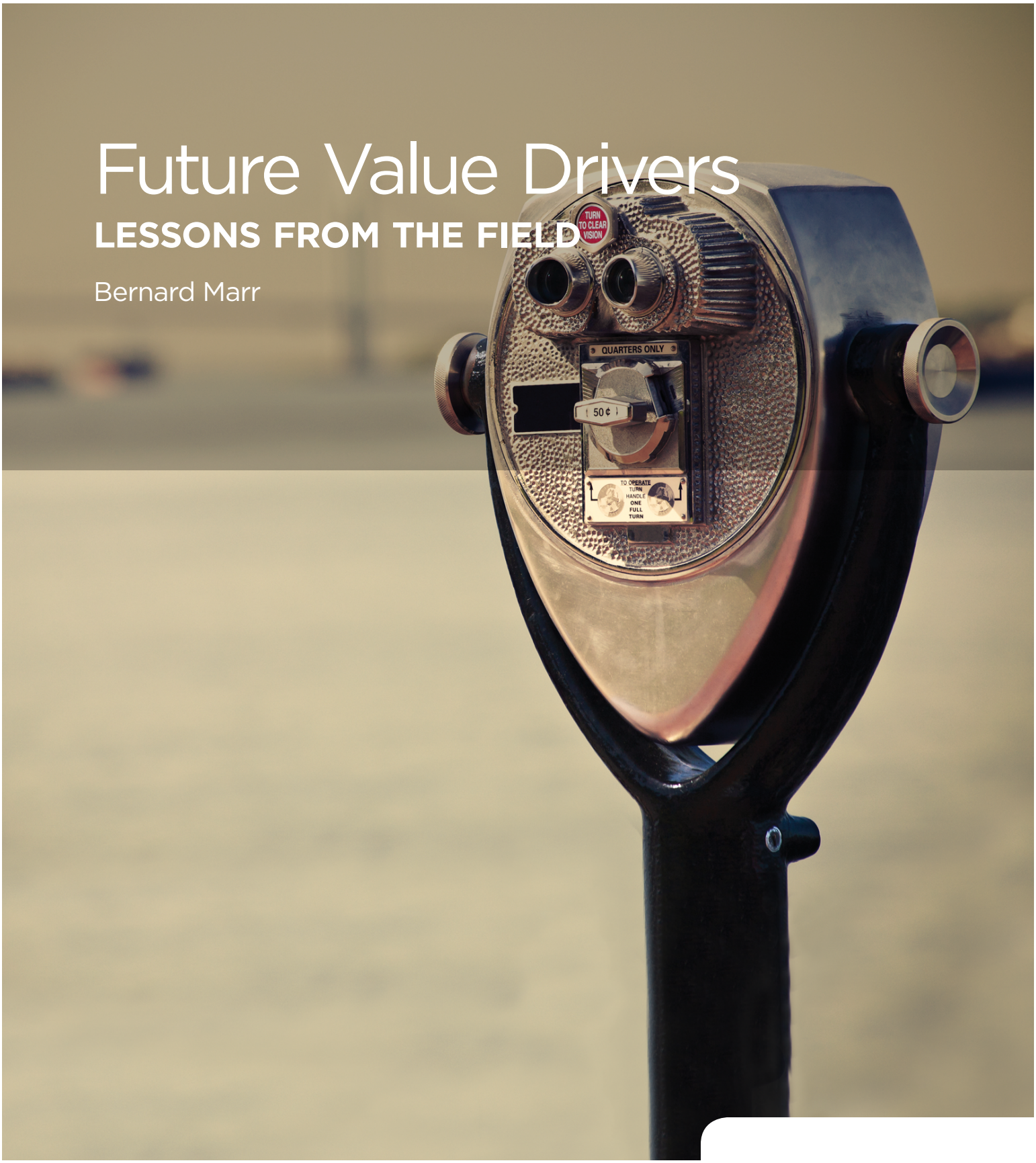
CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CASE STUDIES

Future Value Drivers

LESSONS FROM THE FIELD

Bernard Marr



This publication is one in a series on future value drivers. An Overview and Guidance are also available on our website.

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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 Guidance, ***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.

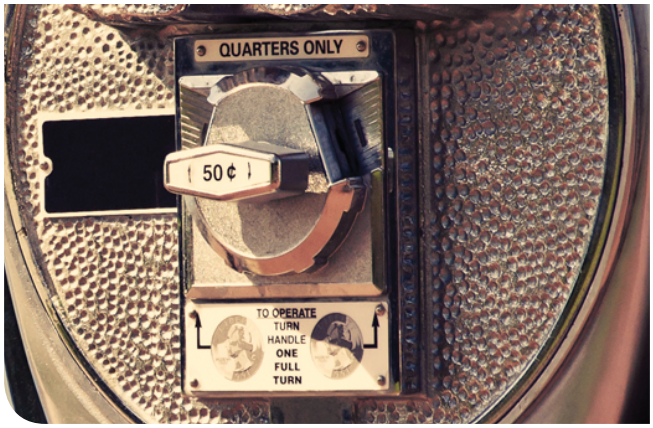
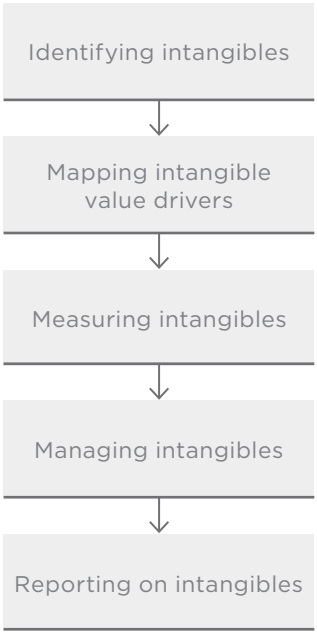


FIGURE 1 Five-step intangible management model



Identifying and mapping intangibles at DHL

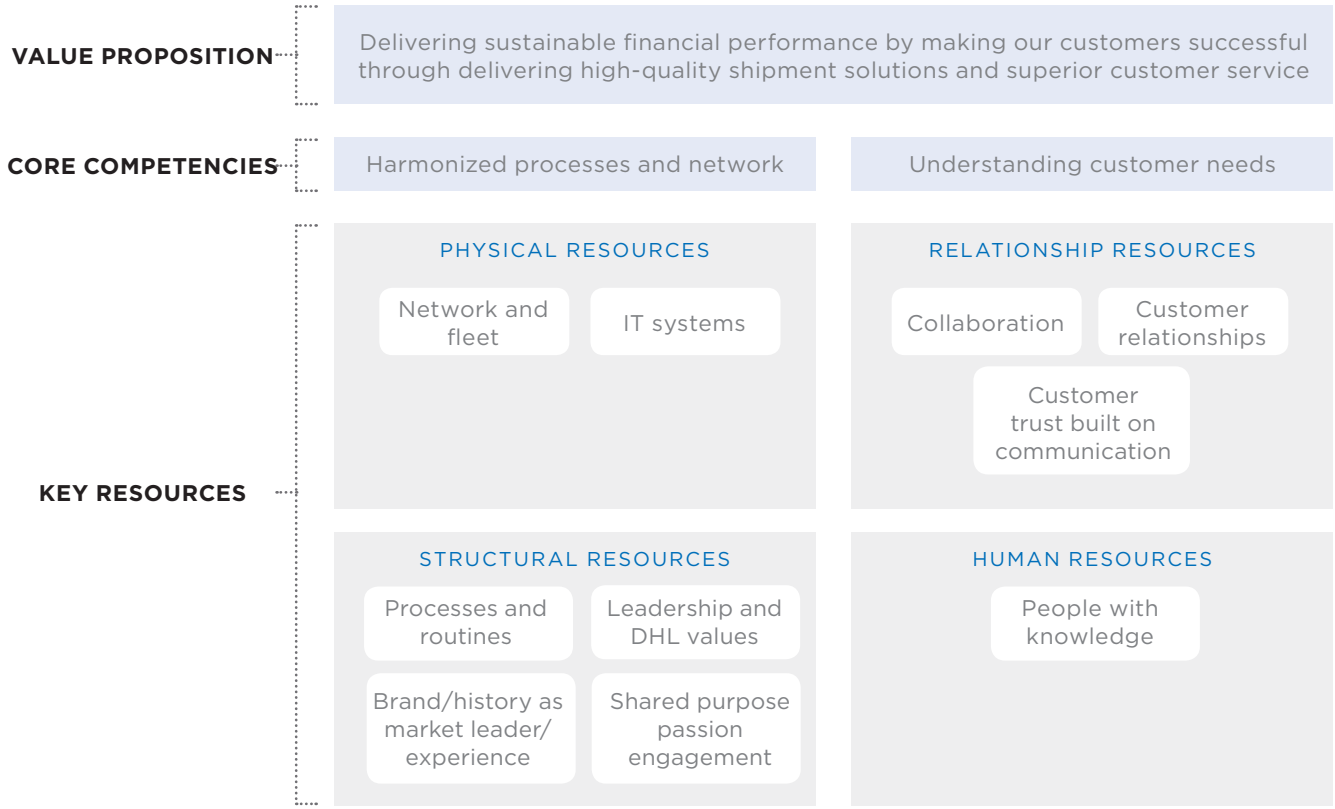
DHL is the global market leader in international express, air and ocean freight, overland transport, and logistics. With annual revenues of nearly C$3 billion in 2004, DHL offers innovative and customized solutions from a single source. DHL has more than 170,000 full-time employees in about 4,400 offices 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.

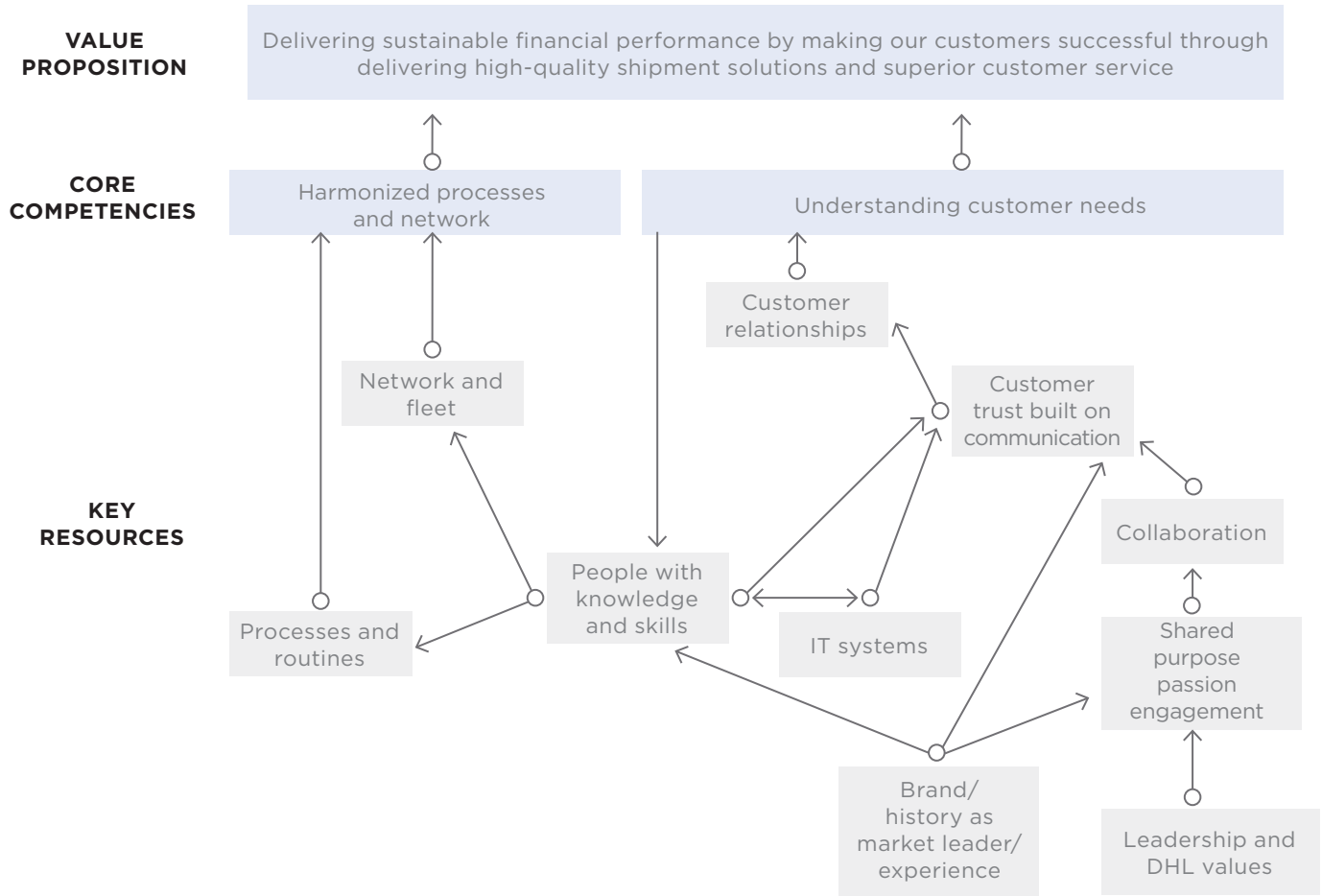
DHL identified high-quality shipments together with superior customer service as the key output deliverable in order to deliver sustainable financial performance and shareholder value. To deliver these, DHL needs core competencies in the harmonization of their processes and networks, as well as an ongoing 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 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. 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 rights 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



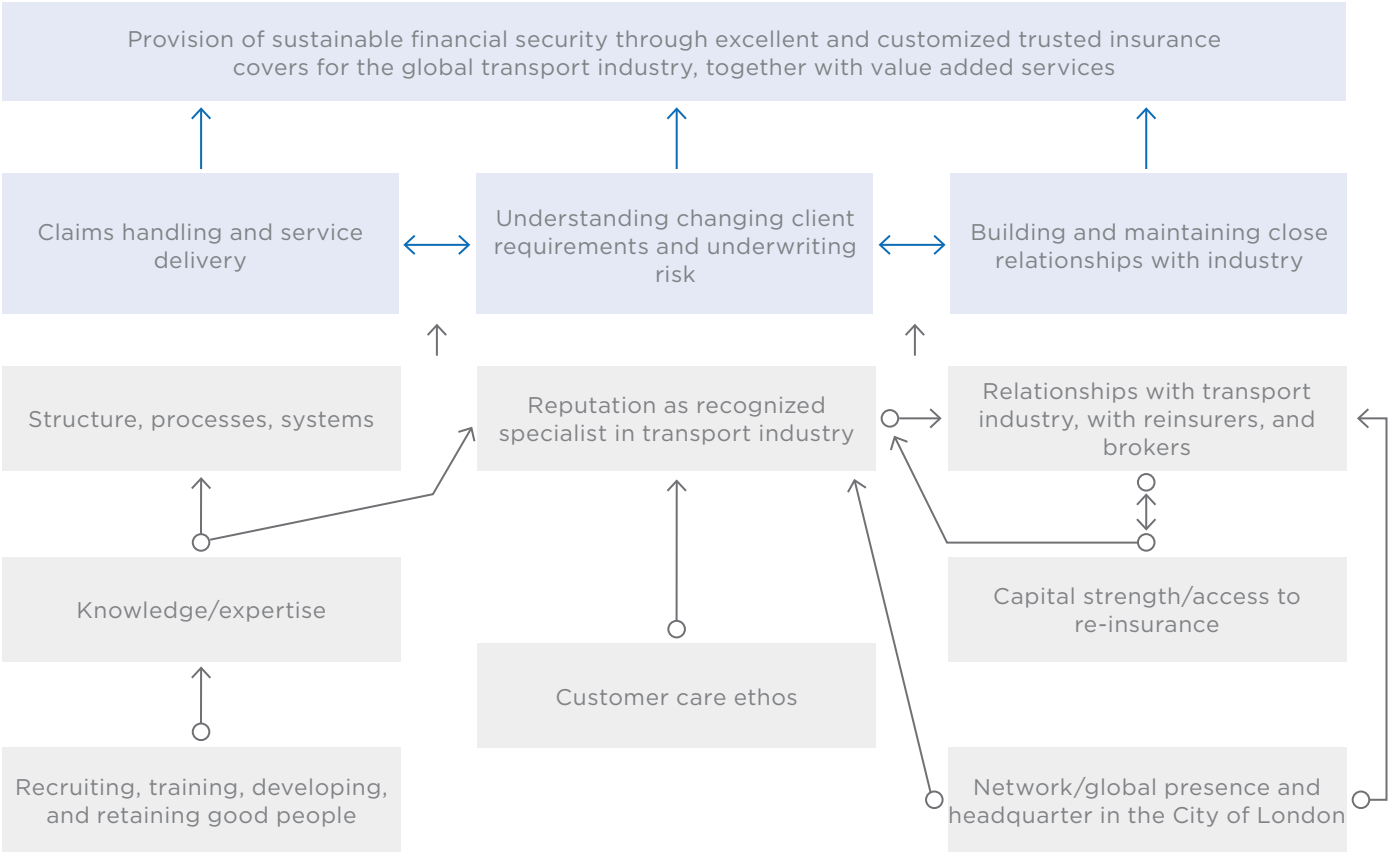
For DHL, it is important that the two core competencies of harmonizing processes and understanding customer needs be on the same level. This provides the balance between efficiency needed for a multinational corporation with remembering its customers and their changing needs. This balance allows DHL 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 Value creation map TT Club



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. 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

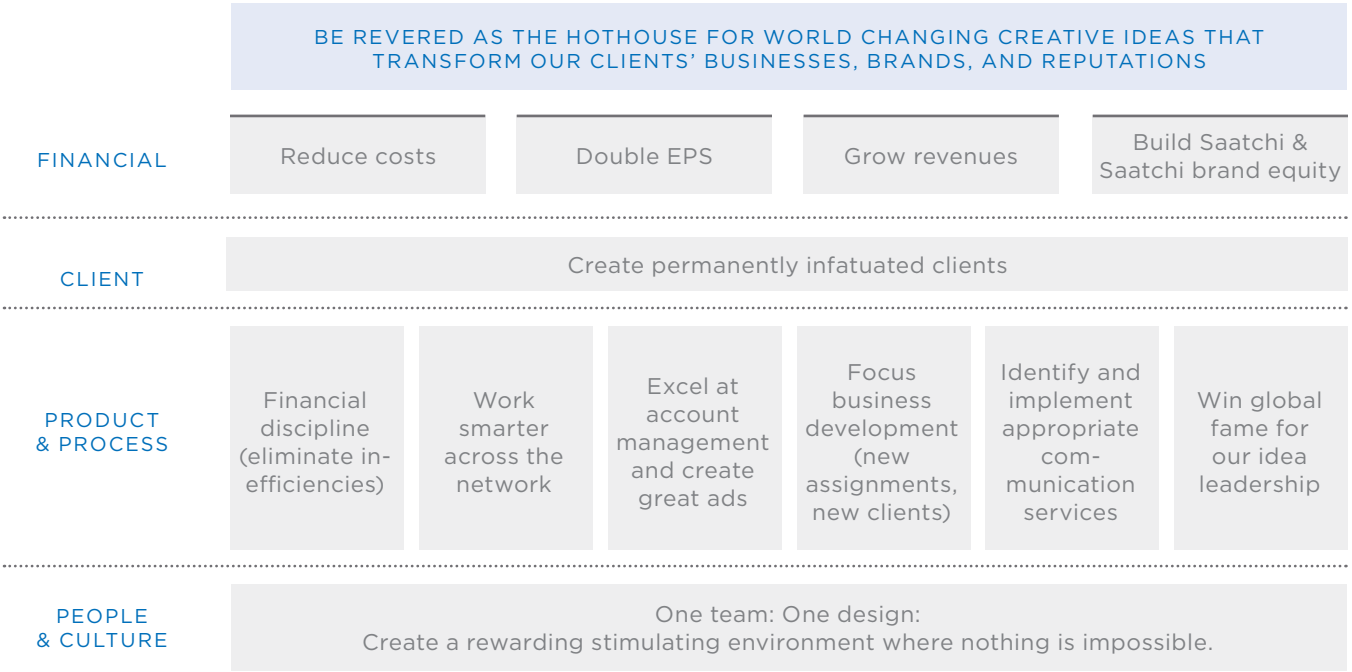
Since its launch, the Balanced Scorecard has been popular with both for-profit and not-for-profit organizations, and there have been numerous examples of quite stunning successes. For instance, consider the New York-headquartered communications agency, Saatchi & Saatchi Worldwide. Saatchi & Saatchi used 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 Saatchi & Saatchi's formulated vision



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 a 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." 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 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

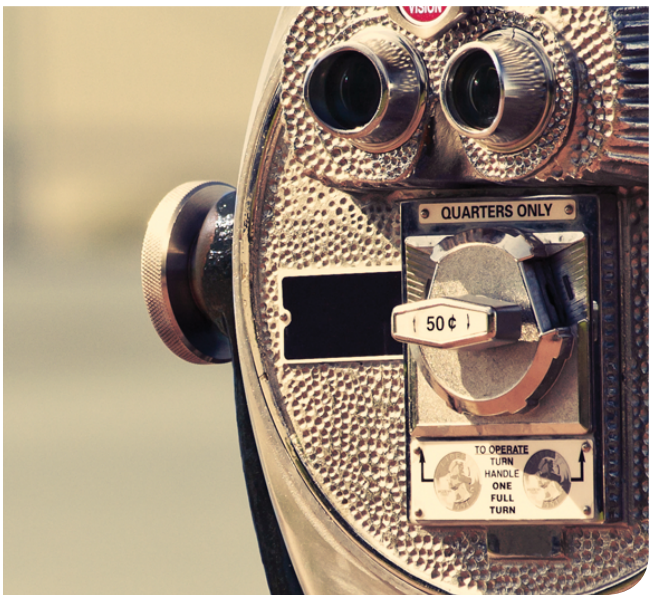
allow TradeBank to benchmark itself with its competitors. The following 12 questions, based on the Q12 survey, were incorporated into TradeBank's staff survey:

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.

Managing intangibles — Sears, Roebuck and Co.

One way of managing your intangibles is testing their strategic impact. This can be done by identifying (a) subsets of their causal value creation map, or (b) individual linkages between elements of the map, and then "test" those, using statistical tests such as regression and correlation analyses. Various organizations have successfully tested relationships between elements of their strategy. One example comes from Sears, Roebuck and Co., a leading retailer that offers a wide range of home merchandise, apparel, and automotive products and services through more than 2,400 stores in the United States and Canada. Sears wanted to validate the relationship between employee satisfaction, customer satisfaction, and sales volumes — a key output measure. Arthur Martinez, CEO of Sears at the time, initiated this effort to understand and test the drivers of performance. Sears collected data to test the assumed relationships between sales volume, customer satisfaction, and employee satisfaction. Analyzing this data, Sears was able to validate its assumptions, and establish that a five-point increase in employee satisfaction led directly to a 1.3-point increase in customer satisfaction, and a 0.5% higher sales volume over a nine-month period.



Making M&A decisions based on intangibles — PharmaLab

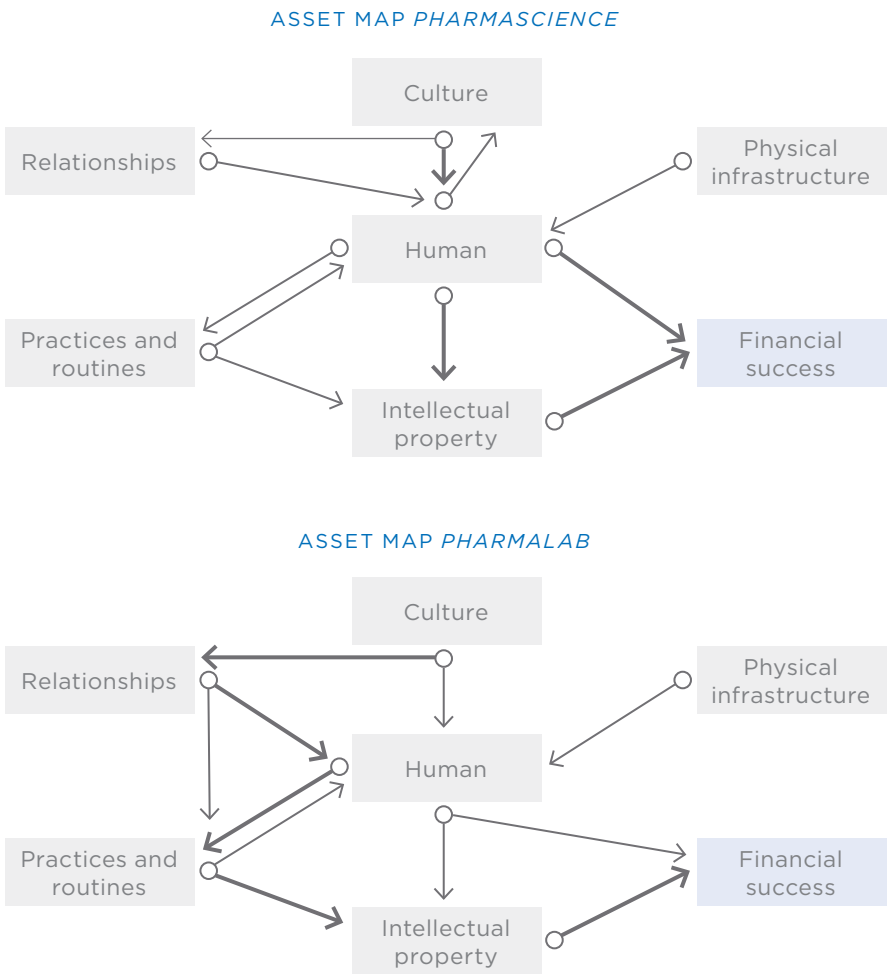
A potential merger between PharmaScience and PharmaLab was on the cards. Initial pre-merger investigations were conducted to analyze the resource architecture of both organizations. This analysis showed the two firms had an almost identical resource structure, with complementary products for similar markets. The initial conclusion was that by merging them, both could enjoy better economies of scale and economies of scope: 1 + 1 = 3. So, 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 interdepencencies 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, especially 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. The next step now is for you to start applying the principles, in whatever big or small steps are appropriate for your organization. ☐

This publication is one in a series on *Future Value Drivers*. An Overview and Guidance are also available on our website. For additional information, please contact Carol Raven, Principal, Strategic Management Accounting & Finance at 416-204-3489 or email craven@cpacanada.ca.

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