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Future Value Drivers

LEVERAGING YOUR INTANGIBLE ASSETS

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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.

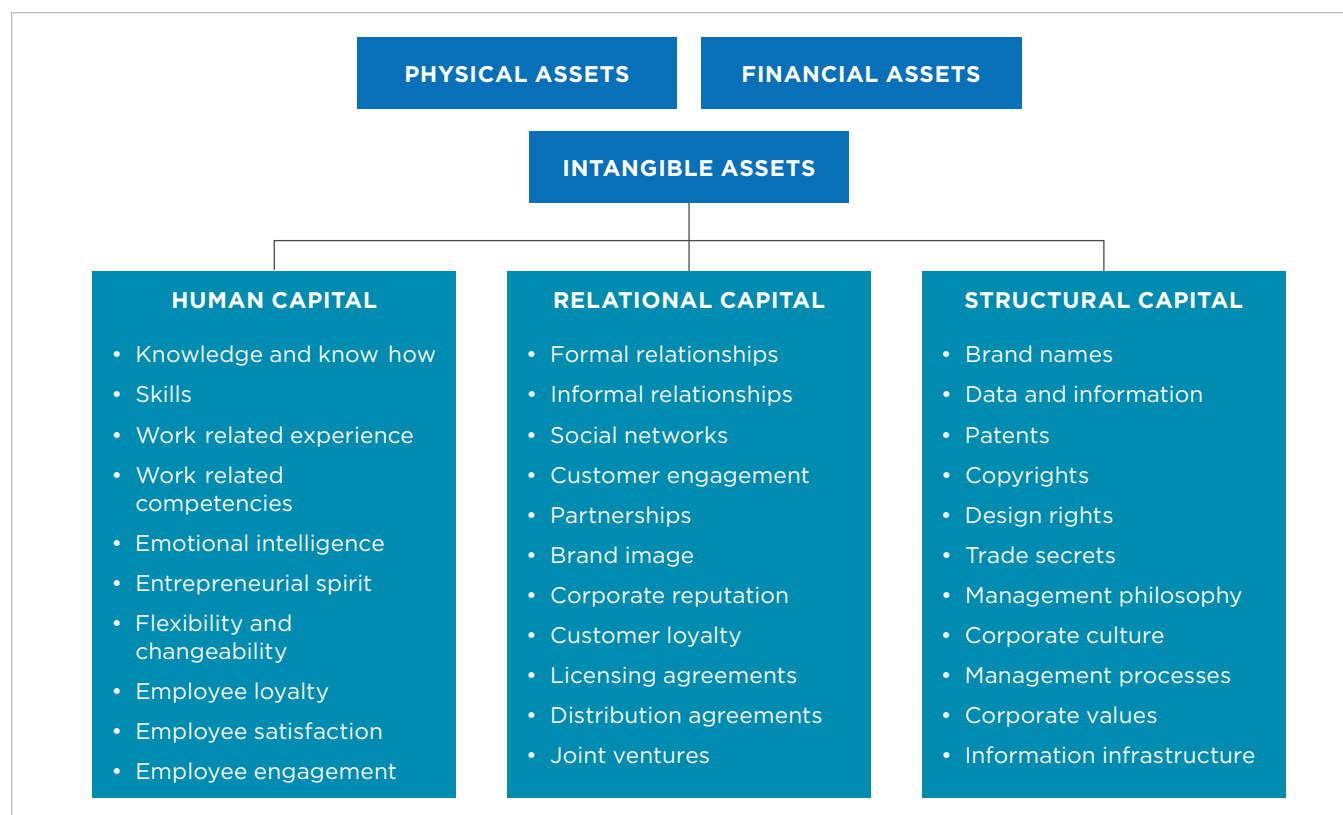
What are Intangibles?

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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