MAKING THE INTANGIBLE TANGIBLE

WHITE PAPER SERIES #2

August 29, 2013

We often speak of team ‘intangibles’ in the sporting world and their impact on team performance. For example, a team’s ‘drive to win’ or ‘the camaraderie of the clubhouse’, and the ‘home field advantage’ are often sited as the difference between those favored to win and their competitors.

Are there similar intangibles in the business world that influence a firm’s ability to ‘win’ in the market place? Is there something beyond how we manage the balance sheet, ensure operational efficiencies and maintain a strong sales pipeline that can impact the organizational success?

In their seminal book, Why the Bottom-line Isn’t, Ulrich and Smallwood explain that increasingly the intangibles of a business are driving its market value. Investors, customers and employees are looking for sustainable shareholder value and are now evaluating both the tangible and intangible assets of a company to determine its long term viability. They report that 81% of investors and 73% of analysts DO NOT believe that financial reports communicate the real value of a company. Their research demonstrate that it is often the intangibles of their business that provide competitive advantage and engage/motivate the employee; and therefore, generate repeatable tangible bottom-line results.

The ‘intangibles’ of an organization are not random and can (and should) be managed like the rest of the company assets. However, business schools focus on managing the tangible assets, so many leaders do not know where to start to leverage the intangible assets.

Let’s begin by dividing the intangibles into three categories:

1. Innovation Intangibles – R&D pipeline; revenue generation from new products; patients; etc.
2. Organization Intangibles – product brand; use technology; sales/distribution channels; etc.
3. Talent Intangibles – leadership, intellectual capital, retention of talent, company culture, etc.

This white paper will begin explore the opportunity and process for turning the Talent Intangibles into tangible results.

“The traditional viewpoint is that when a firm earns more money, it value goes up. The more it earns, the more investors value it. In recent years however, that logic has begun to twist. Firms in the same industry and with similar earnings may have vastly different market values. This is based on the intangible value-components of a company.” – Ulrich & Smallwood
WHAT TANGIBLE TALENT RESULTS CAN BE ACHIEVED?

For most companies the cost of talent is 60-80% of their operating expense. Often there is no calculation (or expectation) for the value these human resources add to the other side of the business ledger. Although it is popular to talk about “our people as our greatest asset” and to use the term “Human Capital” to describe the employees, many leaders do not see the direct tie of the talent intangibles to the bottom-line. They will acknowledge that without sales people we will not sell; and, without assemblers we cannot produce product – but, do leaders need to understand that there is a direct bottom-line impact to how they manage (or do not manage) the talent intangibles.

Companies with a strategic approach to Talent Management (i.e. aggressively address intangibles)¹:

- earn on average 63% higher revenues;
- achieve two-times the revenue per employee;
- see 33% higher productivity;
- receive 38% higher customer satisfaction scores;
- are 62% more likely to grow in revenue;
- have 40% lower attrition rates;
- experience 50% lower lost work time;
- demonstrate a 38% higher engagement rate (10% increase leads to 2% company performance improvement);
- produce 9-24% higher TSR (Total Shareholder Return)

The cost of mismanaging the talent intangibles are often hidden in ongoing operating expenses:

- the loss of one key knowledge holder cost 1.5 times salary plus replacement costs;
- $7000/day is average productivity loss operating without key player in strategic role;
- 45-75% of employees are ‘disengaged’ – costing $3400 for every $10K in salary;
- Loss of key leaders direct impact on company evaluation and stock price

These examples did not include the direct impact of talent availability, capability and retention on: time to productivity; product development cycles; global market expansion, operational execution; or the implications of these talent attributes on the customer experience. Nor did it include the impact of cultural, educational, technological and organizational intangibles on the workforce of today – and tomorrow (e.g. 40% of employees have been with their current employer less than 2-years and will move 7-11 times in their career; 7 of 10 jobs today did not exist 5 years ago; we are preparing students that do not exist today).

Remarkably, in light of these facts, trends and revenue/cost implications, two thirds of organizations (US) report they have NO articulated plan to capture the value (tangible or intangible) of their workforce to apply against their defined business strategies and bottom-line.

¹ See Appendix A – Interesting Metrics of Talent – for more information
HOW CAN I GAIN THE ADVANTAGE OF THESE TANGIBLE TALENT RESULTS?

Talent intangibles can only become tangible assets when they are recognized as potential sources of value and managed overtly, so as to give leaders and employees clear accountability for their definition. The following four-step process outlines how to turn talent intangibles into tangible results.

Step One – Translate Strategy into Talent Requirements Often leaders do not take the time to translate their company vision and growth goals into a clear strategy for talent. They assume that employees across the business will know what capabilities and behaviors will be required to grow the business, deliver the defined strategic priorities and leverage the company’s unique competitive advantage. All too often, leaders let the well-intended HR professionals manage the “people side” rather than taking accountability for defining tangible expectations and outcomes for talent performance (and supporting HR actions). A ‘talent strategy’ must dig into the strategic and financial goals and define the organizational competencies and supporting culture required to deliver the desired results. Creating a talent strategy does not require a large time or financial investment, but can provide leaders across the business clear expectations and actions for day-to-day workforce planning, development and resource deployment. A well-crafted talent strategy will align to the unique company strategic vision and define the capability requirements required for success, including:

- **Core Capabilities** – investing in and protecting the core ‘know-how’ (fundamental knowledge/skills) of the business builds tangible value
- **Differentiating Competencies** – identifying those unique abilities that differentiate you within the marketplace builds competitive advantage and market loyalty;
- **Workforce Plans** – defining plans for the acquisition, development, retention and deployment of resources ensures delivery of unique business objectives;
- **Required Behaviors** – articulating the strategic messages to communicate and reinforce clear expectations to drive personal/group performance.

Once defined, metrics should be established for the talent strategy execution as well as correlation (ideally, as leading indicators) of financial performance.

Step Two – Identify Talent Gaps The outcome of step one is a practical articulation of the talent requirements to meet the business objectives. An assessment of the current talent capability against these talent requirements defines the “talent gap”. Some of these gaps may be obvious and others many require a bit more research/analysis to uncover. A talent gap assessment process can be collected via a number of methods – some formal (focus groups; surveys) others informal (observation; interviews). However, immediate action can be taken by leaders, upon the articulation of the talent strategy, to begin to integrate the defined behavioral expectations into existing processes and supporting systems (performance management; leadership training, etc.). A disciplined consideration of the talent gaps will also yield specific targets for recruiting, development and workforce planning to close those performance gaps. Talent gaps may exist within the firm’s functional capability (knowledge/skill areas), leadership capability and/or the capability of the organizational culture to ensure success.
Leaders are ultimately measured (and hopefully rewarded) on their ability to build and leverage the people and organizational capability of the company to add value to. The outcomes of steps 1 (talent strategy) and step 2 (talent gap assessment) inform them on HOW to leverage existing capabilities and rapidly build new ones.

**Step Three – Communicate/Brand Expectations** Clear messages must be shaped and delivered to various stakeholder communities (including employees) to explain the new talent expectations. Providing a context and a “brand” for the desired changes helps them see a clear cause-effect relationship of organizational capability development and desired business results. Branding these expectations for talent can reinforce the messaging throughout communication media and enhance memorability of the desired expectations. This communication/branding plan must include both expectations for performance but also an explanation of available resources and investments to support the raised performance bar. For the individual, this may take the form of available “application learning events”, designed to build/apply new skills/knowledge. For groups, this may take the form of performance feedback systems, providing real-time information from which to learn how to improve the group performance. For leaders, this will often take the form of new expectations for their facilitation of talent (individual and group) capability development. And for the organization, through simple focusing messages and sharing of success stories – repetitiously and dynamically delivered - builds excitement and commitment to the desired ends and the required means.

**Step Four– Execute the Plan** The outcomes of a talent assessment are specific measurable objectives for actions to close the talent gaps. This may include actions plans for: talent acquisition, onboarding, talent assessment/development, employee engagement, performance management, succession/Hi-potential planning, diversity, leadership development and/or supplementing workforce capability with external resources (contractors, partners, suppliers). Individual strategies can be developed to execute each task within the overall talent plan (e.g. specific recruiting plan to attract mechanical engineers; modifying leadership development programing to teach new behavior expectations). This stage also may require the redesign of supporting talent process and information systems to enable talent plans. It is important to measure progress of both the individual gap closing actions; but, also the overall impact of talent improvement on business performance (e.g. revenue per employee).

For more information on this process, contact jim ice & associates.