



**The Importance of Intangibles**  
Prepared by Knowledge Strategies, LLC.  
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*The following report is intended to provide information on the value intangibles in the workplace. This report specifically focuses on knowledge and innovation, collaboration and culture, and trust. We offer a general overview of measurement and analysis of intangibles, as we currently work on developing a more specific scale and strategy for measurement.*

The workforce is changing as we know it. The growth of technology, digitalization, automation, and artificial intelligence has inevitably changed the nature of the work people do and will continue to do so. We are finding that with increased automation, non-technical and soft skills are becoming more and more valuable.<sup>1</sup> Skills like creativity, collaboration, adaptability, time management, problem solving, and oral communication are making the top of the list for skills sought by recruiters.<sup>2</sup> These are skills in which humans still, and probably always will, have a monopoly. It's skills like these that allow us to develop the incredible technologies that we do; and it's skills like these that ensure humans will never be replaced in the workforce equation. What we are seeing here, is the increasing importance of intangibles.

### **What are Intangibles?**

Intangibles have been cited as “the invisible advantage,” but what exactly are intangibles and what is their role and value in the workforce?<sup>3</sup> As we find with many other areas of research, there is a wide array of competing terminologies – some may refer to intangibles as: intangible assets, intellectual capital, intellectual property, or intangible resources, but for the purposes of this research brief, we will solely refer to them as intangibles.<sup>4</sup>

Just as wide of a variety as the terminology, are the definitions of intangibles. While each definition varies depending on the field or researcher, most tend to emphasize knowledge in some manner, while also referring to the economic value attached to these “intangibles.” Return

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<sup>1</sup> Waddell, K. (January 2019). *Automation is redefining the types of skills employers want*. Retrieved from <https://www.axios.com/employers-crave-soft-skills--00914625-800f-4128-8199-7a97effba8fe.html>

<sup>2</sup> Waddell, K. (January 2019). *Automation is redefining the types of skills employers want.*; Voza, S. (January 2018). *These are the five soft skills recruiters want most*. Retrieved from <https://www.fastcompany.com/40520691/these-are-the-five-soft-skills-recruiters-want-most>

<sup>3</sup> Phillips, J., & Phillips, P. (July 2009). *Intangibles: Measuring the hard to measure and the hard to value*. Retrieved from <https://www.hrexchangenet.com/hr-tech/columns/intangibles-measuring-the-hard-to-measure-and-the>

<sup>4</sup> Kaufman, L., & Schneider, Y. (2004). Intangibles: A synthesis of current research. *Journal of Intellectual Capital*: 5(3). Retrieved from [https://www.researchgate.net/profile/Lutz\\_Kaufmann/publication/243462684\\_Intangibles\\_A\\_synthesis\\_of\\_current\\_research/links/55a822208ae815a04213371.pdf](https://www.researchgate.net/profile/Lutz_Kaufmann/publication/243462684_Intangibles_A_synthesis_of_current_research/links/55a822208ae815a04213371.pdf)

on Investment (ROI) methodology pointedly refers to intangibles as “a measure that is purposely not converted to money.”<sup>5</sup> Even though intangibles are not presented outright with dollar signs, they are a very important part of the success profile of any organization.

Research has shown that when we examine successful organizations, we will always find intangibles. Intangibles – such as, trust, collaboration, knowledge, and engagement - represent the most important and most powerful form of organizational advantage. Look at how far *trust* goes in attracting and sustaining the top talent who make up the Googles, the Apples, and the Amazons. *Innovation* carries companies, leading them to develop new and improved products. *Customer service focused* organizations are the ones attracting the most profitable customers. Apple became the first trillion-dollar company in August 2018, and while you’ll never see these intangibles on their cost statements, they are there and they are powerful.

To understand the value of intangibles more deeply, the next several sections will focus on the following intangibles: 1.) Knowledge and Innovation, 2.) Collaboration and Culture, and 3.) Trust.

## **Knowledge and Innovation**

Paul Romer, an American economist and co-recipient of the 2018 Nobel Memorial Prize in Economic Sciences, has focused his work on the function of knowledge in economic growth. Romer pioneered endogenous growth theory in 1990.<sup>6</sup> Romer’s theory suggests that economic growth is primarily due to endogenous or internal forces. More specifically, this theory posits that investment in intangibles, such as knowledge and innovation, are the key to economic growth. Knowledge, in Romer’s view, “is the unsung hero of the growth game.”<sup>7</sup>

Knowledge, in comparison to some physical resources, continually builds upon itself. Kurtzman’s 2001 article that shares an interview with Romer, makes an excellent comparison between information economy and physical economy. The physical economy of something such as resource extraction is faced with diminishing returns, as every barrel of oil or each ton of copper becomes more difficult to find. Resources like oil and copper are scarce, which makes them more expensive to extract over time as well.

Knowledge and the information economy is much different. When building a new piece of technology, the upfront costs may be high, but the costs become significantly lower or sometimes even not existent over time. Developing new software can be expensive, but once it’s done, copying the software onto disks can be done for a minimal cost. Where returns diminish in the physical economy, we see the opposite in the information economy – returns increase.

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<sup>5</sup> Kaufman, L., & Schneider, Y. (2004). Intangibles: A synthesis of current research. *Journal of Intellectual Capital*: 5(3).

<sup>6</sup> Vitasek, K. (November 2018). *Nobel laureate Paul Romer: The path to economic growth and innovation*. Retrieved from <https://www.forbes.com/sites/katevitasek/2018/11/19/paul-romer-the-path-to-economic-growth-and-innovation/#47aad30f139d>

<sup>7</sup> Kurtzman, J. (November 2001). An Interview with Paul M. Romer, *First Quarter 1997 / Issue 6 (originally published by Booz & Company)*. Retrieved from <https://www.strategy-business.com/article/9472?gko=715e4>

Romer's view of knowledge and innovation is promising for organizations. As Kurtzman (2001) put it best:

*“[T]he more we discover new things, the better we get at the process of discovery itself. Knowledge builds on itself... the capacity to create wealth and value increases over time, surely another reason for optimism.”*<sup>8</sup>

## **Collaboration and Culture**

The customer is always right – a statement familiar to all of us. Whether we agree with it or not, this statement represents how adamant the work culture is in listening to the voice of the customer.<sup>9</sup> Now we know, listening to the voice of the employee is equally, if not more, important.

Collaboration has become as important as ever with the globalization of work.<sup>10</sup> A critical piece of organizational collaboration is listening to the voice of employees. Morgan (2013) emphasizes the importance of including employees in decision making processes and listening to their ideas and their needs, and actually incorporating this feedback into your business practices and technologies.

It is one thing to give your employees a voice; it is an even bigger thing to listen to that voice and integrate it into your practices and policies. Collaboration has been shown to increase employee productivity and even benefit our customers.<sup>11</sup> Organizations with collaborative cultures see employees that feel more connected to their work and their co-workers, again leading to better engagement and productivity.

Look at the case of Booz Allen Hamilton.<sup>12</sup> Booz Allen used a collaboration platform based on employee feedback, that operated on 2-week iteration cycles. This highly collaborative tactic reflected excellent employee engagement. Unfortunately, this project was later passed over to Information Technology (IT) and completely eliminated the voice of the employees. As we can expect, employee engagement and employee adoption levels took a serious nosedive.

Collaboration makes our jobs easier, gives us more freedom in our jobs, and overall makes employees (and customers!) happier. But not only does collaboration give us a happier workforce, it also gives us a smarter workforce.<sup>13</sup> Collaboration puts us in a position to pool our skills and therefore, make the project more successful than if it was completed individually.

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<sup>8</sup> Kurtzman, J. (November 2001). An Interview with Paul M. Romer, *First Quarter 1997 / Issue 6* (originally published by Booz & Company).

<sup>9</sup> Morgan, J. (July 2013). *The 12 habits of highly collaborative organizations*. Retrieved from <https://www.forbes.com/sites/jacobmorgan/2013/07/30/the-12-habits-of-highly-collaborative-organizations/#70a8bd133683>

<sup>10</sup> Elcom. (October 2016). *The importance of collaboration in today's workplace*. Retrieved from <https://www.elcomcms.com/resources/blog/the-importance-of-collaboration-in-todays-workplace>

<sup>11</sup> Morgan, J. (July 2013). *The 12 habits of highly collaborative organizations*.

<sup>12</sup> Morgan, J. (July 2013). *The 12 habits of highly collaborative organizations*

<sup>13</sup> Elcom. (October 2016). *The importance of collaboration in today's workplace*. Retrieved from <https://www.elcomcms.com/resources/blog/the-importance-of-collaboration-in-todays-workplace>

When we collaborate and work in teams, we are naturally driving a sense of community in the workplace culture, which further encourages employees to reach out to others and connect. Elcom (2016) goes as far to suggest that this sense of community derived from a collaborative work culture, “*compels [employees] to go beyond the expectations of their role, absorbing as much [organizational] knowledge as possible and driving the business forward with informed and sound decisions.*”

## **Trust**

Trust is the foundation on which a manager-employee relationship is built.<sup>14</sup> Just like collaboration, trust plays a major role in employee engagement and productivity. The absence of trust often makes room for disengagement and sometimes even destructiveness.

The value of trust should not be neglected. However, a global study of professionals by Ernst & Young revealed that less than half of surveyed professionals trust their employers.<sup>15</sup> Interestingly, communication breakdown and lack of collaboration are among the top factors influencing lack of trust. Respondents cited explanations such as their employers ‘do not foster a collaborative work environment’ or their bosses ‘do not value their point of view’ and ‘are not open/transparent in communication’. Thus, we are able to see the link (and value) between communication and trust.

So how can organizations build trust? Communication and collaboration is always a good starting point. The 2016 EY study suggests that beyond open communication and transparency, trust is built when employers: 1.) deliver on their promises; 2.) provide job security; and 3.) provide fair compensation and good benefits.

## **Measuring and Analyzing Intangibles**

*“The unmeasured must be measured. If it cannot be measured, it isn’t considered to be of value.” – Deborah Amidon, chairman and CEO of ENTOVATION International<sup>16</sup>*

While intangibles like trust, collaboration, and innovation may be invisible to our sight or our touch, their presence (or lack there of) is known.<sup>17</sup> Measuring intangibles has proven to be a challenge, compared to more tangible assets such as revenue and profit, but it *is* possible. As Phillips and Phillips (2009) propose, “If it exists, it can be measured” – we just have the challenge of determining how.

In some cases, intangibles can be counted – such as, counting the number of customer complaints as an inverse measure of customer satisfaction. In most cases, intangibles are going to

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<sup>14</sup> Lipman, V. (October 2013). *The foundational importance of trust in management*. Retrieved from <https://www.forbes.com/sites/victorlipman/2013/10/07/the-foundational-importance-of-trust-in-management/#6017ea9d218b>

<sup>15</sup> Ernst & Young Global Limited. (2016). *Study: Could trust cost you a generation of talent?* Retrieved from <https://www.ey.com/gl/en/about-us/our-people-and-culture/ey-global-study-trust-in-the-workplace>

<sup>16</sup> Lesser, S. (August 2011). *The case for measuring intangibles*. Retrieved from <https://www.td.org/magazines/td-magazine/the-case-for-measuring-intangibles>

<sup>17</sup> Phillips, J., & Phillips, P. (July 2009). *Intangibles: Measuring the hard to measure and the hard to value*.

be based on attitudes and perceptions, and thus are often measured through surveys or questionnaires.<sup>18</sup> A questionnaire may simply list the intangible of interest and instruct respondents to agree or disagree on a five-point scale (i.e. 1 – Strongly Disagree, 2 – Disagree, 3 – Not Sure, 4 – Agree, 5 – Strongly Agree). An improved measure may provide respondents with a description of the intangible and then request that respondents rate the intangible on a scale of 1-10. Alternatively, a questionnaire may present respondents with several definitions that describe various levels of the intangible (i.e. Low collaboration looks like this... Moderate collaboration looks like this...) and then have respondents make their ratings.

Regardless of the measurement methodology, it is critical to show the connection between the intangible and the program or organization. Not only do we want to know the degree that the intangible exists, but we also want to be aware of how the program has influenced the intangible.

## **Conclusion**

How valuable is a collaborative culture in an organization? What is more important – investing in a knowledge management strategy or building a new database? Where’s the bigger payoff – educating and cultivating the skills of all employees or zeroing in on a select few? These are all excellent questions posed by Kaplan and Norton (2004a), and they are all difficult to answer.<sup>19</sup> The answers to these questions may differ from organization to organization, depending on a multitude of factors such as the current culture of the organization, the current state in terms of stability, and so forth. However, each question can be answered through the measurement, analysis, and evaluation of intangibles.

Kaplan and Norton (2004a) attribute the measurement of intangible value to “the holy grail of accounting.” Intangibles are what give organizations the true competitive edge over their tangible assets, as they are much more difficult for competitors to pick up on and imitate. Thus, the ability to accurately measure and assess organization intangibles, gives organizational leaders a better ability to manage their organization’s competitive position and make adjustments as necessary.

We are rapidly moving into a digital world, but the success of automation and digitalization is impossible without soft skills like creativity and collaboration. These intangibles are what make us unique, and something we will always have a superior edge on compared to technology. These intangibles – trust, collaboration, creativity, knowledge, innovation – are what allow us to make technology so great, and there will always be a need for these skills. What we are finding now is that those organizations who place value on these intangibles are pulling far ahead of their competition. Just look to organizations like Google and Amazon if you need further convincing that intangibles lead to highly valued organizations.

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<sup>18</sup> Phillips, J., & Phillips, P. (July 2009). *Intangibles: Measuring the hard to measure and the hard to value*.

<sup>19</sup> Kaplan, R. S., & Norton, D. P. (2004a). *Measuring the strategic readiness of intangible assets*. Retrieved from [http://nosolosoftware.com/files/2013/12/HBR\\_Feb2004.pdf](http://nosolosoftware.com/files/2013/12/HBR_Feb2004.pdf)

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