

Build a Bottom Line

Dave Ulrich and Norm Smallwood

The Intangibles Audit enables leaders to identify which factors will have the greatest impact on future success.

Company valuation or market value has two parts—tangible value, like cash flow and earnings, and intangible value, based on the market's perception of whether a company is likely to keep its promises about future growth. About half of valuation is tangible; the other half is intangible. However, intangible value continues to grow as a percent of total market valuation. If investors perceive that a certain company has built a distinctive value proposition that includes low prices and a culture that resonates with customers, they reward it by rating the intangible value very high.

Four Ways to Build Value

You can increase your intangible value in four ways:

1. Keep Your Promises. Deliver Consistent and Predictable Results.

Build and defend a reputation among stakeholders for doing what you say you will do.

Reliable quarterly earnings forecasts are the table stakes for trust; consistency and predictability give your company credibility with investors. Making and keeping promises for service, quality, and delivery ensure credibility with customers, while keeping promises to workers builds loyalty and morale.

2. Articulate a Compelling Strategy: Envision the Future.

A compelling vision excites and energizes. Leaders who envision growth build enthusiasm. But they must also define the path to achieve growth, or the vision comes across as empty rhetoric and builds cynicism. Companies have three options for growth: increase customer intimacy by selling more to them, develop new products or services that appeal to different customers, or expand geographically. Leaders can choose any of these options or combine them, but they must first envision growth and enable it.

3. Invest in Core Competencies: Put Your Money Where Your Strategy Is.

Provide concrete support for intangibles in R&D, technology, sales and marketing, logistics, and manufacturing. Any gap between the proclaimed direction of future growth and the allocation of money, time, and attention generates skepticism. Invest in core competencies.

4. Improve Capabilities: Build Value through People and Organization.

Capabilities define what you are good at doing and, in the end, what and who you are. The most vital capabilities are these seven:

1. *Talent*—we attract, motivate, and retain competent and committed people.
2. *Speed*—we make important changes happen fast.
3. *Shared mindset*—we ensure that customers and employees have positive images of and experiences with our organization.
4. *Accountability*—we have disciplines that result in high performance.
5. *Collaboration*—we work across boundaries to ensure efficiency and leverage.
6. *Learning*—we generate and generalize ideas with impact.
7. *Leadership*—we embed leaders who deliver the right results in the right way and who carry our leadership brand.

Of the four levels of intangible value, capabilities are the most difficult for a competitor to duplicate. They delight customers, engage employees, establish reputations among investors, and provide sustainable value.

The Intangibles Audit enables leaders to identify which factors will have the greatest impact on future success and create an action plan for improving those intangibles.

About the Authors

Dave Ulrich has consulted and done research with over half of the Fortune 200. Dave was the editor of the *Human Resource Management Journal* 1990 to 1999, has served on the editorial board of four other journals, is on the Board of Directors for Herman Miller, is a Fellow in the National Academy of Human Resources, and is cofounder of the Michigan Human Resource Partnership

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