

## The Value of Intangibles

Any process within an organization can be “strategy critical” depending on one’s strategy and value chain construction (See MG Associates white paper “Strategy Critical Processes”). However, business executives are hesitant to designate processes associated with an organization’s culture as strategy critical or to ascribe value to them. On the other hand, experience reveals that there is no such hesitation in identifying culture as a source of reduced organizational performance or to lament the role of “cultural misalignment” in describing deals gone badly.

MGA defines intangible processes to include processes such as decision-making, innovation, speed, and leadership. The definition consciously extends the narrow description of culture currently used by business. MGA’s definition encompasses twelve (12) processes. This allows each process to be evaluated using predefined criteria and questions. And the relative performance of departments within a business or between organizations can be measured, compared, and aligned.

*The measurement of intangible processes is critical to improving organizational effectiveness. With the advent of Six Sigma, executives increasingly base their decisions on data. And although the criteria on which measurements of intangible assets are based cannot be as objective or quantifiable as those used to evaluate tangible processes, MGA has developed a way to integrate subjective responses into an overall scoring mechanism. The process uses a combination of on-line surveys (which help to improve the reliability of results by increasing the number of respondents) and face to face interviews.*

The non-management of culture or intangible processes has costs and impacts a company’s market value. An organization’s ability to perform intangible processes are often converted to intangible assets or lumped under the catchall of goodwill on financial statements. However they are reflected, they can account for more than one-half of a company’s value (Lev, 2004).

As a result of the value associated with intangible processes, MGA believes, for example, that M & A due diligence should audit a business’ culture just as rigorously as it does its operations or finances. Criteria should be applied, the relative performance of respective organizations should be evaluated and rational decisions should be made regarding whether an

affiliation between the two organizations is likely to result in projected financial benefits given the compatibility of their cultures.

Just like an organization produces a tangible product or service through linked activities that form processes, intangible processes are also the result of processes. As such, they can be defined, evaluated and manipulated. And management can make rationale, conscious decisions regarding an organization’s cultural performance level.