

Intangible resources as a success key

by Carlo Clementi

It is a well-established fact that the market is dominated by global phenomena whose implications affect companies and organizations of any sector and dimension without distinction. The digitalization of communications has radically changed the importance and usage of information, as well as scientific and technological research has modified the way of doing business by imposing a review of the structural and organizational models towards complex networks. Increased customer awareness has produced new forms of communication, relationship and interaction not previously requested. This change led to a revision of the relative importance of the intangible factors of business, which not all companies and institutions have yet fully understood. Tangible resources and assets see their importance drastically reduced from a strategic and competitive point of view, despite an understandable interest according to their patrimonial characteristics. Ikujiro Nonaka states that "In an economy where the only certainty is uncertainty, the one and only source for a sustainable competitive advantage is knowledge." To this, it must be added that for years an administrative and financial approach has preferred tangible assets and resources as they were easier to manage, to identify, to list and to quantify within company reports. In the opposite direction, the reality of intangible assets is more complex and uncertain to identify, to quantify, to describe, to apply as well as to define the time frame of their natural deterioration.

The importance of the intangible factors in the activity of any organization is not a recent issue, however their recognition and the ability of companies to be able to manage them properly are not easy to come by. Managing the intangible resources more consciously implies an advanced approach for the company regarding the organizational models in use, the allocation of resources, the definition of strategic plans and the systems of measurement and control. Immaterial resources are behind the high levels of performance of leading companies, representing their widespread business capabilities and competences. These are represented by the ability to innovate, to change to various market dynamics, to be fast in introducing new products or services to

markets, to attract, retain and grow high profiles, and to create direct and unique relationships with each client.

Three characteristics make intangible resources extremely valuable for a company. They can be used simultaneously and in different contexts, since their use in a specific field does not compromise their use in other processes or projects. They do not deteriorate with use but rather acquire a greater value through it, as they tend to spread and strengthen with new contributions. They can be combined in different ways to obtain different results, since the distinctive aspect of the intangible resources is not only dependent on their inner characteristics but also on their different integration. Moreover, these resources have no limits in their possibility of application, and this leads to enormous opportunities in terms of economies of scope, as widening applications reduces their unit cost as a consequence.

But what exactly is meant by the term intangible resources?

In order to identify them as clear as possible, it is to state that these are based on knowledge or information and can be divided into four macro groups. The first group is made up of human resources, that is the set of knowledge, experiences and skills that are specific to and inseparable from the individual. These include not only specific operational aspects within the industry, but also personal contacts, relationships and individual qualities such as intelligence, loyalty and reputation. These skills are present both individually and collectively, and relate to knowledge, skills, experience, and problem-solving.

A second group of intangible resources consists of organizational resources, that is, the set of skills and capabilities that determine the ordered and organized set of activities and goods aimed at a purpose. This group also includes competences of direction, governance, alignment, and communication between employees, the set of procedures, rules and routines, together with the elements that make up the corporate culture, the competitive capabilities, the information and communication systems, contracts, patents or copyrights.

The third group of intangible resources is represented by relational resources, meaning all those activities, processes, contacts and mutual information that allow companies to operate effectively in their environment, and which can derived potential from linking these resources with the market. These include

alliances or business groups, strategic partnerships, both vertical and horizontal, relationships with investors, credit institutions and the community in which the company operates. Part of this group are also the brand and the company reputation, loyalty and trust of customers, long-term relationships with users and distribution structures, the brand identity and relations with their communities.

The fourth and final group of intangible resources consists of specific technological skills, which include knowledge on access, use and innovation of process techniques and technology of the product or service. This includes all the activities and processes related to the research and development of new solutions both those managed internally and those developed in collaboration with other companies in the network, all the technical specifications, operating methods, flows, regulations and settings. This group requires specific consideration because, although the type is the one that immediately attracts the greatest concentration of attention and investments by companies and institutions, the intangible resources contained are vulnerable. In fact, these can be codified by technical and scientific language and therefore can be easily transferable and imitable if not adequately protected by patents or confidentiality agreements.

But why take an interest in intangible resources?

For companies that decide to manage the intangible resources consciously, the answer lies in the ability to generate a substantial competitive advantage over competition, which corresponds to a better performance and higher level of profits. These organizations have the opportunity both of operating in a different way compared to the others, so to generate substantial advantages in the eyes of reference customers, and of developing clear elements of identity, through which it is possible to be recognized and able to relate. In dynamic markets with a high rate of technological change, the imitation process among companies is the main risk for corporate investments focused mainly on operational efficiency. Very often, companies focus their investments on tools to improve performance in carrying out activities similar to those already done by other competitors. In this way they lose sight of their strategic positioning, no longer centred on a sustainable advantage as it is not heterogeneous and

difficult to transfer. Furthermore, the differentiation based on immaterial resources allows companies to use a different approach to price level definition. Since the latter doesn't turn out to be univocally linked to the cost structure, it allows companies to introduce more complex considerations, related to customer expectations and to the logic of service, normally wider and much more profitable.

Although the allocation and development of intangible resources is an aspect that companies must take into account for their success, it should be noted that the potential is unquestionably related to their use and management within processes aligned with the business strategy. In fact, having intangible assets does not always entail a direct benefit, as these require a medium-term horizon to allow the company to develop the capability to extract the greater value created. By favouring a short-term vision, companies expecting immediate results tend to compromise, in some cases irremediably, the intrinsic value and potential of intangible resources.

The change that has taken place and in part is still taking place in many markets, from production models focused on materials to others based on knowledge and information, has also involved the revision of the concepts of the company and its employees. At present, what makes a product or service valuable to the customer lies not so much in the physical components, but in its potential intellectual content, that represents the value that can be extracted through usage. Success in the present and future market competition depends mainly on the strategic allocation of resources, and in particular of the intangible ones, linked to knowledge and information. However, due to their intangible nature, these resources are relatively considered in management activities and poorly detected by traditional methods of measurement and control, so as to be forgotten or not appropriately valued in the process of creation, development and growth of a company or an institution.

The complexity in valuing intangible resources is an aspect that still remains, as they are not easily identifiable, and the same can be said for the causal relationship with their own drivers. These difficulties are proved by their modest representativeness in corporate financial statements or management reports as unitary and clearly identifiable items. In fact, skills and abilities of employees,

operational processes for supplying goods or services, the quality of relations with suppliers and with customers, have no definite evidence within company reports, being limited to informative aspects at best. These resources are more easily identifiable in the most complex form of competence, and for this reason companies tend to label or quantify their final evidence, rather than understanding the factors that originate them or managing the processes that govern them. For example, a company can find easier to identify the amount of salaries that are paid to their employees, than identifying and quantifying the total cost the organization would incur if it had to replace the skills and abilities of its employees.

Following the digitalisation of the economy, markets have become more aware of the economic benefits that can be extracted from cognitive abilities in transforming information and knowledge into competences and value. The virtual exchange has fostered a new idea of providing knowledge, experience and service that appeared just impossible a few years ago. These issues have had the merit of rapidly evolving technology, methods and tools for conveying content and value to the customer in the last decade. For companies, institutions and evolved organizations now is the time to focus on new value-creating factors: intangible resources.

Audentes Consulting is a consulting boutique specialized in intangible resources management for companies and institutions that pursue development or growth projects. Thanks to a specific approach and method, developed over the years, we help companies and institutions to identify intangible resources from which to release value, for themselves, their employees and for their customers.