The Institute of Chartered Accountants in England & Wales

Faculty of Finance and Management

MANAGER UPDATE

In association with Henley Management College

ACCOUNTING AND FINANCE

Intangible assets and intellectual capital

Roger Mills, p 17

ISSN 1467-5765 ISSUE 20 FEBRUARY 2002

Flirting and teasing, or loyalty and relationships ?

Customer relationship management is becoming mainstream. It is supposed to bring extra value to a company by increasing customer loyalty and commanding premium prices. But do all customers want a close relationship with their suppliers ? In some markets and for some products, it can be essential. But others may prefer a transactional approach. They may be suspicious of suppliers' attempts to find out more about them, and resent being targeted. It may be better to tantalise, tease and intrigue these consumers.

Susan Foreman
Marketing Faculty Group Leader, Henley Management College

What kind of relationship with their suppliers do customers really want ? Do they prefer one-off transactions, or something more lasting ? The answer depends on the customer, the product or service, and the type of market (consumer, or business to business). This article examines some recent research on client–business relationships.

Stephen Brown[1] started a recent article with the following surprising and bold statement. 'Customers : Don't love them ! Don't pander to them ! They don't know what they want. Never have.' Instead of traditional client coddling, he believed that a more creative, stylish and crafty approach is needed. He argued that many customers are now just looking for a transactional relationship.

This article begins by looking at some more conventional views on brand management loyalty and organisational leadership, and it ends with an analysis of customer relationship management.

Brand loyalty and performance

Chaudhuri and Holbrook[2] investigated techniques to help managers understand brand loyalty and determine the value of their brands. They looked in particular at brand performance and the impact of brand loyalty on market share and price. They found that a chain reaction starts with brand trust and brand affect (the positive emotional reaction demonstrated by consumers when they use a brand). This leads to purchase and attitudinal loyalty, and then to potential benefits in terms of market share and relative price.

To understand this model, we need to take into account the role played by brand trust when consumers have difficulty in comparing brands. This trust can help to reduce customers' feelings of uncertainty, and it influences the extent to which they are prepared to rely on the brand to perform as promised.

Chaudhuri and Holbrook used a visit to a restaurant as an example. After a consumer has evaluated a number of restaurants on the basis of criteria such as convenience, food quality and service, brand trust develops when the customer selects a trustworthy restaurant to patronise regularly, thus demonstrating purchase loyalty over time. There may also be an emotional link (affect) to the restaurant and/or the staff that secures attitudinal loyalty.

This trust and affect can together have several benefits for the restaurant. They may make consumers visit the restaurant more frequently or be less price sensitive. They may also persuade customers to recommend the restaurant to friends, or use additional services such as takeaway food.

The authors' comprehensive research also showed that managers should include the dimensions of trust, affect, purchase and attitudinal loyalty when assessing brand equity and undertaking brand valuations, as these 'appear to be reliable and valid predictors of brand performance outcomes'.

The links between trust and affect and purchase loyalty lead to improved sales-related results, thus improving market share.

Trust and affect and attitudinal loyalty also enable brands to command premium prices.

This analysis is particularly useful in helping marketers to develop meaningful marketing strategies and justify expenditure on, for example, promotions designed to create long-term trust in the brand.

Loyalty leaders

Companies with loyal customers, loyal suppliers, loyal shareholders and loyal employees are, alas, rare.

However, according to Reichheld[3], businesses that do manage to maintain this almost impossible combination exhibit a number of common characteristics.

At the top of the list is good leadership, which is a powerful factor in maintaining customer loyalty. As Reichheld stated, 'loyalty can't be delegated to a task force … can't be addressed with a software upgrade … isn't about databases, measurement systems or reward programmes'. The dedication to loyalty that comes from the senior management team may, then, be a fundamental differentiator in a company's success.

Reichheld, when forming his argument, drew upon survey research in the USA that he called the Loyalty Acid Test[4]. He found that 63% of the employees who thought that their leaders had high levels of personal integrity also believed that their organisation deserved loyalty. However, only 19% of employees who were not confident of their leaders' integrity believed the same.

He highlighted six principles that he believed should help managers secure the benefits of loyalty :

- *Practice what you preach* : The dedication to loyalty should come from the top levels of management, and it must be supported in practice as well as theory. Employees need to see that everyday working practices and emergencies are treated in the same way. He cited the software company Intuit's 'candour and devotion' to customers as an example of good practice that led to 'intense customer loyalty'.
- *Play to win–win* : Reichheld asked why car makers let car dealerships abuse their customers and why airlines often have adversarial relationships with customers. He concluded that it was because they do not treat each other as partners in both the successful and the bad times.
- *Be picky* : Reichheld advocated that not just employees, but also customers, should be carefully selected. Companies cannot keep all customers happy. A truly humble company can satisfy only certain customers, and should do the maximum that it can to keep them happy.
- *Keep it simple* : It is important to have simple rules to aid decision making, to build small teams that can act entrepreneurially, and to stay close to the customer.
- *Reward the right results* : Reichheld emphasised the need to reward loyal customers. For example, mobile phone companies often penalise existing customers by offering new customers lower prices.
- *Listen hard and talk straight* : Two-way communication, honesty and mutual learning are key issues in the development of long-term relationships and loyalty.

Finally, Reichheld suggested that organisations have two choices; they can either travel along the low road, where organisations perform well by taking advantage of customers, or they can take the high road, where 'high standards of decency and consideration don't impede profitability, they enable it'.

Retromarketing

Brown[1] offered an alternative view of customer management, arguing that 'a mindless devotion to customers means too many products, copycat advertising campaigns, and market stagnation'.

This perspective goes against the grain of both traditional and modern approaches to marketing and innovation, which have consistently championed methods based on creativity and customer needs.

Brown called his approach 'retromarketing'. He suggested that many customers are sceptical of modern marketing, and do not want companies to 'promise to love them till death do us part'.

He listed five principles of retromarketing for marketers who want to provide what the customer really desires :

- *Exclusivity* : Brown rejected the mass market approach to marketing, and encouraged marketers to limit their supply of products. This makes customers feel special, and allows for good inventory management.

- *Secrecy* : Retromarketing encourages an approach based on mystery and intrigue as a means of stimulating demand. However, the secret of success is selectivity and making sure 'the existence of a secret is never kept secret'.

- *Amplification* : This is similar to word of mouth communication. Amplification has various forms. For example, shock tactics can amplify marketing messages and increase media coverage; the surprise can also heighten awareness of the product. Amplification can also be translated as a gradual build-up of interest and chatter that in turn stokes anticipation, attention and curiosity.

- *Entertainment* : Modern marketing's greatest failure is that it has lost its sense of fun. Brown blamed Philip Kotler for encouraging us to think that marketing is the central function of the organisation. Marketers must bring some of the fun back by flirting with customers, amusing them, and, through this type of entertainment, ultimately engaging with them.

- *Tricksterism* : This approach is about teasing customers, rather than cheating them, even though customers do not always want just the truth. On the contrary, they can cope with exaggeration and not a little excitement.

Brown's article was an unusual choice for the *Harvard Business Review*, and his views contrasted with traditional marketing philosophy. Many will disagree with his thesis, and the author did not suggest that retromarketing was an approach for all occasions. However, his ideas are a useful basis for discussion on the future of marketing.

The value of his approach lies not so much in the strategies he advocates as in its role as an early warning signal, a prompt to marketers to re-evaluate their relationships with customers before someone else entrances them.

Customer relationship management

Brown argued that customers yearn for transactions and are deeply suspicious of customer relationship management.

This is not the case, according to Winer[5], who discussed the change in marketers' thinking from a focus on transactions and customer acquisition to a mindset that concentrates on customer retention.

He believes that companies should adopt this strategy for their best customers, which supports Reichheld's advice to be picky. (Reichheld's early work on retention was the foundation for Winer's research.)

Many studies have shown the value of customer retention, but Winer focused on a McKinsey & Company study from 1999 that showed that when a customer churn rate improves by 10%, the company value theoretically increases by up to 10%.

Differing views and meanings are associated with customer relationship management, but Winer advocated a specific approach that has seven key steps :

1. *Database creation* : A database is the basis of any customer relationship management strategy, and it should include detailed transaction histories and records of all customer contacts, from sales and service calls to customer–company contacts. It should also include customer responses, all marketing events, and detailed descriptive customer information for segmentation purposes.

2. *Data analysis* : Analysis should be undertaken with retention in mind. Rather than being basic cluster analyses, aimed at defining segments, the analyses should be based on lifetime values, conversion rates, and the purchase of complementary products.

3. *Customer selection* : Understanding the profitability of customers is essential for accurate customer selection. Some customers may not have relational intent, and may prefer a transactional approach; others will be more or less profitable. When the lifetime value of customers is calculated, their potential and future growth are taken into account. Some customers may then be deselected, and others may be offered varying service level agreements.

4. *Customer targeting* : The development of relationships and one-to-one marketing require a tailored approach to the targeting of customers. Direct marketing, and in particular Internet-based direct marketing using personalised emails and the company's own database, is endorsed by Winer as a cost-effective approach to customer retention.

5. *Relationship programmes* : Although he advocates email as a means of contacting customers, Winer emphasises the need to balance various approaches to achieve high levels of customer satisfaction. For example, businesses must deliver high-quality customer service, tailor products and services to a customer's particular needs, and involve the customer as a coproducer or 'product maker'. The development of customer communities, where the customer and the company can interact and build a more personal relationship, can also help to bring the customer and organisation closer. This can be supplemented with loyalty and frequent-user programmes to reward repeat purchases. Together, such measures can lead to high customer switching costs.

6. *Privacy* : When a customer relationship management strategy is developed, the legal and the personal privacy concerns of customers must be considered. Winer quoted Forrester Research[6], for example, which discovered that customers are concerned about the presence of an all-seeing 'big brother', and also experience feelings of irritation, violation and fear of harm as a result of customer intelligence gathering.

7. *Metrics* : Finally, it is necessary to consider the performance of customer relationship management strategies and develop metrics that can be used to measure the success of these programmes. These may include understanding, acquisition costs, conversion and retention rates, customer share, and the success of loyalty programmes. The metrics at the end of this process take us back to the beginning, that is, the need to manage and maintain data and 'focus on how the company is performing at the customer level'.

Winer also noted that improvements in technology will enable marketers to manage the steps outlined above more effectively.

Companies need to be organised in ways that support customer acquisition and customer relationship management strategies. Winer concluded that there are indications that 'there are perhaps few companies that cannot benefit from the CRM structure'.

Many companies benefit from customer retention and loyalty. Some customers will want relationships; others will not.

For some companies, branding is a key part of the marketing strategy. Others, following the example of Beanie Babies, Tango and Harry Potter[1], may now decide to 'go retro'.

Marketing has many dimensions, from the dynamic, creative, innovative and technically mind-blowing to mundane performance measurement and small issue profits. There is room for every approach.

References

1 **'Torment your customers (they'll love it)'**
Brown, S *Harvard Business Review* (October 2001) 83–88

2 **'The chain of effects from brand trust and brand affect to brand performance : the role of brand loyalty'**
Chaudhuri, A and Holbrook, M B *Journal of Marketing* Vol 65 (April 2001) 81–93

3 **'Lead for loyalty'**
Reichheld, F F *Harvard Business Review* (July/August 2001) 76–84

4 'Loyalty Rules !'
http ://www.loyaltyrules.com/loyaltyrules/acidtest_overview.html
(accessed 14 January 2002)

5 **'A framework for customer relationship management'**
Winer, R S *California Management Review* Vol 43 No 4 (2001)

6 **'The Internet's privacy migraine'**
Stanley, J (2000) Forrester Research

Culture and commitment

More evidence is emerging to justify organisations' investment of additional time, effort and money in their people. In so far as it increases employee commitment, this improves financial performance. But what does management have to do to increase commitment ? What kind of support do employees really value ? How does staff commitment work through to a positive impact on service to customers ? What role, if any, does the much maligned HR professional play ?

Richard McBain
Director of Distance Learning Programmes, Henley Management College

A recent study[1] has confirmed what any good manager already knows : world class organisations value and invest in their people.

A set of best practices is now emerging that identifies elements of the human resources management bundle in areas such as

- selection and recruitment;
- skills and competencies;
- appraisal;
- rewards and recognition.

Recent research has also demonstrated the synergistic effect of these elements.

The growing focus on best practices may even be replacing the notion of best fit as the dominant model of human resources management. (Best fit is the strategy of aligning human resources activity with business strategy and enhancing the strategic match and profile of human resources management within the organisation.)

How does this investment in people actually produce results ?

Is enhanced performance a direct consequence of improvements in, for example, employee skills and competencies, job design, and rewards ? This is known as the high performance work practices approach.

Few managers would deny that all of the above contribute to the success of any high performing organisation, but are they sufficient in themselves, or do they work indirectly ?

One alternative perspective is the high commitment practices approach. This aims to increase effectiveness and productivity through encouraging employees to identify with organisational goals and then work hard to achieve these goals.

Although the two types of practice may seem similar, the former focuses more on the importance of employee perceptions, values and expectations in improving performance.

This article considers recent research on these issues, and reflects on the best fit versus best practice and high commitment versus high performance debates.

Corporate culture, commitment and financial performance

We need to look at the impact of culture on the financial performance of the firm. Culture consists of the core organisational values and beliefs that underpin behaviours towards and between employees and customers.

Flamholtz[2] examined this issue in a study of the Banner Corporation, a USA-based company seeking to create a common corporate culture after it had been formed from 20 organisations.

The company's management team identified the desired or strategic culture that they wished to instil in the organisation. This was set out in the form of more than 20 cultural statements, such as 'we will be equitable in hiring, compensation and promotion'.

These statements were incorporated into a cultural assessment questionnaire, and all the salaried employees of the organisation were asked to rate their level of agreement with them. The results were then used to develop action plans for culture management.

The results demonstrated that the greater the degree of agreement was between the desired corporate culture and the culture that was perceived to exist, the better was the financial performance of the division. Flamholtz argued that approximately 46% of earnings before interest and taxes (EBIT) are due to cultural buy-in.

If this is the case, managers should regard effective culture management as a key results area in divisional performance management. It was the level of commitment shown by employees to Banner Corporation's cultural principles that really seemed to make the difference to performance.

This link between culture and commitment has also been explored by Buckingham[3], although he replaced 'commitment' with 'engagement,' a new and increasingly popular term in the vocabulary of organisational commitment.

For Buckingham, reporting on research by the Gallup Organization, an organisation that is not engaging (one that does not psychologically bond its employees to it) is guilty of mismanagement.

Research suggested that only 17% of workers in the UK are engaged, and 20% are actively disengaged. The consequences of this can be serious, as these disengaged employees are

- much more likely to leave the organisation;
- less collaborative;
- less innovative;
- less tolerant of change;
- more vocal about their dissatisfactions;
- prone to a higher level of absenteeism.

Employees become increasingly less engaged the longer they stay with an organisation, perhaps because they feel neglected.

Another key finding was that no organisation has a single corporate culture.

Buckingham argued that attempts to impose a culture from the centre, for example through

- culture management programmes;
- corporate communications;
- leadership and management training;

are likely to fail. Instead, organisations should recognise that differing cultures are created by the behaviour of local managers and their teams. His suggestion was that corporations should focus on identifying those managers who excelled at engaging their employees under existing conditions, and design the organisation so that it could replicate their performance.

High commitment human resources practices and employee commitment

Although commitment is an important factor in organisational performance, human resources practices and policies that promote it are less easy to devise.

Whitener[4], in a survey of 180 credit unions with 1 689 employees in the USA, investigated the relationships between a range of human resources practices. He found three determining factors :

- *trust in management* : employees' faith in corporate goal attainment and organisational leaders, and the belief that ultimately organisational action will prove beneficial to employees;

- *organisational support* : individuals' beliefs about the organisation's support, commitment and care for them;

- *organisational commitment* : identification with organisational goals, willingness to exert effort on behalf of the organisation, and interest in remaining with the organisation.

This research demonstrated that human resources practices impact on employee perceptions and attitudes.

It also showed that motivation-focused human resources practices, such as appraisal and reward giving, had a stronger impact than others such as selection and training.

Other specific findings from the research included the following :

- The greater the perceived organisational support is, the stronger is the relationship between trust and organisational commitment.

- The relationship between perceived organisational support and organisational commitment was stronger when rewards were perceived to be more equitable.

- The relationship between perceived organisational support and trust in management was stronger when organisations conducted development appraisals.

- The relationship between perceived organisational support and trust was stronger when organisations offered less comprehensive training solutions.

The last finding is contrary to most managers' expectations, Whitener suggested that it might be due to another, as yet unidentified, factor. Could it be, though, that training opportunities are only really considered to be a special benefit when they are not widespread ?

The key conclusions from this research are that an organisation must examine its appraisal and rewards processes in particular to ensure that these activities are really motivating employees. Central to this are whether employees consider that they are equitable and demonstrate that the individual is valued.

Empowerment and customer-oriented behaviour

Peccei and Rosenthal[5] found further evidence that human resources practices work through employee perceptions.

They studied a culture change programme at 'Shopco', a large UK supermarket chain, with the aim of exploring the mechanisms linking human resources practices and management behaviour to individual and organisational performance.

In particular, they focused on empowerment, and, more specifically, on psychological empowerment. This comprises an individual's perceptions of

- *meaning* : the fit between individuals' values and their work role, and the degree of internalisation of organisational values;
- *competence* : individuals' belief in their ability to perform their job;
- *impact* : individuals' perceptions of job autonomy and their influence over job outcomes.

The authors argued that the perceptions involved with psychological empowerment are linked to the level of task motivation and the extent to which employees have an active or passive orientation to their work role.

The Service Excellence programme in Shopco encompassed four main elements designed to create conditions for a new service ethos and customer-oriented behaviour through psychological empowerment :

- a supportive and participative management style;
- role modelling by management;
- job redesign to increase the discretion of front-line staff;
- customer service training.

Their key findings from a survey of 2 100 staff in seven Shopco stores were as follows :

1. Management behaviour and human resources practices have an indirect impact on customer-oriented behaviour through employee empowerment.

2. Of the three aspects of empowerment, internalisation of the Service Excellence values had by far the strongest impact on customer-oriented behaviour.

3. Participation in Service Excellence training, in addition to perceived management and supervisory behaviour towards customers and subordinates, had a significant positive impact on employees' sense of psychological empowerment at work. In turn, this had a strong positive effect on their behaviour towards customers.

What key conclusions can be drawn from this research ?

- Human resources management systems, as perceived and experienced by individuals in the workplace, can significantly affect employees' customer-oriented behaviour. Employee perceptions are critical.

- Empowerment is much more than just objective autonomy and self-determination.

- The internalisation of corporate values is not sufficient in itself. More specifically, the greater the levels of internalisation of meaning, perceptions of competence and personal impact are, the more likely employees are to engage in proactive forms of customer-service oriented behaviour.

The role of human resources and personnel professionals

Human resources policies and practices can thus have a significant impact upon organisational and individual performance through the medium of culture and commitment.

What is the role of the human resources function in this process ?

Caldwell[6] conducted human resources research in some major UK companies. He found that the most common roles performed by human resources professionals were those of advisor and change agent, mentioned by 82% and 68% of practitioners respectively.

He explored the latter role in particular, and developed a new typology of four human resources change agent roles. These are based upon two dimensions : transformative versus incremental change, and human resources vision versus human resources expertise :

- *change champions* : directors or senior executives at the top of the organisation who can envision, lead or implement far-reaching, transformative or integrative strategic human resources policy changes;
- *adapters* : middle-level human resources generalists and personnel specialists who carry forward and build support for change within business units and key functions;
- *consultants* : specialist personnel professionals or external consultants with the expertise or experience to implement a discrete change project or key stages of a human resources change initiative;
- *synergists* : senior personnel managers or high-level external human resources consultants capable of strategically coordinating, integrating and delivering complex, large-scale and multiple change projects across the whole organisation.

Each of these roles has its challenges. For example, as the change champion, the human resources professional must skilfully combine the softer, integrative nature of human resources management with the hard expediency of the business manager.

More generally, another key issue for Caldwell was the perceived marginalisation of the human resources function.

- The increasing devolution of human resources management 'to the line' has led to the growing ascendancy of the consultancy and advisory model of human resources management.
- There is a fear that most areas of human resources expertise can now be outsourced to third parties.
- The human resources professional faces the potential challenge of playing more than one role, each one requiring different levels and types of expertise.

For Caldwell, if the human resources function is to escape marginalisation, human resources professionals must now make a 'potentially decisive contribution to business success by leading human resources changes'. If this is achieved, human resources will survive, even if other personnel functions are devolved, or 'given away'.

Caldwell's research also pointed to the important role of the human resources professional in providing vision in transformational change, thereby highlighting an activity concerned with promoting organisational commitment.

Can human resources professionals add value to the business in other ways ?

Buyens and De Vos[7], whose study of top managers, human resources managers and line managers highlighted the value of the human resources function in strategy formulation and the implementation of strategic decisions, believe they can.

They also argued that the human resources function adds value, as the human resources professional must meet the operational and managerial needs of the business.

Their research pointed to the significance of the temporal dimension in the decision making process. While the anticipation of business needs may be more of an ideal than reality, timely involvement in decisions is important to the process of adding value.

They argued that the 'integration of the HR function in diverse areas related to HRM, together with its involvement throughout the stages of decision-making processes, is a major determinant of its perceived value within the organization'.

Human resources professionals can add value in a variety of strategic and operational ways, especially if they are involved in decision making throughout the business at an early stage.

'Personnel' versus 'human resources'

Are there differences in practice between human resources and personnel specialists ?

This question often generates more heat than light, but research by Hoque and Noon[8], using data from the findings of the 1998 Workplace Employee Relations Survey in the UK, provided an interesting perspective.

Their key findings with respect to human resources and personnel specialists were as follows :

- Human resources specialists are more likely to hold a formal work-related qualification.
- Workplace-level strategic plans are more likely to emphasise employee development where there is a human resources specialist.
- Although strategic plans are no more common in workplaces with a human resources specialist than with a personnel specialist, human resources specialists are more likely to be involved where there are such strategic plans.
- Devolution of responsibility to supervisors for pay and grievance handling is more likely in workplaces with a human resources specialist. Similarly, supervisors are more likely to have authority over hiring and firing in workplaces with a human resources specialist.
- Personality tests, attitude surveys, off-the-job training and performance-related pay are more likely to be used in workplaces with a human resources specialist.
- Compulsory redundancy policies are less likely in workplaces with a human resources specialist.

They found that in workplaces where the financial manager had responsibility for employee relations, the approach to human resources management was much less sophisticated than in workplaces with a human resources specialist.

This research implied that titles do matter, and that human resources specialists may well be perceived as more credible professionals than personnel specialists.

While human resources specialists may now be less involved in some areas, such as recruitment, pay and grievance handling, the research showed that they are increasingly involved in strategic planning. This suggests that human resources specialists are working in ways that accord with a best fit approach.

Hoque and Noon also argued that in workplaces with a human resources specialist, the approach to human resources management may reflect the use of more sophisticated techniques. This supports a results-driven high performance work practices approach rather than a high commitment management approach.

Perhaps there is now a case for human resources professionals to use this increasing strategic involvement to develop human resources policies and practices to enhance employee commitment, or even engagement, further.

References

1 **'Current people management activities in world-class organizations'**
Oakland, S and Oakland, J S *Total Quality Management* Vol 12 No 6 (2001) 773–788

2 **'Corporate culture and the bottom line'**
Flamholtz, E *European Management Journal* Vol 19 No 3 (2001) 268–275

3 **'What a waste'**
Buckingham, M *People Management* (11 October 2001) 36–40

4 **'Do "high commitment" human resource practices effect employee commitment ? A cross-level analysis using hierarchical linear modelling'**
Whitener, E M *Journal of Management* Vol 27 (2001) 515–535

5 **'Delivering customer-oriented behaviour through empowerment : an empirical test of HRM assumptions'**
Peccei, R and Rosenthal, P *Journal of Management Studies* Vol 38 No 6 (2001) 831–857

6 **'Champions, adapters, consultants and synergists : the new change agents in HRM'**
Caldwell, R *Human Resource Management Journal* Vol 11 No 3 (2001) 39–52

7 **'Perceptions of the value of the HR function'**
Buyens, D and De Vos, A *Human Resource Management Journal* Vol 11 No 3 (2001) 70–89

8 **'Counting angels : a comparison of personnel and HR specialists'**
Hoque, K and Noon, M *Human Resource Management Journal* Vol 11 No 3 (2001) 5–22

Whatever happened to the new economy ?

Great things were expected of the new economy, but the collapse of many dot.coms has prompted a closer examination of the benefits and challenges for business. To what extent has disaggregation taken place successfully in traditional firms ? Have partnership networks and electronic webs replaced earlier supply chains ? Did mass customisation really happen ? While each technology wave creates fresh challenges, the real competitive advantages may not be what was initially expected.

Ian Turner
Professor of Management Studies and Director of Graduate Business Studies, Henley Management College

Michael Porter has reflected on strategy and the Internet[1]. He felt vindicated by the collapse of the dot.coms, arguing that the Internet does not require a radically new approach to business. He has argued for a return to business fundamentals.

Not all new economy analysts agree. *Business* 2.0 is a journal that has become virtually synonymous with new economy thinking, and an article in a recent issue[2] quoted futurist Alvin Tofler, for example, as saying

> *to think that the new economy is over is like somebody in London in* 1830 *saying the entire Industrial Revolution is over because some textile manufacturers in Manchester went broke.*

However, many other new economy gurus are now modifying their initial enthusiasm.

At *Business* 2.0, Useem and his colleagues acknowledge that physical assets still matter, despite the shift towards the knowledge economy.

Network effects, the principle that encouraged new economy companies to go for growth and market share, now turn out to be less widely applicable than was first thought. Only a few of the new economy players, for example the auction business e-Bay, have been able to establish a dominant position on the Internet based on these network externalities.

The new economy has led to the radical unbundling of traditional industry value chains.

According to Hagel and Singer's model of industry disaggregation[3], companies do not need to be vertically integrated in a digital economy.

Traditional value chains will disaggregate into three distinct functions :

- customer acquisition and retention;
- back office processes;
- content generation.

This process now seems virtually unstoppable.

Streamlining processes across companies

Many companies now realise the importance of supply chain management (previously known as logistics and distribution). Strategic supply chain management has already developed its own literature; the excellent reference 4 is one example.

Michael Hammer, a guru of reengineering, recently urged companies to shift their focus from streamlining internal processes across traditional functional barriers to coordinating their activities more effectively up and down the value chain[5]. He argued that, because cross-company processes are often not properly coordinated, problems such as duplicated activities and data entry errors are increasing, which wastes valuable management time.

Many industrial value chains are extremely complex. Hammer looked at Hewlett–Packard's PC supply chain, which included contract manufacturers, injection moulders, plastic compound producers, and electronic component suppliers.

Prior to 1999, many of the partners in the value chain did not know anything about the other players, or, for example, how many computer monitors Hewlett–Packard would need at a particular moment.

The process was further complicated by volatility in order specification. There were frequent changes in orders while each batch was being completed.

There were also huge disparities in scale between the various participants in the supply chain. Although many were large players, others, for example the injection moulders, were relatively small, with each ordering small amounts of resin to produce the monitors. They therefore could not achieve the economies of scale that a large producer such as Hewlett–Packard should really have been capable of leveraging.

Over the past two years, Hewlett–Packard has overhauled its system, and it now manages the entire process itself, monitoring the performance of the players in the value chain, and ensuring that everybody has access to an integrated computer system.

Hammer then went on to argue for a change in the traditional vocabulary of corporate relationships, coining a new term, 'co-suppliers' to describe noncompetitive suppliers of complementary products to the same customers.

He stated that co-suppliers could achieve much greater economies of scale and higher frequencies of delivery by combining forces, and that this would ultimately lead to improved customer service.

The Internet and low-cost digital communications now make this type of relationship much more feasible.

Networked orchestrators

Many of the new economy's industry leaders have already realised the benefits of effective supply chain management. These are companies that Häcki and Lighton at McKinsey & Company, for instance, called network orchestrators[6].

However, they do not all follow the same business model.

Some, such as e-Bay, create communities. Others, for example Cisco Systems and Palm, manage to combine effective product design and delivery through integrating and aligning value chains around customer needs. Still others, including knowledge service companies such as Charles Schwab, provide a portfolio of services to a well defined customer base.

Häcki and Lighton drew a useful distinction between these network orchestrators and the creators of so-called economic webs, where companies such as Microsoft seek to make their own standards the dominant ones of the industry through aggressive licensing or sharing of technology with others.

By contrast, network orchestrators choose their partners and standards selectively and manage the network rigorously, imposing membership obligations and performance standards.

The authors likened this tightly disciplined group of businesses to the old style Japanese *keiretsu*. It was cross-shareholdings that held the *keiretsu* community together, but for the network orchestrators it is the information standard that acts as the glue that enables network participants to exchange information up and down the value chain.

Unsurprisingly, many successful network coordinators also have a background in the information technology business, and understand, for example, the type of software required to construct a network standard. Many IT companies are now actively marketing web services that enable companies up and down the value chain to communicate effectively using their existing computer systems.

Häcki and Lighton were still very optimistic about the future of these network companies, and they quoted statistics to show that they had outperformed other players in their respective industries.

There is also a downside, however. Being connected to other companies within a network can make the orchestrators more vulnerable if their partners encounter financial or logistical problems. Also, although these networks or virtual value chains radically reduce inventory and work in progress, the risk of shortages if demand revives is probably greater.

The false promise of mass customisation

I recently discussed[1] the limitations of mass customisation, which is the theory that large-scale manufacturers of products can customise and tailor their goods closely to the needs of individual consumers. (This is also known as a build to order system, or a pull system).

Dell Computers probably came closest to embracing this model when it famously 'reinvented the rules' for competing in the PC industry.

Orders are triggered online by customers who design a computer to their own specifications. The information is then sent to Dell Computers and, through Dell, to its suppliers to ensure that inventory and work in progress are minimised.

Although this seems to be an ingenious and compelling demonstration of mass customisation, there may well be an element of sleight of hand, as a recent article in the *Economist* pointed out[7]. For example, to simplify the process, Dell Computers builds its computers in a modular fashion rather than assembling each one from scratch. Much of the customisation is added at the last moment via the choice of software installed on the PC.

Not all industries are able to achieve customisation quite so easily. In the automobile industry, for example, the results of mass customisation efforts so far have been unspectacular, although established manufacturers such as Nissan and Renault believe that they can generate huge savings in inventory as well as improving customer satisfaction.

Agrawal and his team were sceptical that mass customisation will soon deliver on its promise in traditional manufacturing industries[8]. They believed that it is still too early to tell whether mainstream consumers will want to have their vehicles built to order, particularly if it means foregoing the type of discounts that the current push system, ironically because of its very inefficiency, often produces.

They also believed that moving to a build to order system would result in smaller batch sizes, which in turn would reduce production economies and lead to poor utilisation of capacity, a sin in the capital-intensive automobile industry.

They foresaw a number of daunting challenges before mass customisation could become reality.

For example, attempts to modularise car production have led to greater inventory redundancy and waste in the supply chain than when nonmodular components were used. In the car industry, the supply chain is often extended globally to take advantage of low production costs in areas such as Eastern Europe and Asia. The so-called 'death of distance' in knowledge-based goods does not apply to tangible products such as cars. In this case, geographical distance can make build to order systems difficult to operate.

Car makers may just have to live with their traditional push-based systems for a while longer, despite the costs they absorb. In the meantime, customers will increasingly be able to use virtual build to order systems by using the Internet to identify those products already in the system, for example at dealers or in distribution depots, that most closely approximate to their desires.

Disruptive technologies and competitive advantage

Simply emulating now what Cisco Systems or Dell Computers have been doing for years is unlikely to give companies a sustainable competitive advantage.

However, Clayton Christensen, a well known commentator on disruptive innovations and their impact on industry incumbents, has pointed out that most seemingly unassailable positions are eventually eroded[9].

The scale of economies enjoyed by industry giants such as General Motors and IBM were undermined by innovations such as computer-aided design and lean production, which allowed smaller companies to compete effectively on cost with larger players.

Christensen illustrated this process with the example of retailing, arguing that four waves of disruptive technology had swept through the industry since its inception in the 19th century.

The first wave of the dominant downtown department stores was disrupted by the second wave of mail order catalogues from companies such as Sears Roebuck. Sears, in its turn, found its position eroded by the emergence of discount department stores such as Wal-Mart in the 1960s. This third wave has been challenged by the online retailers.

Christensen sees a clear trend running from the 1870s through to the e-business revolution : in each case, the challengers were operating on lower gross margins, but were more successful in turning over their inventories than the incumbents.

The challengers started off by supplying a relatively narrow range of basic goods, and subsequently migrated towards more complex, upmarket and nonstandard products.

In the early stages, the dominant disrupters tended to be broad-line players, department stores or portals, to use the current jargon. These broad-line players were eventually punished by more focused retailers offering a deeper product line and better service.

> *When customers learn where to go to get what they need, the portals' competitive advantage of scope becomes a disadvantage.* (Reference 9, p 109.)

Christensen's remarks on vertical integration and supply chains were also noteworthy. In the past, large companies such as IBM and General Motors developed positions of overwhelming competitive advantage by integrating vertically.

More recently, companies such as Cisco Systems and Dell Computers have carved out equally powerful positions, this time through radical de-integration. Christensen points out that both these strategies were appropriate in the respective circumstances.

Today's networked companies benefit from much more developed market structures and sophisticated information systems. Standard interfaces can enable networked companies to compete effectively on speed and levels of customer responsiveness.

Conversely, where necessary information for markets to emerge does not exist, and where knowledge is still tacit, it can make sense for a company to internalise all the aspects of the production process. Thus highly sophisticated computers produced in low volume by large companies often have nonstandard components designed and produced within the company.

Christensen speculated that, as Cisco Systems moves upmarket into more demanding spheres where it will have to use less-standard technology, it too will be forced to integrate and perform in-house more of the product design and manufacturing activities that it has tended to outsource until now. Even if Cisco Systems chooses this route, investing in proprietary knowledge and processes will probably ultimately yield only a transitory advantage. Christensen put it as follows :

> *In general, scientific progress that results in deeper, more fundamental understanding, transforms into explicit, codified and replicable knowledge many things that once were accomplished only through proprietary problem-solving routines … the very existence of competitive advantage sets in motion creative innovations that, as competitors strive to level the playing field, cause the advantage to dissipate … Successful strategists need to cultivate a deep understanding of the processes of competition and progress and of the factors that undergird each advantage. Only thus will they be able to see when old advantages are poised to disappear, and how new advantages can be built in their stead.* (Reference 9, p 107.)

Creative destruction

All too often, the seeds of a company's decline are sown in its earlier successes. 'Mindsets', 'dominant logic', 'dynamic inertia', and now 'cultural lock-in' are terms that are all used to describe the syndrome of once successful companies being trapped into traditional ways of looking at things.

Foster and Kaplan believed that the markets themselves point the way to addressing this problem[10].

They contended that long-term company performance fails to match the underlying performance of the markets because companies are unable to adapt as quickly as the markets do. In particular, they are not able to create new businesses quickly enough or wind up older value-destroying businesses.

The authors' models were the private equity firms (venture capitalists and other investment vehicles), which buy companies, hold them for a few years and, after building up their value, sell them on, investing their money elsewhere. In other words, these companies are the epitome of corporate innovation, constantly reinventing themselves to avoid stagnation, and riding the next economic wave.

> *We believe that corporations must be re-designed from top to bottom on the assumption of discontinuity. Management must stimulate the rate of creative destruction through the generation or acquisition of new firms and the elimination of marginal performers – without losing control of operations.* (Reference 10, p 47.)

Some of these investment companies have a sound record of generating healthy returns for shareholders. Warren Buffet's Hathaway Corporation is one example; Buffet often invests in well established, solid companies in industries for which basic needs never seem to go away.

Foster and Kaplan's vision seems attractive. However, their model closely resembles the financial control or conglomerate model espoused, for a time successfully, by Hanson and others in the 1980s. Few experts recommend this approach today though. Perhaps Christensen was right when he suggested that every strategy has its day.

References

1 **'Strategy and the Internet'**
Turner, I *Manager Update* Issue 18 (2001) 13–16

2 **'And then, just when you thought the "new economy" was dead ...'**
Useem, J *Business* 2.0 (August/September 2001) 70

3 **'Corporate restructuring'**
Turner, I *Manager Update* Issue 10 (1999) 12–16

4 ***Competing Through Supply-Chain Management***
David, R (1999) Kluwer

5 **'The super efficient company'**
Hammer, M *Harvard Business Review* (September 2001) 82–91

6 **'The future of the networked company'**
Häcki, R and Lighton, J *McKinsey Quarterly* No 3 (2001) 26–39

7 **'Mass customisation'**
Economist (14 July 2001) 79–81 (special report)

8 **'The false promise of mass customisation'**
Agrawal, M, Kumaresh, T V and Mercer, G A *McKinsey Quarterly* No 9 (2001) 62–71

9 **'The past and future of competitive advantage'**
Christensen, C *MIT Sloan Management Review* (Winter 2001) 105–109

10 **'Creative destruction'**
Foster, R N and Kaplan, S *McKinsey Quarterly* No 3 (2001) 41–52

Intangible assets and intellectual capital

Intangible assets are increasingly more important than tangible assets in company valuations. But how strictly should intangible assets be valued ? And on the basis of what information ? Market volatility reflects the fact that there are as yet no generally agreed answers. However, there is a demand for companies to report on a much wider set of issues, both quantitative and qualitative. Accountants need to acquire new skills if they are to retain their role in company reporting.

Roger Mills
Professor of Accounting and Finance, Henley Management College

Many researchers believe that successful companies of the 21st century will not be able to rely simply on the traditional value drivers associated with tangible assets. Instead, they will have to manage their tangible assets together with intellectual assets[1–6]. More specifically, companies will have to focus on intellectual property in the form of patents and trademarks[7].

One illustration of the potential impact of intellectual capital is the growth in the market-to-book ratios (best defined as the market capitalisation of the business's equity divided by the book value of the equity found in the balance sheet) of firms such as Microsoft and Oracle. This growth is said to indicate the intellectual capital of a company, as the balance sheet already accounts for all physical capital. Anything remaining can only represent the intellectual capital.

Some authors, such as Stewart, have implied that the sheer size of market-to-book ratios justifies interest in the issues surrounding intellectual capital[8]. However, businesses, users of business reporting information, standard setters, and regulators all face the problem of how best to understand and communicate the difference between the market capitalisation of a company and its accounting book value.

One approach is simply to attribute it all to some vague, ill defined notion of 'intangibles'. However, this approach may be unsatisfactory as it provides little feedback to users of financial and business reporting information.

As shown in *Table* 1, attempts to reconcile the accounting book value with the market capitalisation present many difficulties. For example, items 2 and 3 can be difficult

Table 1 Accounting book value and market capitalisation

			£
1		**Accounting book value**	xxxxx
2	+	Market assessments of differences between accounting measurement and underlying value of recognised assets and liabilities	xxxxx
3	+	Market assessments of underlying value of items that meet the definition of assets and liabilities but are not recognised in financial statements (for example patents developed through internal R&D)	xxxxx
4	+	Market assessments of intangible value drivers or value impairers that do not meet the definition of assets and liabilities (for example employee morale)	xxxxx
5	+	Market assessments of entity's future plans, opportunities and business risks	xxxxx
6	+	Other factors, including pessimism and market psychology	xxxxx
7		**Market capitalisation**	xxxxx

enough to measure, but items 4, 5 and 6 are often extremely difficult to identify and therefore measure. Thus their inclusion raises all sorts of questions about the definition of intangibles.

What are intangibles ?

Lev[9] defined intangibles as a 'non-physical claim to future benefits' arising from innovation, organisational practices or human resources.

Whereas owners of tangible physical and financial assets can exclude others from enjoying the full benefits of investments, non-owners can rarely be perfectly excluded from sharing the benefits of intangibles. This can lead to spillovers (benefits to non-owners) and an absence of control, at least in the strict legal sense.

Thus managing and reporting on intangible assets presents unique and significant challenges. This often leads to constant tension between the value creation potential of these assets (scalability) and the actual ability to deliver.

There has been a surge of interest in intangibles since the mid1980s that has mainly been due to the unique combination of two related economic forces :

- intensified business competition, brought about by the globalisation of trade and deregulation in key economic sectors such as telecommunications, electricity and financial services;
- the advent of information technologies, most recently exemplified by the Internet.

These two fundamental developments, one economic/political and the other technological, have dramatically changed the structure of corporations and have made intangibles the major value driver of businesses in developed economies.

Value reporting

Intangible assets can be associated with information deficiencies, largely because of the inability of the traditional accounting system to reflect their value and performance accurately.

Although corporate-disclosed data that provides information about the organisation's performance and value is, of course, crucial, some experts see the current financial reporting model as an anachronism. They claim that it meets the needs of neither those who run businesses nor those investing in them, despite increasingly tight regulation and extensive disclosure requirements.

Wright and Keegan[10] proposed a methodology called value reporting with seven core components that requires the following analytical approach :

1. Perform a preliminary evaluation of the financial drivers of the company, the levers of shareholder value.
2. Determine how these drivers are embodied in the corporation's objectives and how they shape business operations.
3. Understand how the management has developed the current strategies to achieve these objectives.
4. Determine whether the objectives and strategies are supported by performance measurements, and assess the quality of measurement data provided to the management.
5. Assess whether management processes foster value creation.
6. Draw up a 'big picture' from all of the foregoing activities, and select the most relevant points about value-creating strategies, processes, goals, and results to communicate to the investing public.
7. Review, on a rotating basis, how effectively the major processes of the company (such as capital planning and acquisitions, budgeting, strategic planning, product/service planning, management forums, and executive compensation) are functioning, and fix what needs to be fixed.

The disparity between rapid advances in global industry and increasingly outmoded corporate reporting is not, according to Eccles *et al.*[11], merely the trivial concern of accountants and analysts.

Its very real repercussions are seen daily across the world's equity markets, where, because of a lack of accurate information about company value, investors are left to make their decisions on the basis of nothing more concrete than rumours, fickle market sentiment, and earnings estimates or surprises.

The result, according to the authors, is volatility. They illustrated this with the NASDAQ roller coaster ride of 4 April 2000. On that day at 1.18 p.m., the NASDAQ Composite Index was down 575 points, or 14%. An hour later, the index jumped 452 points, and it eventually finished up only 2% down for the day.

Eccles *et al.* believed that such wild swings occur because the market has difficulty in valuing companies in the new economy, as traditional measures now explain less and less of a stock's real value. Increased volatility and value concentration make the accuracy of stock prices open to question, and what the authors refer to as the earnings game has made markets dysfunctional.

In the world of the earnings game, analysts estimate a company's short-term earnings, and corporate managers scramble to influence and beat these expectations by

- growing earnings consistently because investors demand a steady track record;
- managing expectations (and to this end companies strive to shape analysts' estimates of their earnings);
- beating estimates by a small margin (called a 'pleasant surprise');
- making decisions on the basis of expected earnings.

In addition, the earnings game causes investors to

- sell stocks that miss estimates;
- 'listen to the whisper' (the unofficial number that analysts give to favoured investors);
- sell stocks that miss the 'whisper number'.

The information gap

Eccles *et al.* also looked at a survey undertaken by PricewaterhouseCoopers of three groups :

- high-tech executives, including CEOs, presidents, CFOs, and heads of investor relations in the computer, networking, communications, semiconductor, software, Internet and e-commerce industries;
- sell-side analysts;
- institutional investors.

The survey was undertaken to determine exactly which measures are critical in assessing the value of a company.

The respondents were asked to rank performance measures in order of importance, and all three groups agreed on a top ten list that included just three financial measures :

- earnings;
- cash flow;
- gross margins;

and seven non-financial measures.

Of the seven non-financial measures, the following three came from internal company data :

- strategic direction;
- quality/experience of the management team;
- speed to market.

The remaining four required data not typically captured by internal systems :

- competitive landscape;
- market size;
- market growth;
- market share.

Often, corporate information systems cannot produce sufficiently reliable information on the critical non-financial measures of performance. Companies are also reluctant to provide this information to the marketplace.

The implication for investors is a large information gap, as they do not receive information on the measures that they and the companies agree are important.

Eccles *et al.* argued that, to make matters worse, sell-side analysts, who are the experts who have the skills and time to make sense of any information that does become available, are torn between

- serving the investors who rely on their recommendations;
- maintaining access to corporate managers;
- meeting the demands of their investment bank employers.

The way forward

In the view of Eccles *et al.*, there is a way out of this impasse.

If the market were to receive relevant, accurate information almost continuously, investors would be able to form a clear picture of performance as each quarter progressed. Because current market prices would already reflect this information, quarterly earnings releases would simply document what the market already knew. Analysts' estimates, pre-announcements and whispers would no longer seem so important.

However, the current failure to report non-financial information might well have several important consequences. With or without proper and accurate information, customers, shareholders and potential investors would talk about companies' perceived successes or failings. Furthermore, if companies did not provide this type of information, someone else would, for instance on a website, by email, or in a chatroom.

What information should a company report ?

Eccles *et al.* proposed a value reporting disclosure model that comprised four interrelated elements that provided a comprehensive picture of a company's overall plans and performance :

1. *market overview* : the management's view on the company's competitive position and external environment;
2. *value strategy* : an explanation of the company's strategy, including how it intends to create value;
3. *managing for value* : a summary of the company's performance targets and an assessment of how well it is meeting them;
4. *value platform* : the elements that underpin value and future financial performance, including people, innovation, supply chains, customers, brands and reputation.

Rather than simply report financial performance and assume that it properly captures the value that a company creates, managers should also provide information in the value platform on the company's investment, and state how that contributes to value creation. Within this model, companies should also provide information on hazard risks (the things that can go wrong), and opportunity risks (the things that they do to create value) and how they manage both.

Who should make these dramatic changes in external reporting ?

Eccles *et al.* argued that, if it is to remain relevant, the accounting profession must play a critical role in the value reporting revolution. Accountancy firms need to move beyond auditing into the uncharted and potentially stormy waters of non-financial measures. Here they will have to identify key value drivers and risks, and set the standards by which they will be assessed and compared.

Corporate executives and boards of directors must also play a major role, ensuring that organisational information is disseminated quickly and simultaneously to all relevant parties.

Equally importantly, companies must develop sound measurement methodologies for the key non-financial value drivers and intangible assets that the market considers important. They also need to present the resulting data in an organised and structured manner.

Lev[9] stated that proposals for improving the information available on knowledge-intensive enterprises are either silent about the objectives of the proposed information or set general and vague targets that include 'improving resource allocation', or 'levelling the playing field' (between investors and information-privileged analysts or managers).

Such objectives are desirable, but they cannot guide the construction of a complex information system aimed at reflecting the value and contribution of elusive assets such as intangibles. Furthermore, the information most relevant to decision makers in the current economic environment relates to the enterprise's value chain. (This is also the information that the accounting system, by and large, does not convey in a timely manner.)

Lev proposed a scorecard related to the value chain (innovation) process of a modern company. He listed three criteria for the choice of measures that make up the value chain scoreboard :

- All measures must be quantitative. Qualitative aspects of the value chain (for example employee work practices, patent cross-licensing) must be discussed in an annexe to the scoreboard.

- Measures must be standardised (or easily standardisable) to allow comparisons to be made across firms for valuation and benchmarking purposes. Nonstandardised measures, such as employee satisfaction indicators, are of limited usefulness.

- Research should show that these measures are relevant to users, generally by establishing a significant statistical association between the measures and indicators of value (for example stock return, productivity improvement).

According to Lev, a typical company will have a parsimonious set of 10–12 key value chain indicators.

He gave the following example of a value chain scoreboard for a biotech company.

Discovery/learning :

1. investment in internal and acquired R&D, classified by types of R&D;

2. investment in alliances/joint ventures, the number of such alliances, active and dormant ventures (including data on the investments of alliance partners);

3. investment in information technology;

Implementation :

4. the number of new patents, attributes of the company's patent portfolio (for example citations), trademarks and copyrights;

5. cross-licensing of patents and royalty income from patent licensing;

6. results of clinical tests and US Food and Drug Administration approvals;

7. employee retention data and workforce structure (for example the ratio of the number of scientists and R&D personnel to the total number of employees);

Commercialisation :

8. innovation revenues (percentages of revenue from recent products);

9. revenues from alliances/joint ventures;

10. the cash burn rate;

11. the product pipeline, expected launch dates of new products, products off-patent;

12. the market potential for major new products.

Conclusions

It is necessary to overcome the data deficiencies associated with the reporting of intangible assets.

New disclosure legislation, while desirable, looks unlikely in the immediate future.

The establishment of an information standard, such as Lev's scorecard, would portray the innovation process of business, and might lead to the release of meaningful information on intangibles. The argument is that, through a focus on the intangible investments generating this process, a large number of companies could be driven to provide new and useful information, internally and externally.

Unfortunately, such a revolution seems to be a long way from happening.

However, there is recognition that a change is warranted. As Michael Power has written, 'how did accountants get away with the concept of "Goodwill" for so long ?'[12].

In the past, goodwill was largely a matter for intellectual discussion, that is, it was the result of accounting calculations, but not a great problem in practice. However, there is now considerable momentum for change in relation to the accommodation of relevant narratives about future plans, intellectual capital, customer relations and other matters that are outside the constraining gaze of the auditor.

In the UK, for example, the emergence of the Operating and Financial Review demonstrates the increased pressure on companies to disclose sources of value that normally escape the traditional accounting framework.

Intangibles have provided the window for many changes, and they continue to attract considerable academic and professional interest. The respected accounting journal *Accounting, Organizations and Society*, for example, recently ran a themed section on the issues associated with intangibles[12].

It seems likely that, even with the distraction of highly volatile markets, this area will continue to attract considerable attention.

References

1 **'Improving business reporting – a customer focus : meeting the information needs of investors and creditors'**
AICPA Special Committee on Financial Reporting (1994) AICPA (Jenkins report)

2 **'Unseen wealth'**
Blair, M and Wallman, S (2001) Brookings Institution (Brookings Intangibles Taskforce report)

3 **'The intangible economy – impact and policy issues'**
Eustace, C G (2001) European High-Level Expert Group on the Intangible Economy

4 **'The e-Economy in Europe : its potential impact on EU enterprises and policies'**
Soete, L (2001) European Commission (report on e-Economy in Europe Conference, Brussels, 1–2 March 2001)

5 **'The valuation of intangible assets'**
(1992) Arthur Andersen/Economist Intelligence Unit (special report)

6 **'Intellectual property and the capital markets'**
Clark Eustace (2000) City University Business School (working paper)

7 **'How to make the most of intellectual capital'**
Willigan, W L and Mullen, M
Financial Times (27 November 2000) 22

8 ***Intellectual Capital***
Stewart, T A (1997) Nicholas Brealey Publishing

9 **'Intangibles : management, measurement and reporting'**
Lev, B (2000) Brookings Institute

10 '**Pursuing value : the emerging art of reporting on the future'**
Wright, P and Keegan, D (1997)
Price Waterhouse

11 ***The ValueReporting Revolution™ : Moving Beyond the Earnings Game***
Eccles, R G, Herz, R H, Keegan, E M and Phillips, D M H (2001) John Wiley

12 **'Imagining, measuring and managing intangibles'**
Power, M *Accounting, Organizations and Society* Vol 26 (2001) 691–693

MANAGER UPDATE

This Faculty publication is produced in parallel with the Braybrooke Press publication of the same name. Accordingly, references in the text to issues of *Manager Update* prior to April 1997 relate to the Braybrooke edition.

Manager Update helps the general manager keep abreast of the latest articles in specialist management journals. The most useful ideas in the fields of strategy and organisation, marketing, accounting and finance, and human resources management are carefully selected from a wide range of publications with the busy general manager in mind. Experts in each field explain and discuss the relevance, practicality and usefulness of the key new concepts and ideas, thus enabling the senior executive to keep really up-to-date.

The articles represent the personal views of the authors and not necessarily those of their organisations or of the Faculty. The nature of some subjects will preclude the articles from being definitive or mandatory. Being general in nature, the points made in *Manager Update* may or may not be relevant to specific circumstances.

The Faculty committee intends that *Manager Update* will act as an aide-memoire for members, provide new ideas, and encourage good practice, but cannot accept responsibility for their accuracy or completeness. Responses from the membership will be a very important part of the successful development of the series. Comments please, to Chris Jackson on 020 7920 8486 (or by e-mail to chris.jackson@icaew.co.uk).

Manager Update is compiled and edited by Professor Keith MacMillan, Academic Dean and Deputy Principal of Henley Management College.

Feedback

Comments and suggestions should be addressed to Chris Jackson BA FCA, Head of Faculty, telephone 020 7920 8486, e-mail chris.jackson@icaew.co.uk, or write to the Faculty at the address below.

This issue of *Manager Update* is produced by Amanda Harper, Letterfit Publishing Services, Godalming, and printed by Silverdart Limited, London SE1 0LH, on behalf of the Faculty of Finance and Management of the Institute of Chartered Accountants in England & Wales.

Faculty members

Each member of the Faculty in the year of publication will receive one copy of every *Manager Update* published by the Faculty free of charge. Copies are not available to non-Faculty members.

Issues of *Manager Update* published to date are :

Issue 1 :	April 1997	Issue 12 :	February 2000
Issue 2 :	July 1997	Issue 13 :	May 2000
Issue 3 :	October 1997	Issue 14 :	August 2000
Issue 4 :	February 1998	Issue 15 :	November 2000
Issue 5 :	May 1998	Issue 16 :	February 2001
Issue 6 :	September 1998	Issue 17 :	May 2001
Issue 7 :	November 1998	Issue 18 :	August 2001
Issue 8 :	February 1999	Issue 19 :	November 2001
Issue 9 :	May 1999	Issue 20 :	February 2002
Issue 10 :	August 1999		
Issue 11 :	November 1999		

Any members who have not received the above should contact Chris Jackson at the Faculty using the contact details set out below.

The Faculty of Finance and Management
The Institute of Chartered Accountants
in England & Wales
Chartered Accountants' Hall
PO Box 433, Moorgate Place, London EC2P 2BJ
Telephone: 020 7920 8486
Fax: 020 7920 8784

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

The Faculty's website address is – www.icaew.co.uk/fmfac