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Management Focus

essential management knowledge for today's leaders



Featured article

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intangible assets

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Emerald Years in
Publishing
1967-2007



Welcome to Management Focus

... and welcome to the March/April issue.

Today's businesses are unaware whether they have people, resources or business processes in place to execute and succeed in their KM strategy. Understanding the value of its intangibles helps a business to develop, sustain and enhance its mission effectiveness and/or competitive advantage.

Intangible assets are a critical metric for determining the economic value of a company and companies should account for profitability of these investments and monitor how well these investments contribute to revenues, improved operating costs, and net incomes. Find out more with our featured article.

Pat Zingheim and Jay Schuster, founders of Schuster-Zingheim and Associates, Inc., advise a wide range of companies on total pay and other rewards. Recognized experts on the role of pay in accelerating company growth, bottom-line performance and the move to "new" pay, Zingheim and Schuster have published several books. Their latest is *High-Performance Pay: Fast Forward to Business Success*. Find out more in this exclusive interview.

Did you know that informal learning accounts for over 75 per cent of the learning taking place in your business today? Discover exactly what informal learning is and how it matters to your organization in our *Management Matters* section.

Remember, to expand on the topics highlighted in *Management Focus*, log on to our website at <http://first.emeraldinsight.com> where you will find a multitude of articles, interviews, executive summaries and management briefings.

Best wishes,

Debbie Read

<http://first.emeraldinsight.com>

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The transformation of business knowledge into intangible assets

The business enterprise of today is not effective at accounting for and valuing a significant portion of its valuation components. Intangible assets are of great significance in understanding the gap in an enterprise's book-to-market value.

Industry is in need of a methodology and valuation system that enables managers to identify, document and value their knowledge. Visibility of intangibles enables the stakeholders of business enterprises to make cognizant decisions about their future renewal and growth.

Businesses need to gain a reliable description of their knowledge territory and piece together the maps they have to get a sense of the terrain to identify landmarks and explore pathways to determine the patterns of knowledge within their organizations. Managers need cause-and-effect relationships in order to better manage investments in knowledge assets.

When implementing knowledge management solutions, a business should not fail to ask what knowledge to manage and why. The first step to measuring and valuing knowledge or "knowledge valuation" is to gain a fundamental and coherent understanding of the operational knowledge assets that drive organizational performance. Sponsors and implementers of knowledge solutions need to concentrate on understanding the new motions set by these new mechanisms and develop management strategies that facilitate the

value generation of relevant value drivers and resources.

Setting a foundation for intangible asset accounting

Knowledge within the business enterprise needs to be managed like traditional factors of labour, capital, and raw materials. A business enterprise needs to articulate the link between their strategy and what knowledge is needed to execute the strategy. This provides the business with the capability to implement cost and differentiation advantages or both. Strategy is the identification of the desired future state of the business, the specific objectives to be obtained, and the strategic moves necessary to realize that future. The linkage between strategy, knowledge, and performance of a business is the strategic context of the business. To define and manage intangible assets, they must be aligned with the strategy of the organization and it must be understood what is to be done with them.

The value chain of an enterprise is the critical path to delivery of its business products and services and provides the alignment of enterprise value drivers to its vision and its subsequent valuation components. The value chain supports the business in identifying all the ways its intangible assets could or should bring value to the business. Aligning intangible assets with the value chain of a business enterprise provides a first step to aligning knowledge to its business strategy.

The framework of intangible valuation areas (FIVA) is an initial step toward the development of a network and dynamic model to value and report intangible assets. FIVA leverages existing balanced scorecard valuation models and business value chain models by extracting their value components and aligning them with performance-based activities to define a common intangible asset taxonomy (IAT) of value drivers of intangible assets. The value drivers are used to identify an initial set of KM objectives. The FIVA framework is a tool that provides significant insight into the value drivers of intangible assets that contribute towards the achievement of a specific KM objective. The design of the FIVA framework supports a dynamic mix of value drivers of intangible assets based on the business environment.

A validated framework supports the organizing and monitoring of intangible assets to surface and organize intangible asset measurement and performance indicators. A validated framework reflects the realities of the business enterprise and is designed to accommodate the explicit functions of the business enterprise. It provides a gateway to construct integrated enterprise intangible asset valuation models to the routine and special statistical, financial, forecasting, management science, and other quantitative models that provide analysis capabilities for decision making.



“Understanding the value of its intangibles helps a business to develop, sustain and enhance its mission effectiveness and/or competitive advantage.”

Is a validated framework the answer?

Today’s businesses are unaware whether they have people, resources or business processes in place to execute and succeed in their KM strategy. Understanding the value of its intangibles helps a business to develop, sustain and enhance its mission effectiveness and/or competitive advantage. Intangible assets are a critical

metric for determining the economic value of a company and companies should account for profitability of these investments and monitor how well these investments contribute to revenues, improved operating costs, and net incomes. Does a validated framework:

- support a company’s ability to capture and institutionalize its knowledge?
- help a company gain a reliable description of their knowledge territory?
- provide the capability to a company to piece together the maps they do have and gain a sense of the terrain such that they can identify landmarks and explore pathways to determine the patterns of knowledge within their organizations?
- increase a company’s understanding of how to identify, capture and leverage the value of the knowledge it uncovers?

The FIVA is one framework that represents a dynamic relationship between strategic objectives of KM and value drivers of intangible assets. It provides a view of intangible assets within the context of the business enterprise and supports the valuation of intangible assets based on a common set of business dimensions. The FIVA framework provides a concept of something familiar and similar to represent the complex business enterprise. FIVA incorporates intangible assets in the value chain of a business enterprise, which provides a first step to aligning intangible assets

to value creation with its business strategy. It provides a systematic way to divide a business enterprise into its discrete activities. FIVA is a concept that could be used to examine the groupings of business activities and to establish boundaries that align with drivers of value, both tangible and intangible. The FIVA concept allows a business to identify and link performance measurements/indicators to its intangible value drivers and subsequently capture measures to monitor and evaluate leading and lagging indicators in the achievement of its KM strategy.

Industry needs a method to develop tools that support the command of and access to effective utilization of business resources and knowledge, which supports the business’s capability to implement cost and differentiation advantages. Is a validated framework the answer and should we take a few steps back to refine and establish the initial framework? □

This is a shortened version of “The transformation of business knowledge into intangible assets”, which originally appeared in *VINE: The journal of information and knowledge management systems*, Volume 36 Number 1, 2006.

The author is Annie Green, George Washington University, Washington, DC, USA.

An interview with Pat Zingheim and Jay Schuster

Interview by Alistair Craven



Pat Zingheim founded Schuster-Zingheim and Associates, Inc. with Jay Schuster in 1985.

She advises a wide range of companies on total pay and other rewards. Pat received WorldatWork's 2006 Keystone Award, the Association's highest honour, for her contributions to the total rewards profession's body of knowledge. A recognized expert on the role of pay in accelerating company growth and bottom-line performance, she is co-author (with Jay Schuster) of *The New Pay: Linking Employee and Organizational Performance* (Jossey-Bass, 1996) and *Pay People Right! Breakthrough Strategies to Create Great Companies* (Jossey-Bass, 2000).



Jay Schuster advises companies on aligning pay and rewards with business strategy.

A recognized leader in the move to new pay, he has introduced many ground-breaking pay and reward innovations. His clients include global companies that have successfully aligned rewards with their business. He is the author of articles in numerous business, professional, and academic journals and magazines and speaks frequently at management and leadership seminars and conferences.

Q: Hello, and welcome to Emerald Management First. First of all, what inspired you to write your new book *High-Performance Pay: Fast Forward to Business Success*?

A: Our 1996 book, *The New Pay: Linking Employee and Organizational Performance*, was instrumental in having some 80 per cent of companies use variable pay and incentives successfully for non-management people. *Pay People Right! Breakthrough Reward Strategies to Create Great Companies*, published in 2000, was important to the development of total rewards strategies for a wide range of global organizations. *High-Performance Pay: Fast Forward to Business Success*, published in January 2007, suggests that, to create a "best high-performance place to work," organizations should pay for performance. Everyone agrees that paying for performance makes sense, and businesses that pay for performance outperform those that don't. However, most only give lip-service to really paying for performance. *High-Performance Pay* was written to close the knowing-doing gap and to get more organizations to become high-performance by rewarding performance results, skill and competence. Our first two books helped change how pay was designed, and we believe our third book may be of value to business leaders as well.

Q: You claim that the key to the future of the total rewards professional is creating high-performance organizations. Can you explain what you mean by this?

A: Organizations have a choice to pay based on performance, skill, and competence or to pay based on tenure and entitlement. When rewarding performance becomes "the way it is done here," employees will strive to add value and make a difference to earn rewards. Organizations that pay for performance are more likely to reach concrete goals than those that don't – so those that do are creating a performance culture and a high-performance workplace. We have never known any leader who wants to create a poor-performing workplace but some do because they don't reward performance and make excellence worthwhile.

Q: In a previous article you argued that "planning strategically now for both the growth and shrinkage of the workforce is essential to providing a high-performance workforce and workplace." What are the key stumbling-blocks that organizations face in tackling this challenge?

A: The key to talent management and staffing is to "travel light" and staff with the best people and target staffing levels a bit below maximum. Then make performance management and paying for performance focus on the 20 per cent strongest performers, the "superkeepers", and make sure they get the rewards, training, coaching and work-assignment/job opportunities. And when workforce cuts are needed, do it based on value to the business and not just on years of service, loyalty, and entitlement.

"Eighty per cent of the new jobs to be created in a global workforce require skills that only

20 per cent of the people have, and we will have 10 per cent fewer workers between ages 35 and 44 by 2010. These are challenges that talented HR professionals are best suited to address – it is time that businesses rocketed these people into influential and strategy-making business roles before it is too late."

Keep the best people and brand your organization as a "best high-performance place to work" in good times and bad. Right now, large amounts of capital are chasing scarce human resources. The best people are probably working for someone else, so you must take them away by making it worthwhile to be excellent – more worthwhile in your organization than in other organizations.

Q: You have always favoured paying the person rather than the job. What are your reasons for this?

A: People, not jobs, make organizations successful. The closer you can come to paying the person, the more likely you are to engage the individual and make them a stakeholder in the business enterprise. Organizations and people must be agile, nimble and adaptable. This means focusing on the individual and the job, but the person is what success is all about. Jobs don't create business success – people do. □

To read the full interview with Pat Zingheim and Jay Schuster, visit <http://first.emeraldinsight.com> and select the "Human Resources" community.

Management Matters

Welcome to our Q&A section – *Management Matters*, where you can find actionable advice on current management topics. In this issue your question on informal learning is answered by our resident expert.

Q. What is informal learning and does it matter to my business?

Did you know that informal learning accounts for over 75 per cent of the learning taking place in your business today? Perhaps not. Most companies focus only on formal learning programmes for their workers [if at all], losing valuable opportunities and outcomes. To truly understand the learning in your business you might want to understand a little better the informal learning already taking place and put in practice to cultivate and capture more of what people learn. This includes strategies for improving learning opportunities for everyone and tactics for managing and sharing what you know.

What is informal learning?

Most learning doesn't occur during formal training programmes.

In fact most of what we learn we learn from other people – parents, grandparents, aunts, uncles, brothers, sisters, cousins, school friends, classmates, bosses, mentors, colleagues, gossips, co-workers, friends and

neighbours. Sometimes we even learn from teachers.

What do we mean by Informal and Formal Learning?

Formal learning includes the hierarchically structured school system that runs from primary school through the university and organized school-like programmes created in business for technical and professional training.

Informal learning describes a lifelong, never-ending process whereby individuals acquire attitudes, values, skills and knowledge from daily experience and the influences and resources in their environment, from family and neighbours, from work and play, from the marketplace, the Web, the library and the mass media.

What are your workers learning informally?

It turns out that, at work, we learn more in the break room than in the classroom. We discover how to do our jobs through informal learning – observing others, asking the person next to us,

taking part in meetings, calling the help desk, trial-and-error, and simply working with people in the know. Formal learning – classes and workshops and online events – is the source of only 10 per cent to 20 per cent of what we learn at work.

In spite of this, corporations, non-profits, and government invest most of their budgets in formal learning, when it's apparent that most learning is informal. This stands common sense on its head. It's the 20/80 rule: Invest your resources where they'll do the least good.

So, what can you do to understand and improve the informal learning routes in your business?

Streamline the informal learning process

- Supplement self-directed learning with mentors and experts
- Make them available online 24 x 7
- Treat learners as customers
- Provide time for learning on the job
- Create useful, peer-ranked FAQs and knowledge bases
- Provide places for workers to congregate and learn
- Build networks, blogs, wikis, and knowledge bases to facilitate discovery
- Keep the knowledge bases current.

Create a supportive learning culture with your business

- Conduct a Learning Culture Audit
- Add learning and teaching goals to job descriptions
- Monitor goal/performance – maybe via a mentor system
- Support innovation (which requires making failure “OK”)
- Encourage learning relationships
- Support participation in professional Communities of Practice. □

If you would like to send our resident expert a question, write an e-mail to Web Content Manager Debbie Read at dread@emeraldinsight.com and the best submissions will be featured in a future issue of *Management Focus*.

point of view

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Final thought ...

“Money was never a big motivation for me, except as a way to keep score. The real excitement is playing the game.”

Donald Trump

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