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Insight: VALUE MANAGEMENT

The substance of intangibles

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Knowledge has always been a form of power and, in the second half of the last century, gained prominence as a component for wealth generation. The relationship between knowledge and wealth creation referred here is not limited to the field of revolutionary ideas or deeper scientific investigation of an isolated subject. The concept of wealth is linked to the economic value of ideas followed by coordinated initiatives.

The rapid pace of globalization and specialization fundamentally altered the relationship between value and knowledge and, consequently, the nature of business and its borders. The result is an extraordinary increase in interactions between individuals and organizations, requiring adaptability between industrial and service companies. Therefore, knowledge has become an indispensable tool in the construction and maintenance of sustainable competitive advantages.

A few decades ago, intangible assets served as a platform to generate cash flow and early industrial age companies had their value derived mainly from physical assets.

These giant corporate, such as General Motors and Standard Oil, owned buildings, equipment and facilities that were accounted based on the their acquisition values and supported market valuations for these companies. Today, real assets are often undesirable and represent a real burden on the capital budget of these companies, especially during periods of uncertainty.

In the last half century, a new generation of companies emerged, with much of their value based on intangible assets. These assets can be diverse, such as brand (Nike), patents (such as Pfizer) or technological expertise (like Microsoft). Companies also emerged and developed the ability to combine various intangible assets with extreme competence, further enhancing their ability to differentiate. Companies like Fedex (distribution of know-how and brand) and Apple (technological know-how, differentiation of products and after-sales services, in addition, obviously, brand), have characteristics that are difficult to replicate, due to the complexity of their structures and processes that support and encourage knowledge and which, throughout their history, have become ingrained in the culture of these companies.

Currently, company managers have observed that strategic management of intellectual capital must be the primary focus in efforts for creation and maintenance of these competitive advantages, that are difficult to replicate. Intellectual capital is the only asset capable of generating knowledge, a fundamental factor to value creation.

But this kind of strategic management is not easy. Old processes to improve efficiency at factories or offices do not apply to high-performance professionals. The performance of a sales department, for example, cannot be measured only by the number of sales calls, proposals and signed contracts. This approach can compromise the effectiveness of key sales professionals that require more interaction with clients to obtain information relevant to closing a more profitable deal.

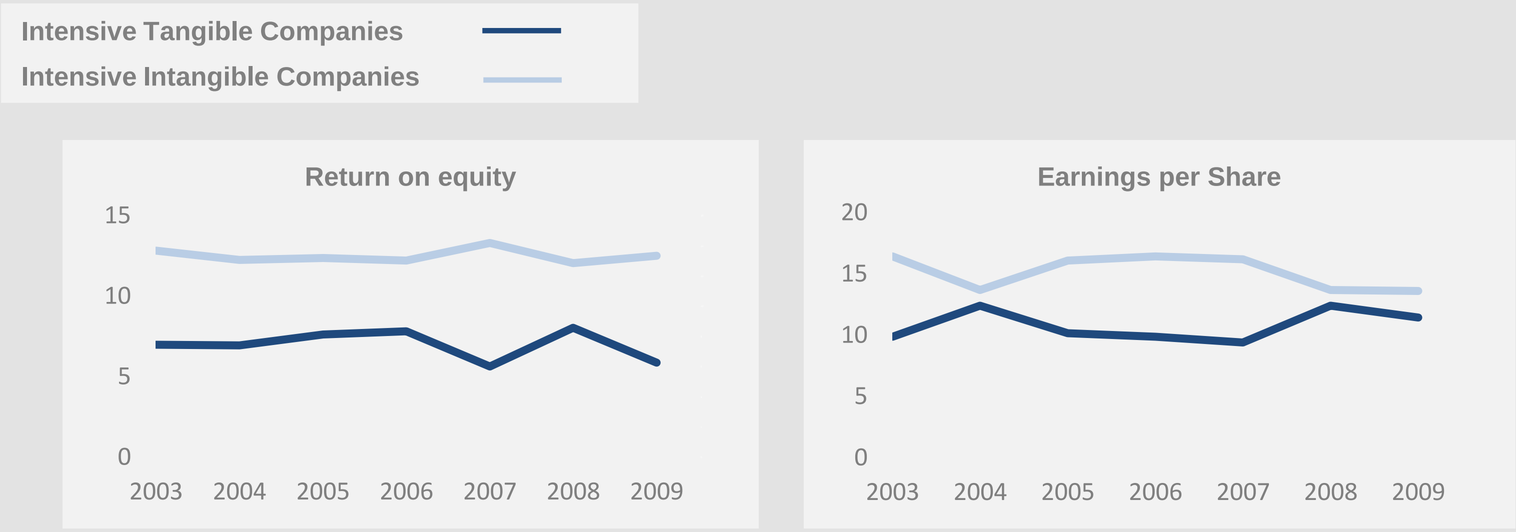
A company, depending on the industry and its strategy, should have on its staff more or less people with dynamic and highly performing skills. A company will never have 100% of its staff with high performing professionals, as this type of professional only fits in a position where he is constantly challenged. For example, an organization with a focus on differentiation should have more people with this profile than a company with a strategy of cost leadership.

For companies where executives are shareholders themselves, they often do not have a management system with appropriate intellectual capital, either because they do not need a management information system, or because they lack the necessary time commitment and end up accumulating functions that should be performed by a team of properly trained middle managers.

Accordingly, efforts must be directed toward structuring a multidisciplinary management team with engaged and motivated professionals to perform activities such as creating products and services, improving internal processes, interaction with internal and external groups to ensure the achievement of company goals, to manage financial planning, among other complex activities.

Intensive intangible companies x Intensive tangible companies - A comparison between Bovespa companies

Research conducted in 2009 surveyed several economic indexes for evaluating companies in order to compare the return on investments between companies that focus on intangible assets and companies that focus on tangible assets. As shown in the charts below, the advantages that strongly intangible companies hold over companies with a greater focus on tangible assets are obvious.



Intellectual Capital and Mergers & Acquisitions

Like any asset, intellectual capital has market value and can be purchased. As a result, many mergers and acquisitions are motivated by the absorption of intellectual capital, as this is often the easiest and most direct way to acquire some desired knowledge.

In many cases, the management team is what maintains the business and its competitive advantages, and it is possible, despite a change in control, to maintain the business model, in addition to taking advantage of synergies that arise from absorption of the company's structure. It can be said that in many merger or acquisition processes, maintaining a management team is a precedent condition to the transaction.

Sources:

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