MEASURING THE INTANGIBLE: A MODERN FINANCE DILEMMA

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Over the past decade, it has become clear that the way we measure the value of businesses has changed completely. Traditionally, value has been understood to relate to tangible assets: the physical things that can be seen and touched; everything from hard cash and inventory to plant machinery and office buildings. Not so today. Increasingly, real business value is seen as lying in intangible assets: things with no corporeal form but is nevertheless hugely valuable; for example, a company's intellectual property, its brand or its human resources.

In fact, intangible assets have been behind some of the biggest IPOs and valuations we have seen in recent years. Think about Facebook (peak market capitalization of over $104 billion), Uber (estimated to be worth $50 billion) and Twitter (estimated value of $48 billion). None of these companies really own anything physical worth shouting about beyond a few offices and server farms; certainly not enough to justify these valuations by traditional measures. Rather it is their intangible assets that make them so valuable: their customer data, their algorithms and their brands.

This fundamental change in how value is understood brings with it some real challenges for the finance function of businesses. If finance is to understand and demonstrate the true value of their business it must be able to accurately measure and report on intangibles. This requires understanding what these assets are, establishing KPIs against them and measuring the performance of these assets. This data must then be reported in a transparent and clear way to investors, shareholders, customers and other relevant stakeholders.

Sounds good in theory, but as a recent report from Chartered Global Management Accountant highlights, some finance teams may struggle to measure their intangible assets in this way. For instance, only 25% of respondents netted out as positive of their business' ability to assemble and analyze data on customer sentiment (a net positive score was calculated as the percentage of respondents selecting high scores minus the percentage selecting low scores).

It seems clear therefore that if finance is to accurately understand the value of their business then data management is crucial. Finance must be able to effortlessly draw on information from all lines of business and operations, and bring this data together in a single source of truth. Moreover, for finance to be able to create a compelling narrative around this data it must work hand-in-hand with all lines of business managers to understand the full implications of what the data is telling them. In this model, finance is the guidance system for the business, connecting all the various departments and stakeholders to find, understand and report on value.

To enable this vision however, finance needs to transform the way it operates. The days of spreadsheets and manual processes are over for the 'last mile' of reporting. If the value of assets are to be measured accurately, the back and forth between finance and business managers must be kept to a minimum, as not only does it delay reporting but it provides scope for errors to slip in to the process. Instead, finance needs a system that can provide workflow and security (to ensure only those who have access to sensitive data can see it) while guaranteeing that data is automatically kept current and correct.

Modern cloud-based enterprise performance management systems tick all of these boxes and for this reason I fully expect to see them dominate the last mile of reporting in the near future. They provide a system for systematically trawling the business for valuable intangible assets and then bringing them together in a narrative-driven report. The outcome is a finance team that is better able to accurately measure their business' worth and report it in a transparent way to stakeholders.