



Persico, 2018

Isn't it time the intangible became tangible when measuring long-term value? (/trust/isn-t-it-time-the-intangible-became-tangible-when-measuring-long-term-value)

As investors and business become more focused on long-term value, how intangible assets are measured will be more critical than ever.

Written by **Felice Persico**

Business rules are being reshaped. Many within the investment and business worlds are recognizing the importance of achieving sustainable long-term value for stakeholders, society and the environment.

But in a world where a considerable amount of focus from investors today is still on the bottom line, how can organizations demonstrate that a long-term perspective can drive more long-term value for them, for their investors and their stakeholders?

Moving toward the measurement of *economic, social and environmental outcomes is a fundamental step change* in reporting. The current reporting framework does not capture these externalities, nor intangible assets. This is clear when you look at statistics that show that in the 1970s about 80% of S&P 500 market value was accounted for by tangible assets on the balance sheet, while today it is less than 20% (Kristi L. Stathis, 2015 Annual Study of Intangible Asset Market Value, Ocean Tomo, LLC).

Accounting more coherently for the investments you are making and providing assurance over the assets that contribute to long-term value is critical to satisfying business and investor demands. Enhancing the usefulness of available information; being more transparent in what you report on; and having the ability to better communicate your strategy will certainly help in demonstrating more than a short-term mindset.

The importance of intangible assets

You can help advance these changes by including metrics in corporate reporting for resources and assets (both tangible and intangible) that are seen as central to a company's ability to create long-term value and build sustainable competitive advantage. With data skewed between market capitalization and reported assets, access to greater insights provide businesses with the ability to report beyond the book value, which in many cases can represent less than 20% of a company's true value.

For example, for many of us, our people are our greatest strength, and being able to report on the value of intellectual human capital is a crucial component of demonstrating your organization's long-term value. There is an increasing ability through technological developments to better analyze and evaluate this information in ways not possible before.

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The challenges of reporting on long-term value

While reporting frameworks that demonstrate the total value of an organization have been developed, the effectiveness of these changes is still to be proven. Utilizing a reporting framework for boards to consistently measure, manage and communicate long-term value will better enable organizations and investors to report and account for long-term value.

This new approach to measuring value will challenge people's thinking. Yet the risks of not addressing this call for businesses to focus more on long-term value are significant. Reporting systems could become increasingly irrelevant; they may not capture the true role and purpose of organizations (beyond profit); and they may not communicate how and for whom organizations are creating long-term value.

It is hard to shift thinking in a world that is often focused on the short-term fast delivery of results and return on investment. But the potential upside is huge. Companies want to find a way to quantify and communicate this. By providing clear metrics to the investing community and wider stakeholders they will be able to address this need.

These results will deliver transparency and establish trust in the capital markets, support more long-term decision making and help ensure the wider stakeholder perspective is considered. Ultimately, it is about being more responsive to our people, our communities and the global economy.

Summary

The investment and business worlds are recognizing the importance of achieving sustainable long-term value for stakeholders, society and the environment.

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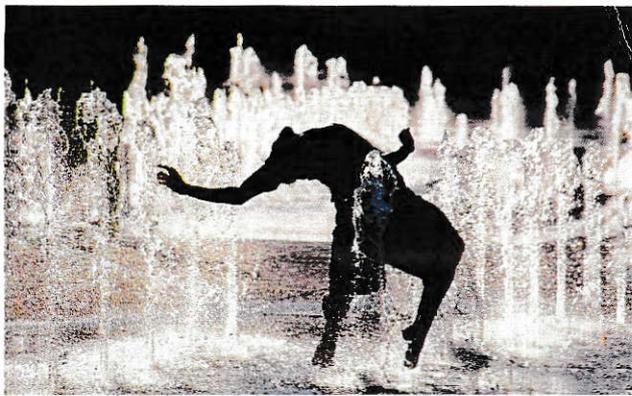
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