

ALIGN THE STRATEGIC IMPORTANCE OF TANGIBLES AND INTANGIBLES THROUGH TO THE PROJECT LEVEL

Dr Kersti Nogeste

Principal Consultant, Project Expertise Pty Ltd

Melbourne, Victoria, Australia

www.projectexpertise.com.au

knogeste@projectexpertise.com.au

Abstract

This paper addresses two factors of strategic importance to organisations; firstly, the strategic importance of intangibles and tangibles and secondly, the strategic importance of projects. The paper describes how organisations can align strategically important intangibles and tangibles through to the project level by using Outcome Profile™ templates to define intangible and tangible project outcomes.

Tangibles, Intangibles, Strategic Alignment, Projects, Outcome Profile™

1 The strategic importance of tangibles and intangibles

Intangible factors such as the exchange of ideas, information, expertise and services are playing an increasingly dominant role in wealth creation (Armacost quoted in Lev 2001). For example, professional investors report that nonfinancial data drives at least 30% of their investment decisions, with the importance of various intangibles varying from one industry to another (Low & Kalafut 2002). However, to date, “the discovery and management of intangibles” has mostly been “a haphazard affair [...], rarely an explicit part of the corporate strategy” (Low & Kalafut 2002). Better data is required to understand changes in the New Economy related to intangible assets, whilst at the same time the business models for collecting this data are lacking (Blair & Wallman 2001). Therefore it is critical to find better ways to recognise, report and manage intangible assets (Ballou, Thomas & Roos 2004), alongside tangible assets. For, it is the overall mix of tangible and intangible investments that differentiates one organisation from another (Future and Innovation Unit 2001).

The wider perspective including both tangibles and intangibles provides an organisation with the opportunity to include a “future focus” (Future and Innovation Unit 2001) on organisational direction and potential (Deprez and Haak quoted in Andriessen & Tissen 2000) as a complement to the ‘rear vision mirror’ view of performance provided by financial indicators (Low & Kalafut 2002). By “pursuing its business ideas using all its resources, tangible as well as intangible, under the control of leadership” (Hussi & Ahonen 2002) an organisation will achieve its goals, overcome identified and latent problems (Future and Innovation Unit 2001) and achieve “long-run productivity of invested capital” (Hussi & Ahonen 2002).

An example of interdependent tangible and intangible investments is the execution of a technology-based strategy which is dependent upon people to assist it to mature (Low & Kalafut 2002). When executing a technology-based strategy the investment in technology is a tangible investment whilst “everything around the technology – everything needed to make the technology do what it is supposed to do – is intangible” (Low & Kalafut 2002). The interdependence of tangibles and intangibles in this scenario was confirmed by the findings of a study conducted by Professor Erik Brynjolfsson and his colleagues at MIT’s Sloan School of Business, which identified that “the firm that has \$1 of computers typically has another \$9 of related intangibles” (Brynjolfsson and Yang cited in Blair & Wallman 2001) such as “work practices that involve a cluster of organisational characteristics, including greater use of teams, broader decision-making authority and increased worker training” (Brynjolfsson quoted in Low & Kalafut 2002). Resulting in an organisation’s market value increasing “over and above what can be accounted for by its investment in computer technology” (Low & Kalafut 2002).

Defining intangibles

For a number of reasons, there is no single agreed definition of ‘intangibles’. These reasons include “misunderstanding” and “misuse” of the term (Keen & Digrius 2003), a “lack of informed opinion” (Keen & Digrius 2003), the meaning of the term being context sensitive (Blair & Wallman 2001; Keen & Digrius

2003), intangibles being “worth different things to different people” (Kaplan & Norton 2004), intangibles being ‘described’ rather than ‘defined’ in concrete or quantitative terms (Blair & Wallman 2001) and the fact that intangibles do not fulfil the accounting definition for assets (i.e. “intangible assets”) (Blair & Wallman 2001).

Nevertheless as a means of maintaining a focus upon intangibles, a number of organisations and individuals have made attempts to either provide a broad definition or to describe lists of currently relevant intangibles which can be used as reference points in the absence of a single prevailing definition. Notable examples include those provided by the Brookings Institution (Blair & Wallman 2001), Low and Kalafut (2002), Andriessen and Tissen (2000) and the following list provided by the UK Government Future and Innovation Unit (2001):

- Relationships (In-House and External)
- Processes and Systems
- Culture and Values
- Skills and Competencies
- Knowledge (Acquisition, Retention, Deployment)
- Leadership and Communication
- Reputation and Trust

2 The strategic importance of projects

2.1 Strategy definition

A corporate strategy is a “roadmap” (Hall 2002) that describes how an organisation will manoeuvre its way through a changing environment over time to achieve its prescribed aims (Applebaum as cited in Ejigiri 1994), including boundaries that limit what can and can’t be done (Hall 2002). Yet despite strategy development consuming much time and money, strategies are rarely well executed (Brigman 2004). A recent survey conducted by the Cranfield School of Management reported that “the strategy of most organisations provides little direction or support for improvement initiatives” (Presswire 2004). Therefore the links between strategy definition and strategy implementation need to be clearer and stronger in practice.

2.2 Strategy implementation via projects

Strategy implementation can be considered the ‘flow’ of strategy through an organisation, across the functional boundaries (disciplines) of business management, strategy management and project management (Morris & Jamieson 2004). With the strategy “cascad(ing) from the corporate level through portfolios, programs and projects in a systematic and hierarchical manner, that provides cohesion, visibility and an effective means of communication” (Morris & Jamieson 2004).

Consequently, project (and program) management are “widely used as a means of implementing corporate and business strategy” so that strategies will “be aligned and moved from the corporate level through programs and projects in a systematic and hierarchical manner” and back up through the same chain from the project level to the corporate level (Morris 2004). This two-way flow through the hierarchy provides the potential for project based information to influence corporate strategy e.g. resource availability/allocation may influence strategy implementation (Morris 2004). The importance of information flowing between the strategic level and project level of an organisation is further reinforced by a recent report by KPMG that describes projects as “an integral part of business”, the “conduit” for organisational change and as “key vehicle(s) to realising business strategy” deserving of attention at board level (KPMG 2004).

The flowing and cascading of strategy through an organisation can be depicted in terms of hierarchical diagrams which provide “a very effective means of structuring and managing strategy, and communicating it to the organisation” (Morris 2004). Leading to an improved “understanding (of) the relationship between organisational objectives and project objectives”, with each objective linking the others in a “means-end chain” and the project objectives being subordinate to higher-level organisational objectives (deWit 1988). The achievement of higher level organisational/project objectives supersedes issues related to the achievement of lower level project management objectives related to time and cost (deWit 1988). Two examples of such hierarchies emanating from the project management body of literature are those provided by Turner (cited in Morris & Jamieson 2004), as per Figure 1 and Archibald (2003a) as per Figure 2.

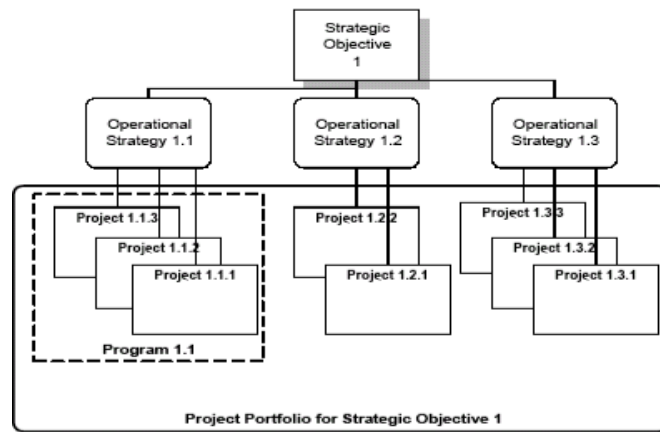


Figure 1 - Linking Corporate and project strategy (Turner as cited in Morris, P. & Jamieson 2004).

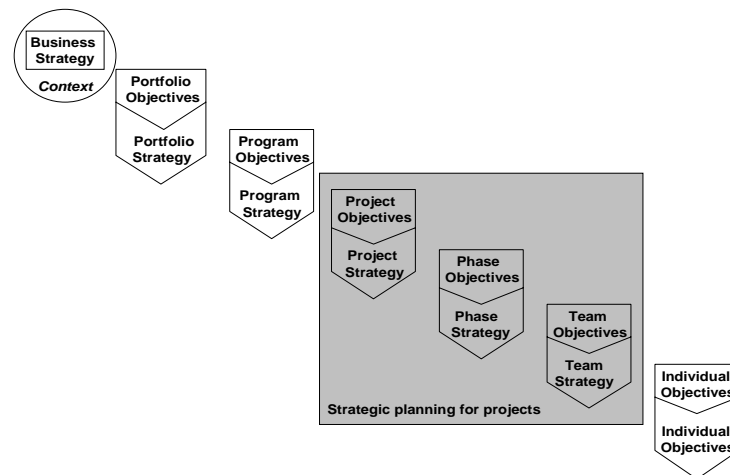


Figure 2 - Schematic of strategies, projects, a program and a project portfolio (Archibald 2003)

2.3 Aligning and Defining Project Success Criteria

Based on the understanding that organisational strategy can be implemented via projects, it is important that this is achieved successfully, with a clear link made between the organisation's key strategic priorities and the project, including agreed measures of success (The Comptroller and Auditor General 2004).

This is perhaps best done by integrating project success planning with an organisation's strategic thinking and strategic management (Phelan 2004) to ensure the alignment of projects with over-arching business goals (Shenhar et al. 2001). In practical terms this would be done by business and project management using a business outcome vocabulary (Phelan 2004) to develop the business case, clearly identifying project objectives (Shenhar et al. 2001) and expected project benefits (Shenhar, Levy & Dvir 1997). This approach would lead to project success being assessed by how well the objectives (deWit 1988) and benefits are met.

Such an approach will increase the likelihood of project success because it addresses the key project critical success factor of sound project planning which involves stakeholders agreeing upon the project success criteria in terms of a project's objectives and deliverables requirements from the outset of a project and thereafter at agreed project milestones (Dvir, Raz & Shenhar 2002; Turner 2004). There is an increased likelihood of project success because "increased client involvement in planning and production will help to ensure that the wider set of objectives continues to be emphasised" (Munns & Bjeirmi 1996) nurturing "an effective team, trust, open communication, creativity and a shared vision of success" (Hartman & Ashrafi 2004).

This approach will also increase the likelihood of project managers and project teams delivering successful projects because it will define and link project success criteria to the relevant larger business environment

from the outset of the project (Shenhar, Levy & Dvir 1997), with a focus upon outcomes rather than process (Dallas 2002). This is especially important information to provide to project managers and project teams, given the results of recent research studies which have identified that “Project managers infrequently tie project management outcomes to corporate business outcomes” (Phelan 2004).

In terms of defining intangibles success criteria, Keen and Digrius (2003) and Andriessen and Tissen (2000) suggest that stakeholders define “guesstimates’ backed up with explanations of assumptions” (Keen & Digrius 2003) since “it is better to be approximately right rather than absolutely wrong” (Andriessen & Tissen 2000). In a similar vein, Kaplan and Norton assure managers that “even if the measures (of intangible assets) are imprecise” the simple act of attempting to gauge them “communicates the importance of these drivers for value creation” (Kaplan & Norton 2004).

In addition, when defining success criteria for intangible project outcomes, reference may be made to one of a small number of intangibles measurement methods, including those proposed by Hubert Saint-Onge, the ICM Model (developed by Patrick Sullivan), the Skandia Navigator, the IC index (originally developed by Intellectual Capital Services and later developed further by Johan Roos and Goran Roos), the Balanced Scorecard (developed by Kaplan and Norton), the Intangible Assets Monitor (developed by Karl-Erik Sveiby) and the Celemi Intangible Assets Monitor (that builds upon the work done by Sveiby) (Andriessen & Tissen 2000).

3 Aligning tangibles and intangibles through to the project level.

The importance of an organisation’s tangible and intangible assets combined with its strategy being implemented by projects, leads to the need for stakeholders to align the strategic importance of tangibles and intangibles through to the project level (Refer Figure 3).

One means of doing so, is for project stakeholders to use Outcome Profile™ templates to guide them through the process of defining tangible and intangible project outcomes in terms of their expected benefits and beneficiaries, benefits realisation schedule, roles and responsibilities, assessment criteria, associated project outputs, assumptions, dependencies, risks and financials (Nogeste 2006).

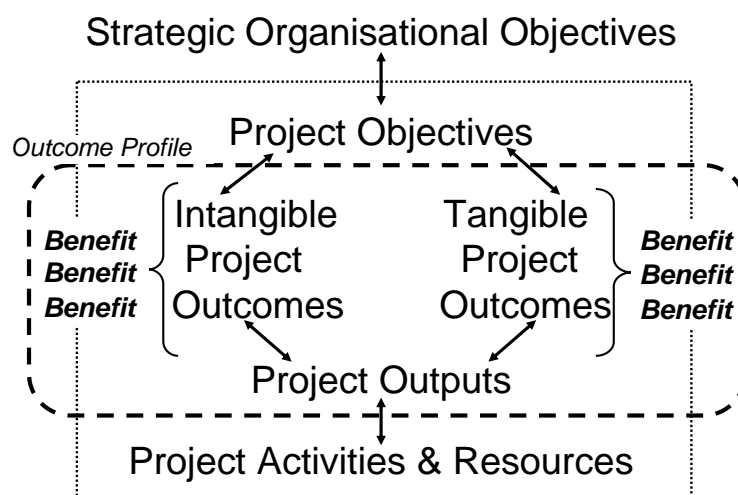


Figure 3 - Using Outcome Profile™ templates to document the strategic alignment of tangibles and intangibles through to the project level

The following three-step method can be used to complete Outcome Profiles™

1. Plan and conduct a stakeholder workshop.
2. Document and review the workshop report.
3. Use the workshop report as a key input to project planning/review.

The purpose of each of these key steps is as follows:

1. Plan and conduct a stakeholder workshop.

The purpose of the workshop is for a selected group of project stakeholders to identify, prioritise and define expected tangible and intangible project outcomes. With an Outcome Profile™ template being used to define each outcome in terms of it's

- Description
- Beneficiaries
- Outputs
- Risks
- Owner
- Benefits Realisation Schedule
- Assumptions
- Financials
- Benefits
- Assessment Criteria
- Dependencies

Refer to Appendix 1 for a description of the purpose of each section of the Outcome Profile™ template.

2. Document and review the workshop report.

The purpose of documenting and reviewing the workshop report is to ensure that the workshop results are accurately and completely recorded. The workshop report comprises a number of sections including the Outcome Profiles™, an outcomes/outputs cross reference table (refer Figure 4) and any additional notes recorded during the workshop.

Output Name	Outcome 1	Outcome 2	Outcome 3	Outcome 4	Outcome 5

Figure 4 - Outcome/Output Cross-Reference Table

The outcomes/outputs cross reference table highlights the relationship between project outcomes and outputs. This cross reference table illustrates the potential for one output to affect multiple outcomes (Department of Finance and Administration 2003b) and prevents the situation where the relationship between outputs and outcomes is a “matter of judgement” (Department of Finance and Administration 2003a).

3. Use the workshop report as a key input to project planning/review.

The workshop report comprising the Outcome Profiles™, outcomes/outputs cross reference table and any additional workshop notes are used by the project manager to plan/review the project plan.

For example,

- i) The Outcome Profiles™ are used to define the project scope and schedule in terms of the project outputs and the activities and resources required to generate them;
- ii) The outcomes/outputs cross-reference table provides a project reporting framework whereby, the progress of individual outputs can be related to the delivery of related outcome/s.
- iii) The individual Outcome Profile™ detailed risk assessments are combined to become the basis of the project risk register.
- iv) Issues/Action Items identified during the workshop and documented in the workshop report become the basis of the project issues/action items register.

4 Conclusions

This paper addresses two factors of strategic importance to organisations; firstly, the combined strategic importance of intangibles and tangibles and secondly, the strategic importance of projects.

An organisation’s ability to operate in the current and future marketplace depends on how well its organisational strategy addresses the combination of its tangible (physical) and intangible (non-physical) business assets; recognising that the key sources of value creation have shifted from the tangible to the

intangible. Therefore, it is critical to find better ways to define, develop, manage and assess intangibles alongside tangibles.

In parallel, projects and project management provide key means of implementing organisational strategy; with organisational strategy flowing from the corporate level through portfolios, programs and projects and back up through the same chain from the project level to the corporate level. This situation combined with the importance of both tangibles and intangibles means that project stakeholders need to align the strategic importance of tangibles and intangibles through to the project level.

One means for project stakeholders to define tangibles and intangibles at the project level is to use Outcome Profile™ templates which guide project stakeholders through the process of defining tangible and intangible project outcomes in terms of their expected benefits and beneficiaries, benefits realisation schedule, roles and responsibilities, assessment criteria, associated project outputs, assumptions, dependencies, risks and financials. Whilst best used as a planning tool, Outcome Profile™ templates may also be used to evaluate project outcomes.

Author

Dr Kersti Nogeste (knogeste@projectexpertise.com.au) is an independent program and project management consultant with more than fifteen years experience managing successful projects and programs of work in Australia and North America, particularly in IT&T, the utility and public sectors.

Kersti's doctoral level research conducted with public sector projects developed the Outcome Profile™ template which helps project stakeholders to define project scope and success criteria in terms of expected project outcomes, their associated benefits and outputs. Use of Outcome Profiles™ increases the likelihood of project and program success because stakeholders define project scope and success criteria in terms of business outcomes.

Kersti is a speaker at national and international conferences, is the author of a number of journal articles and is a certified Project Management Professional (PMP).

References

- Andriessen, D & Tissen, R 2000, *Weightless Wealth*, Pearson Education Limited, Harlow, Great Britain.
- Ballow, JJ, Thomas, RJ & Roos, G 2004, *Future value: The \$7 trillion challenge*, Accenture, viewed 4 December 2004, <<http://www.accenture.com/xdoc/en/services/sba/hotidea/value.pdf>>.
- Blair, MM & Wallman, SMH 2001, *Unseen Wealth - Report of the Brookings Task Force on Intangibles*, Brookings Institution Press, Washington D.C.
- Brigman, L 2004, 'Evolving strategy execution at Revcor', *HR Strategic Review*, vol. 3, no. 6, pp. 32-5.
- Cooke-Davis, T 2002, 'The "real" success factors on projects', *International Journal of Project Management*, vol. 20, pp. 185-90.
- Dallas, M 2002, 'Measuring Success', paper presented to the Fifth European project Management Conference - PMI Europe 2002, Cannes, France.
- Department of Finance and Administration 2003a, *Specifying Outputs: Case Studies*, Australian Government, viewed 17th May 2004, <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/specifying_outputs_case_studi.html>.
- 2003b, *Specifying Outputs*, Australian Government, viewed 27 January 2005, <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/specifying_outputs.html>.
- deWit, A 1988, 'Measurement of project success', *International Journal of Project Management*, vol. 6, no. 3, pp. 164-70.
- Dvir, D, Raz, T & Shenhar, AJ 2002, 'An empirical analysis of the relationship between project planning and project success', *International Journal of Project Management*, vol. 21, pp. 89-95.
- Ejjigiri, DD 1994, 'A Generic Framework for Programme Management - The Cases of Robert Moses and Miles Mahoney in the US', *International Journal of Public Sector Management*, vol. 7, no. 1, pp. 53-66.
- Future and Innovation Unit 2001, *Creating Value from Your Intangible Assets*, Department of Trade and Industry (UK), London, UK.

- Hall, M-J 2002, 'Aligning the Organisation to Increase Performance Results', *The Public Manager*, no. Summer 2002, pp. 7-10.
- Hartman, F & Ashrafi, R 2004, 'Development of the SMART™ Project Planning framework', *International Journal of Project Management*, vol. 22, pp. 499-510.
- HM Treasury, U 2003, *The Green Book - Appraisal and Evaluation in Central Government*, The Stationary Office (TSO), Norwich, viewed 6th August 2003, <<http://greenbook.treasury.gov.uk/>>.
- Hussi, T & Ahonen, G 2002, 'Managing intangible assets - a question of integration and balance', *Journal of Intellectual Capital*, vol. 3, no. 3, pp. 277-86.
- Kaplan, RS & Norton, DP 2004, 'Measuring the Strategic Readiness of Intangible Assets', *Harvard Business Review*, no. February, pp. 52-63.
- Keen, J & Digrius, B 2003, 'The Emotional Enigma of Intangibles', *CIO Magazine*, no. April, pp. 104-7.
- KPMG 2004, *KPMG's International 2002-2003 Programme Management Survey - Why Keep Punishing Your Bottom Line ?*, KPMG Information Risk Management, Sydney, Australia.
- Lev, B 2001, *Intangibles : management, measurement and reporting*, The Brookings Institution, Washington D.C.
- Low, J & Kalafut, PC 2002, *Invisible Advantage - How Intangibles are Driving Business Performance*, Perseus Publishing, Cambridge, Massachusetts.
- Morris, P & Jamieson, A 2004, *Translating Corporate Strategy into Project Strategy - Realizing Corporate Strategy Through Project Management*, 1 edn, Project Management Institute Inc., Newtown Square, Pennsylvania.
- Morris, PWG 2004, 'Moving from Corporate Strategy to Project Strategy: Leadership in Project Management', paper presented to PMI Research Conference 2004, London.
- Munns, AK & Bjeirmi, BF 1996, 'The role of project management in achieving success', *International Journal of Project Management*, vol. 14, no. 2, pp. 81-7.
- Nogeste, K 2006, 'Development of a Method to Improve the Definition and Alignment of Intangible Project Outcomes with Tangible Project Outputs', RMIT University.
- Phelan, TM 2004, *The impact of effectiveness and efficiency on project success*, Stevens Institute of Technology, Hoboken, NJ.
- Presswire, M 2004, *Cranfield School Of Management: Survey Shows Two-Thirds Of Improvement Initiatives Are Bound To Fail*, M2 Communications Ltd., viewed 26 January 2005, <<http://proquest.umi.com.ezproxy.lib.rmit.edu.au/pqdweb?index=46&did=724941021&SrchMode=3&sid=1&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1106701068&clientid=16532&aid=1#fulltext>>.
- Rad, PF 2003, 'Project Success Attributes', *Cost Engineering*, vol. 45, no. 4, pp. 23-9.
- Shenhar, AJ, Levy, O & Dvir, D 1997, 'Mapping the Dimensions of Project Success', *Project Management Journal*, vol. 28, no. 2, pp. 5-13.
- Shenhar, AJ, Dvir, D, Levy, O & Maltz, A 2001, 'Project success : A multidimensional strategic concept', *Long Range Planning : International Journal of Strategic Management*, vol. 34, no. 6, pp. 699 - 725.
- The Comptroller and Auditor General 2004, *Improving IT procurement - The impact of the Office of Government Commerce's initiatives on departments and suppliers in the delivery of major IT-enabled projects*, The Stationery Office, viewed 8 January 2005, <http://www.nao.org.uk/publications/nao_reports/03-04/0304877es.pdf>.
- Turner, JR 2004, 'Five necessary conditions for project success', *International Journal of Project Management*, vol. 22, pp. 349-50.
- Ward, J, Murray, P & David, E 2004, *Benefits Management Best Practice Guidelines*, Document Number : ISRC-BM-200401 edn, School of Management, Cranfield University, Bedford, United Kingdom.

APPENDICES

Appendix 1 – The purpose of each section of the Outcome Profile™ template

An Outcome Profile™ template defines each expected project outcome in terms its

- Description
- Beneficiaries
- Outputs
- Risks
- Owner
- Benefits Realisation Schedule
- Assumptions
- Financials
- Benefits
- Assessment Criteria
- Dependencies

The purpose of each part of the Outcome Profile™ template is as follows :

- The Description ensures a clear and common definition of the expected outcome.
- The Owner is assigned responsibility for the realisation of the outcome and its associated benefits. If the outcome is to be realised some time after completion of the project, then it is clearly unlikely and impractical to assign ownership responsibility to the project manager.
- The Benefits of an outcome are described in terms of the advantages provided by the outcome (Ward, Murray & David 2004); the underlying reason/s for pursuing the outcome. Whilst Outcomes and Benefits are often confused with each other (Ward, Murray & David 2004), they are different. Benefits are only able to be realised as a result of an “observable outcome” – “the outcome is needed for the benefit to be realised” (Ward, Murray & David 2004). For example, if an outcome of an Information Technology project is that personnel are able to do their work more quickly, freeing up time, then the ensuing benefit is “what is actually done with the time that is freed up, since clearly if managers do not find ways to utilise the time released then no benefit will materialise” (Ward, Murray & David 2004). Note : In some cases, project stakeholders may also wish to define potential dis-benefits. This will help project stakeholders to agree that the potential dis-benefits “are a price worth paying to obtain the positive benefits” (Ward, Murray & David 2004).
- Beneficiaries are the parties that are expected to receive the Benefits.
- The Benefits Realisation Schedule ensures a clear and common understanding of when the outcome can reasonably be expected to be realised – either during or after the project.
- It is important to explicitly define Assessment Criteria. Especially, to avoid multiple and possibly contrary definitions of project success. For project stakeholders may define success in different ways (Shenhar et al. 2001) by referring to different sets of data, or even when referring to the same set of data, interpret it differently, according to their particular perspective (Rad 2003). In addition to interpreting data differently, “the success rating of a project may also differ according to subjective, individual judgement” (Dvir, Raz & Shenhar 2002).
- Aligning an outcome with its associated Outputs defines the need for the project to generate particular outputs; an approach which is consistent with the UK Treasury Department's Green Book which describes outcomes being able to be expressed in terms of outputs (HM Treasury 2003). In addition, it is important to define which outputs will be defined during and after the project.
- The definition of an outcome is generally based on a series of Assumptions about what will and won't happen within the scope of the project.
- The successful realisation of an outcome, its benefits and outputs will be dependent on a number of factors outside the scope of the project, that need to be clearly defined and documented as Dependencies.
- The successful realisation of an outcome, its benefits and outputs will be subject to a number of Risks which need to be identified and assessed, along with corresponding mitigation/contingent actions which will need to be incorporated into the project plan. A good starting point for risk identification is to examine the risks associated with previously defined Assumptions and Dependencies.
- Financial information can be used to describe the outcome in terms such as a cost/benefits ratio and/or Return on Investment (ROI).