Strategic Communication Capital as an Intangible Asset

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The purpose of this special issue is to examine the role of corporate communication management in the strategic management environment. This paper examines a new model for exploitation of the intangible value an organisation derives from the quality of its strategic communication system. The proposed ‘strategic communication capital’ model is based on three ideas. The first idea is that sustainable competitive advantage is primarily derived from consistent excellence in (a) product and service design, as defined by market needs, and (b) from high-quality business processes. The second idea is that the success of the product design and business processes are a direct result of the number of people involved: employees, managers, investors, creditors, suppliers, customers, etc. The value that people bring to an organisation involves both their individual capital (e.g., knowledge, expertise) and their social capital, which is their ability to interact and develop efficient and effective relationships. The third concluding idea is that the strategic communication system is the vehicle for creating, managing and disseminating an organisation’s excellence in design, process, and human capital to the marketplace.

This paper argues that organisations with effective strategic communication systems should signal their ‘intangible value’ to the marketplace. This signal of value should result in a competitive advantage for acquiring and keeping the best resources that the market has to offer (e.g., greatest cash flows, lowest capital cost, best employees, etc.). These principles are especially important at this time of history when the number, the form, and the timing of corporate communications to internal and external constituents have never been more varied or more accessible.

The paper begins by reviewing the relevant literature in strategic communication and intangible assets. Then, the model is presented demonstrating how the value of an organisation’s strategic communication system directly increases the sustainable competitive advantage of an organisation. The direct implication is that organisations need to strategically exploit the new and traditional media channels to develop and communicate the quality of their organisation’s corporate communication system. The intent of this paper is to generate a discussion that will assist an organisation to address the needs of both the internal and external customers (Devereaux Ferguson). The question that puzzles most organisations, however, is what does strategic communication look like and where do we start.

The Strategic Communication Model, proposed by Argenti and based on Aristotle’s work, is a painless, straightforward, and practical application of proactive communication. The model illustrated in figure one, is a collection of interrelated variables representing a cyclical, on-going process. The first variable of the process is the organisation itself, who has the impetus for communicating and for determining its credibility based on the constituents’ perceptions. With this information, the organisation will communicate its message along with its desired image. It is much easier to communicate with familiar people and organisations known to have a favourable opinion. The resources (time, financial, and human) necessary to accomplish these objectives must be determined. The message is then crafted with both the intent and the audience or receiver in mind.
The audience analysis is an often-overlooked variable that is key to the success of the process. The audience should be divided into primary and secondary constituents. Primary constituents usually consist of employees, customers, shareholders, and communities. The secondary constituents consist of the media, suppliers, government, and creditors. Overlooking the secondary constituents is detrimental to the success of the communication process. When analyzing an audience, one should ask oneself many questions: What is the makeup of the audience? How many audience members are there and do they represent internal or external constituents? What background and or knowledge do they need and possess to understand and possibly act on the message? What biases and/or agendas exist? How will they feel about the message? And the list goes on.

The combination of the message and the audience analysis will allow you to choose the most appropriate channel and psychology to use. The communication channels available to us today are almost limitless. However, when choosing the best channel, one must understand the various capacities for conveying information. The capacity of a communication channel is influenced by its ability to handle multiple cues simultaneously, facilitate feedback, and establish a personal focus (Daft, 1995). Furthermore, the elements of time, immediacy, and confidentiality must be considered when choosing the most appropriate channel to deliver your message. Another key decision that must be made when sending a message is the appropriate psychology to use. The best approach, direct or indirect, should be determined based on the combination of the message’s purpose and the audience analysis. The direct psychology states the main idea followed by the explanation; whereas, the indirect psychology lists the explanation followed by the main idea. Most organisations use the direct approach when communicating in the Western culture. However, once again, the psychology used should be chosen based on the communication objective and the audience analysis. Once the message has been delivered, the process is not complete without seeking and measuring feedback. Based on the findings, other message(s) might be required.

One variable that is not illustrated in the model is noise. Noise represents anything that has the potential to negatively impact the transmission and understanding of the message. Noise is not only physical in nature but perceptual as well. One obvious and perpetual source of noise is one’s mental filter. All of the experiences and resulting perceptions that one retains constitute a mental filter dissimilar to another’s. The misalignment results in the possibility for noise. The noise present with the transmission of any non-routine message prevents this model from serving as a conduit for a flawless message. Therefore, the need to seek and measure feedback cannot be overstated. Nonetheless, an organisation’s exploitation of this model serves as an excellent means by which to consistently and successfully communicate strategic objectives. Consequentially, the reporting of organisational communication as an intangible asset is fitting.

**Intangible Assets and Social Capital**

Intangible assets are typically defined as non-physical sources of economic value for a legal entity. The value of these intangibles is most easily seen when either the financial statements do not match the market valuation of the organisation, or when the organisation loses the legal access to the source of value. Easy to understand examples include: (1) a medical group practice which includes the world’s best surgeon (what would happen to the value of the practice if this surgeon left the group), (2) an engineering think tank’s patents or a musician’s copyrights (what would happen to the value of the organisation if these ownership rights were sold?), (3) the ‘goodwill’ that results from brand trust in the marketplace (e.g., Bayer for aspirin, Adidas for sports equipment and apparel, IBM for technology solutions, BMW and Volvo for automobiles, etc.), and (4) the value of research and development that leads
to a competitive advantage for that organisation. Some intangibles are currently allowed by national and international accounting standards to be measured and reported on the balance sheet as assets, or claims of future service potential in terms of future cash flows for the organisation. However, some types of intangible assets are not allowed to be formally reported on the independently audited financial statements. Exclusion of recognition is typically based on the argument that the measurement of the process is deemed to be too subjective, and/or that the possibility of future service potential of the intangible is not deemed ‘probable.’ In those cases, cash outflows on behalf of those intangibles must be expensed in the period incurred, rather than deferred to future periods on the balance sheet. Such is the case with most research and development costs worldwide and human capital in general.

Social capital is typically defined as both the ability to develop and the consistent instances of inter-personal relationships that are effective for all parties involved, both internal and external to the organisation (McCrea, 2000). Prusak and Cohen indicate, ‘social capital is under assault because few managers know how to invest in it. Knowing that healthy relationships help an organisation thrive is one thing; making those relationships happen is quite another’ (2001, p. 87). In other words, social capital results from the consistent development of ‘win-win’ partnerships rather than ‘take-give’ or ‘win-lose’ negotiations. Jim Smith, senior vice president and director of operations for Avnet Electronics Marketing in AZ, a group of Avnet Inc., a Fortune 500 firm, says the responsibility of keeping employees motivated and productive falls on the shoulders of supervisors and managers, and communication is vital to the process (McCrea, 2000). More often than not, organisations do not recognize and/or acknowledge social capital and the communication that drives it as an intangible asset. Several studies have found that communication skills are the key to employees’ success. For example, a survey of 430 marketing and personnel managers ranked communication number one in importance (Edge & Greenwood, 1974), similar to a study conducted in 5,000 U.S. companies that found CEO’s rank communication skills as the leading contributor to their success (Margerison & Kakabadse, 1984). Furthermore, a study by The Graduate Management Admission Council reported that 2,000 students at ninety-one graduate schools of business rated communication as the top personal attribute for becoming a successful manager, hence their purpose for enrolling in a graduate program (Stolzenberg et al., 1986). A study of over 1,000 executives supported the previous cited finding when they selected communication classes as ‘very important’ more often than any other course in the business curriculum (Hildebrandt, et al., 1982). With this in mind, the contribution that communication and a strategic communication plan can make in order to enhance social capital and goal accomplishment is the backdrop for this discussion.

Recent efforts to measure an organisation’s capacity for innovation, and hence earn the ‘first mover’s advantage’, are based in the concepts of the value of collaborative intellectual capital (Entovation, 2001). Baruch Lev of the Stern School of Management at New York University describes the new social capital measures in terms of value drivers and value detractors. Categories for the new intangible assets include customer acquisition and retention, innovations, assets not recognized by accounting (e.g., libraries, master recordings, distribution networks, cooperative agreements, environmental rights), and specific industry-related intangibles (e.g., landing or broadcasting rights). [Parthasarathi Banerjee and Frank-Jürgen Richter have compiled an anthology of papers entitled Intangibles in Competition and Cooperation: Euro-Asian Perspectives.] Intangible assets, in general, and social capital, in particular, are important at this particular time to strategic communication management because of current market changes. First of all, many new media channels have opened up for market players. For example, email and continual posting information on Web sites about products, services and processes literally levels the playing field between the large and small firms by providing a low cost medium with global reach. Demers and Lev (2001) have found that distribution list reach and web site stickiness are both positively correlated with market valuations of organisations. Secondly, but not independently, the world ‘culture’ concerning corporate communications has become extremely flexible, greatly reducing the economic impact of the information in the traditional annual report and financial statements. A new research area, that is not the focus of this paper, is how organisations can develop consistent market trust in their new signalling opportunities.

Of critical import is that these new mediums and practices invite a discussion of the strategic communication system’s intangible value to the constituents in the marketplace. By measuring and communicating the sources of an organisation’s intangible capital, an organisation can influence the behaviour of its constituents and its business outcomes. Typically, constituents’ behaviours are measured by traditional financial measures-profitability, revenue growth, and stock prices. However, according to Ernst & Young, intangible measures include innovation, quality, customer relations, management capabilities, alliances, technology, brand value, employee relations, and environmental and community issues (Low, Siesfield, & Larcker, 1999). Of these nine factors, Ernst & Young states innovation, management quality, and employee relationships are most important and the improvement of these key intangible factors increase market value (Low, Siesfield, & Larcker, 1999).
The SEC symposium in 1996 agreed that non-financial measures are useful indicators of internal performance (Investor Relations Business, 1999b). Ernst and Young also indicate that up to 45 per cent of market value can be related to non-financial performance, with the top drivers being human capital alliances and management quality, of which 35 per cent account for investor’s decisions (Investor Relations Business, 1999b). Investor Relations Business believes that this figure should be higher stating that intangibles account for up to 85 per cent of perceived value (1999a). Analysts are increasingly using non-financial measures to evaluate companies (Investor Relation Business, 1999b), because financial statements fail to provide information on what drives company value. A statement should be created to enable companies to demonstrate their intangible assets and the value of those assets, and in the future, how these assets have been managed (Batchelor, 1999). The process of reporting intangibles has been critical to the success of Coca-Cola (90 per cent of value), Microsoft (85 per cent), Intel (62 per cent), General Electric (54 per cent) and Exxon (14 per cent of value) in 1977 (Booth, 1998). Without question, the importance of intangibles varies with industry; nevertheless, Handy (1996) argues that the value of business can be up to twenty times the value of its tangible assets. Low, Siesfield, & Larcker, (1999) indicate that the most statistically significant factor differentiating winners and losers three years after IPO is alignment of employees with corporate strategy, organisational communication being a corporate strategy. They believe that intangible assets are often the best predictor of future performance and value creation. Therefore, an organisation’s communication should be strategised and measured in order to enhance and report it as an intangible asset and/or a contributor to social capital.

In today’s industrialized world 70 – 85 per cent of the workplaces represent service or knowledge organisations (Sveiby, 1997), whose resources consist mainly of intangible assets. These types of investments should be considered assets even though their economic value is uncertain. Sveiby indicates that ‘Money is merely a proxy for human effort, and the 500-year-old system of accounting sheds little light on the vital processes in organisations whose assets are largely non-monetary, and intangible. We need new proxies’ (p. 3). Nonetheless, the problem of measuring and reporting intangible assets continues to exist.

Measurement and Disclosure of Intangible Assets

The Hawley Report, part of KPMG’s IMPACT program that studied thirty major organisations who share experience and knowledge of information management, classified the value of information according to its market value, its possible impact on organisation if stolen/missed, and its potential to increase revenue. The most recognized methods for measuring intangible assets are the Balanced Scorecard, Skandia’s Navigator, Economic Value Added (EVA), and Inclusive Valuation Method. The Balanced Scorecard (Kaplan & Norton, 1996) focuses on customer needs and values, internal processes needed to achieve superior customer value, innovation and learning, and financial means of adding value for shareholders. This method encourages mission driven organisations rather than financially driven ones. Skandia’s Navigator is a model developed by a Swedish financial services company to measure intellectual capital to ensure that corporate actions encourage development and renewal as well as financial performance (Skyrme & Amidon, 1998). EVA is based on operating profit minus cost of capital. This model involves adjusting the balance sheet to add back expenditures on marketing, research and development, and more to ensure that the investments in the organisation are not understated. The Inclusive Valuation Method is a two-pronged valuation approach with the first being the application of value to various intangibles in an organisation and the second combines monetary and intangible values into a practical framework.

As Skyrme and Amidon point out, in the Journal of Business Strategy, these measures are more focused on business outcomes. The ‘tricky’ part is to devise measures that are both relevant and comparable with the outside world (1998). Therefore, to take advantage of an organisation’s strategic communication, a tool must be developed to measure and compare its contribution to social capital and business outcomes.

Figure 2: European Model of Quality Management

![Figure 2: European Model of Quality Management](source: Tapiero, C. (1996))
Providing linkages and building trust are requisites for a healthy return on social capital investment. Employee associations should be fostered, especially in these times of volatility and virtuality. Management researchers Davenport and Pearlson report on a consumer products company that prefers employees to work outside the office only once they have been with the company for one year. This period of time allows new employees to become aware and understand the culture, practice the protocol, and establish relationships, all of which enhance the trust factor of social capital that organisations desire.

Organisations must obtain legitimacy in the eyes of their internal and external constituents to create loyalty and give meaning to their efforts. Moreover, the vital link to earning organisational legitimacy is the relationships that are developed via effective strategic communication. In the words of Hobson Brown, Jr., president and CEO of Russell Reynolds, ‘Everything in this firm works because of social capital.’

**Strategic Communication Capital**

The literature on social capital fits with the quality management literature to create a framework for the modelling of strategic communication capital. Winter and Judd (1996) have combined the teachings of Deming, Covey, and Senge to define quality as fundamentally relational: ‘Quality is the ongoing process of building and sustaining relationships by assessing, anticipating, and fulfilling stated and implied needs.’ Even when an organisation openly communicates their commitment to do the right thing right, on time every time (e.g., six sigma), and to structure product/service features in order to satisfy customers, there is an underlying belief in the importance of their ability to build and sustain relationships.

These concepts are further supported by a review of the contributions from the leaders of the quality management literature. Deming contributed the importance of planning, executing, evaluating and reacting for quality to occur. Juran contributed the importance of the planning, the controlling, and the feedback loop for continuous improvement. Crosby developed a price of non-conformance model that questions whether organisations can afford low quality. The European Model of Quality Management emphasizes that business processes are the harnesses and motors by which organisations utilize the talents of their people to produce results. This model illustrates that business results, constituent satisfaction (e.g. customers, employees, etc.) and impact on society are the results of leadership, policy and strategy, the allocation of resources, and the design of quality business processes (Tapiero, Charles, 1996, page 52).

The European model motivates the measurement of constituent needs, organisational goals, actual performance(s), and satisfaction of constituents. The conceptual congruences between this model and the strategic communication model are clear: they are both interested in creating intangible value derived from quality of a process as perceived through the satisfaction of the situational constituents. The European model of quality reflects a framework for managing business processes. The strategic communication model provides a structure for planning and executing effective communication of specific organisational initiatives. Therefore, the elements of each of these models have been combined to create the strategic communication capital model.

The strategic communication capital model illustrates that it is the intangible value of the strategic communication system that drives the efficient and effective use of people and other resources in business processes that in turn lead to desired business results. This model has four major components: the strategic communication system, business processes, business results and feedback between the people in the organisation and the constituents of the marketplace. Ultimately, communications of the business’ results determine the flow/withdrawal of market resources to the organisation.

The strategic communication system in this new model represents the intangible asset that results from the complete set of individual strategic communication objectives (see Figure One). The strategic communication system is framed as an overall proactive tool for...
driving organisational initiatives. This strategic communication system perspective requires an analysis of the business’ context and audiences, both internal and external.

The organisation’s strategic communication system influences the business processes by either aligning or misaligning the human and other resources of the organisation in the execution of its business processes. Therefore, if an organisation is successful in its implementation of strategic communication (e.g., has an intangible value), it will experience a measurable positive effect on the efficiency and effectiveness of its business processes. Alternatively, if the organisation either does not implement a strategic communication system, or does so poorly (e.g., has an intangible cost), it will experience a measurable negative effect on its business processes.

Business processes represent the value added to or detracted from the organisation’s ability to satisfy the internal and external constituents of the organisation. The successful communication, or lack thereof, of these business processes to all constituents influences the level of constituent satisfaction, and hence, business results. For example, if the organisation communicates high quality business processes to its constituents, it is more likely to satisfy these constituents, which may influence more positive business results. Alternatively, if the organisation does not communicate quality business processes to its constituents, it is more likely to dissatisfy these constituents, possibly leading to less positive business results. Business results in this model are broadly defined in terms of the organisation’s ability to meet the needs of its constituents, be they investors, creditors, customers, employees, regulators, citizens, etc.

An important component of this model is the feedback loop that can transmit the level of constituent satisfaction regarding business processes. It is imperative that organisational members seek constituent feedback in an effort to measure the communication of its business processes. Furthermore, a desirable state of operation exists when one’s constituents offer feedback regarding the communication of the organisation’s business processes. This cyclical effort resulting from feedback allows organisations to monitor its communication initiatives in an effort to continue strengthening its relationships with constituents as well as reporting its communication system as an intangible asset.

As reported earlier in this paper, the strengthening of these relationships is directly related to the flow or withdrawal of market resources to organisations in the marketplace (e.g., Ernst & Young, Coca-Cola, Microsoft, Intel, etc.). This model predicts that less favourable business results will lead to a reduced flow of market resources to an organisation, just as more favourable business results will lead to an increased flow of market resources. The flow of market resources will be motivated from the communications between internal and external constituents as a result of the corporate communication system, the intellectual capital of the people of the organisation, and the social capital supporting teamwork, for the primary purpose of optimizing the business processes so that the products and services offered by the organisation better match the needs of the constituents.

**Conclusion**

This paper has combined concepts from communication, accounting and operations management literatures to arrive upon a new model of strategic communication capital. This model creates a framework that argues for the exploitable, intangible value of an organisation’s strategic communication system. The basic idea is that there is an underlying organisation-level value from effective communication systems that is not captured by typical accounting systems but that is significantly appreciated by marketplace constituents. The underlying assumptions of this model are that business value is difficult to achieve without the effective building and nurturing of intellectual capital and human relationships.

The collection of empirical data to test the implications of this strategic communication capital model would be the next logical step of this research. Instruments need to be designed and tested for the model components of strategic communication systems, business processes, business results, feedback between the organisation and the market constituents, and the flow of market resources to the organisation. Direct measures of strategic communication may include communication protocol audits and field interviews. Indirect measures, however, may be more practical. For example, Morse, Roth and Poston, suggest measuring quality prevention, appraisal, internal failure and external failure costs in efforts to measure quality (National Association of Accountants, 1987). A similar approach may be utilized to measure some of the components of the strategic communication capital model.

Once these measures have been developed with an acceptable internal validity, then the linkages and implications of the model can be tested with real-world market data. It is hoped that the analyses of such data will demonstrate how an organisation’s communication system value, through its effect on people and resources in business processes, helps to build relationships with constituents that lead to better business results. Improved communication of business results would then lead the organisation to better sources of capital, employees, and constituents (e.g., customers, suppliers, creditors, investors, etc.).
**References**


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