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Intangible Assets and Organizational Health

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Every organization reaches its goals by utilizing its assets. And if it is responsibly managed, it keeps a running account of those assets, typically representing them in monetary values.

This form of representation is universal and, indeed, necessary. But it can also be a subtle form of hypnosis that leads to the erroneous—and potentially dangerous—assumptions that all assets are monetary and that money is the "first cause" in the chain of events propelling an organization to its goal.

In reality, money is not the first cause. Other, intangible assets are more fundamental still. Among these are imagination and goodwill. With a bit of reflection we can see that this is so.

It is not unusual for a new organization, especially a nonprofit organization, to start out with large amounts of imagination and goodwill, but little or no money. Still, if the organization is resourceful it can leverage these intangible assets into a financial base.

A good example is the American Composers Forum, the country's largest service organization for classical composers. The Forum was started in the 1970s with great imagination on the part of its founders and equally great goodwill on the part of many professional musicians—who performed gratis on its early concerts simply because they enjoyed the comradeship.

These intangible assets were utilized to very tangible ends. The organization established a track record of performances, which it then leveraged to secure the financial backing of foundations, corporations, and individuals.

The kind of goodwill that the Forum had was, of course, the "cheerful readiness" kind (not the "excess of cost over book value" kind). Had the Forum been short on "cheerful readiness," its founders' dream probably would not have materialized.

Now this hints at an interesting, but rarely acknowledged, relationship: an organization's financial condition at one point in time is a function of its imagination and goodwill at an earlier point in time.

Because of this relationship, it is sometimes the case that an organization's current financial picture will look quite good, while its current accounts of imagination and goodwill—accounts that will shape its future—are declining undetected. This can happen when an organization uses an incomplete monitoring system to track its resources.

To evaluate itself and steer itself into the future, an organization studies its past behavior. And since it can only study behavior that it remembers, it sets up a record-keeping system to document its actions.

Every system is a set of categories. The categories direct attention to particular things and relationships. The most prevalent system, of course, is the financial accounting system—a framework where various monetary actions and relationships are easily entered and retrieved.

Items that don't fit into one of the categories often slip through the cracks. When an organization's monitoring system contains only financial categories, the organization is likely to lose sight of important non-financial assets.

Imagination and general goodwill are just these kinds of assets. Usually there is no formal system to monitor them. They are only informally noted in the memories of people directly involved. That makes them difficult to track. Were the entire personnel of an organization to change, the history its financial assets would remain in its ledgers for everyone to see. Not so with intangibles. Every time an involved person leaves an organization, it loses some of its informal accounting of these assets.

Intangible relationships are subtle and elusive. On the other hand, financial relationships are not. They're easy to record, photocopy, and pass around for everybody to look at and comment on. Thus, as organizations grow larger and more complex, they tend to spend more and more time pouring over the easily-accessible records of their financial health and less and less time looking after the unseen intangible assets that generate that health.

To remain viable over the long haul, organizations need more than financial solvency; they need "intangible" solvency. It behooves them to pinpoint the people who supply imagination and goodwill and to foster symbiotic relationships with those people.

When relationships of mutual advantage deteriorate, intangible assets dry up and organizational health declines. Organizations are then forced to expend scarce resources to rebuild the intangibles they squandered. Sometimes they never recover.

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