

Putting People into Managing for Value

Improving the way we manage the enterprise, our people and our intellectual capital is essential for achieving full shareholder value.

This paper describes the three components and develops a value engine that provides a frame for integrated strategy development and implementation.

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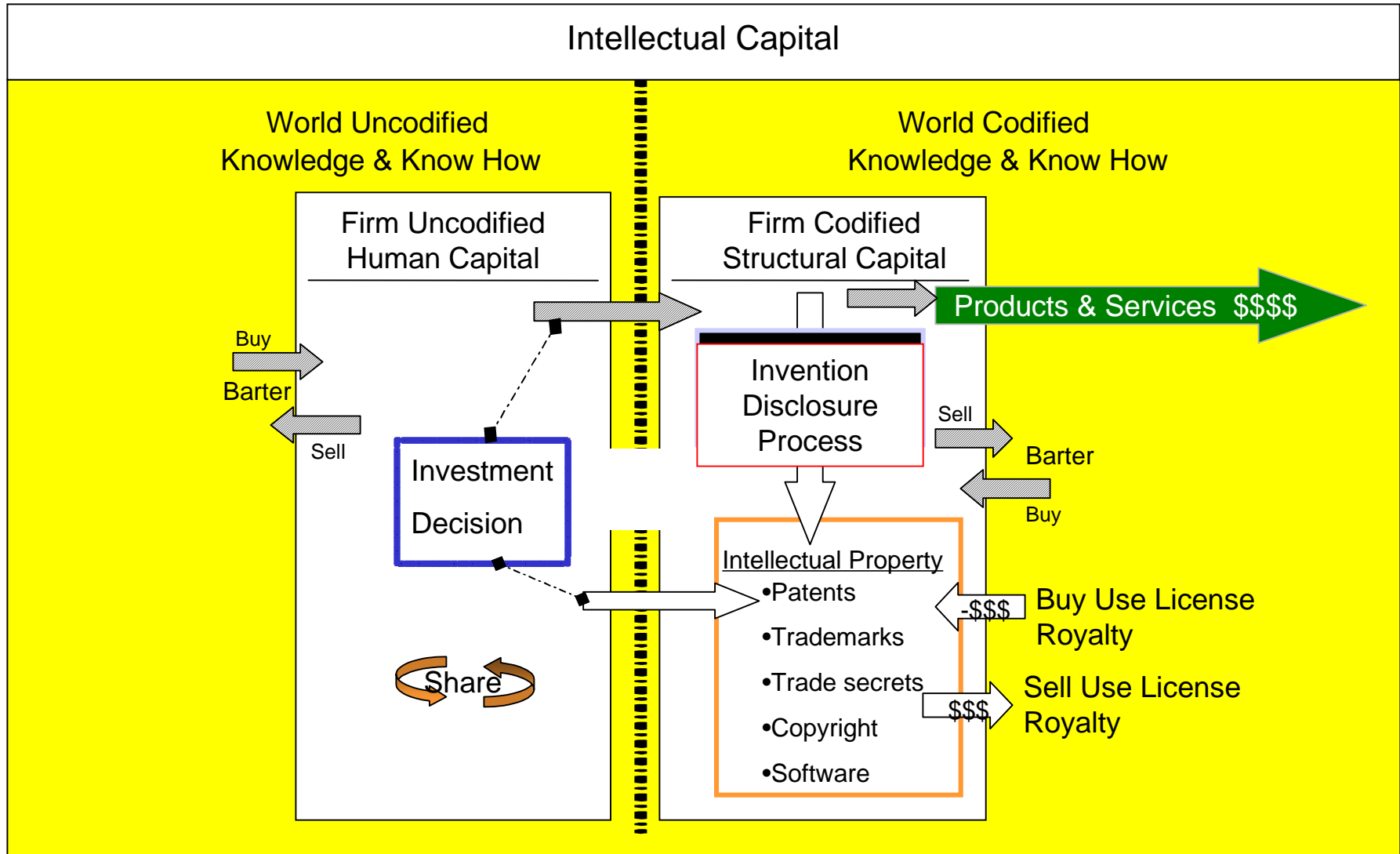
Agenda

- Purpose
- Context
- Model
- Enterprise Management System Components
- People Perspective
 - People Capability Maturity
 - Decision maturity
 - Intellectual Capital Management Maturity
- The Value Engine
- Discussion

Required Context Change to Thrive in the Information Economy

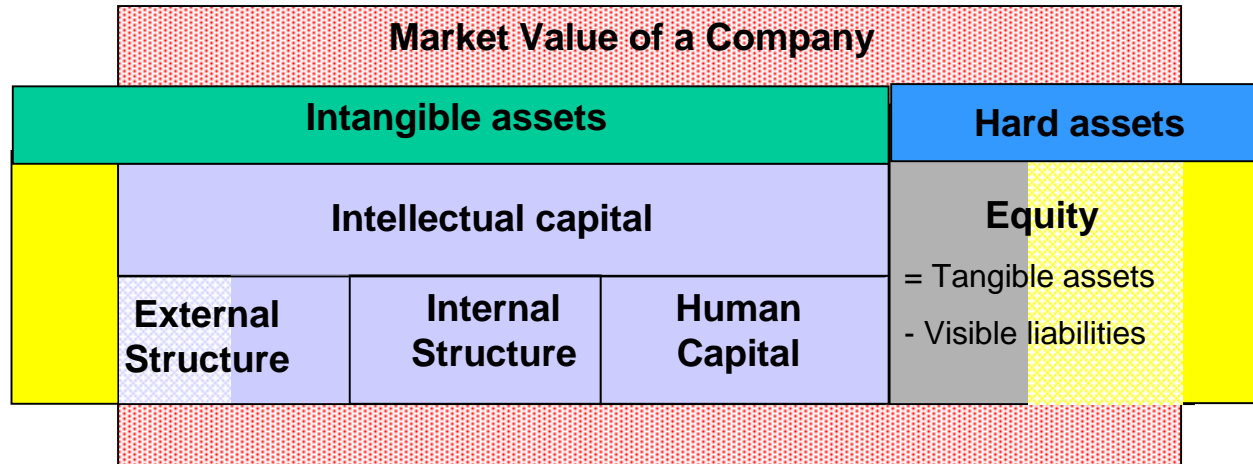
Factors	Industrial Economy	Information Economy
Price	Falls with increased quantities of the product	Falls with increased quality of the workforce
Labor	Simple and routine	Knowledge and ability of employees to transform it into profitable action
Ratio of production to all other costs	80:20	20:80
Labor application - quantity	Same quantity input produces same quantity of output	Same quantity input produces different quantity of output
Labor application - quality	Different quality input produces similar quantity of output	Same quality input produces similar quantity of output
Capital emphasis	Physical and Financial Capital	Intellectual Capital – Human Capital and Structural Capital
Organization goal	Maximize margin. Buy low; sell high	Add value and create wealth
Accounting focus	Cost control. Traditional accounting -> Activity Based Cost. Costs of individual production operations without connection to other activities such as marketing, service, R&D	Value creation. Value added. EVA and Economic Profit -> Intellectual Capital Accounting
Management Focus	Production Strategy. - Manage Cost; minimize overhead	Business Strategy - Manage Intellectual Capital; achieve full value
Management Metrics	Output / Input	Human Capital Potential; Structural Capital Efficiency

How Intellectual Capital produces value



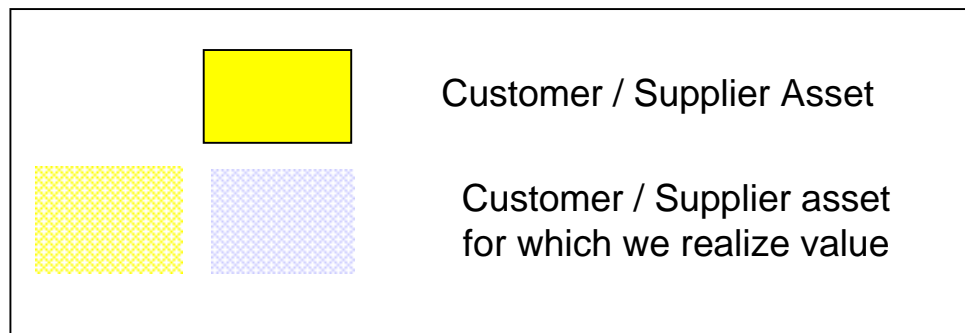
Intangible assets = Market Value of a Company - Equity

Often Intellectual Capital is the dominant asset, but the market imputes value only to intangible assets that clearly contribute to the corporate strategy for value creation.

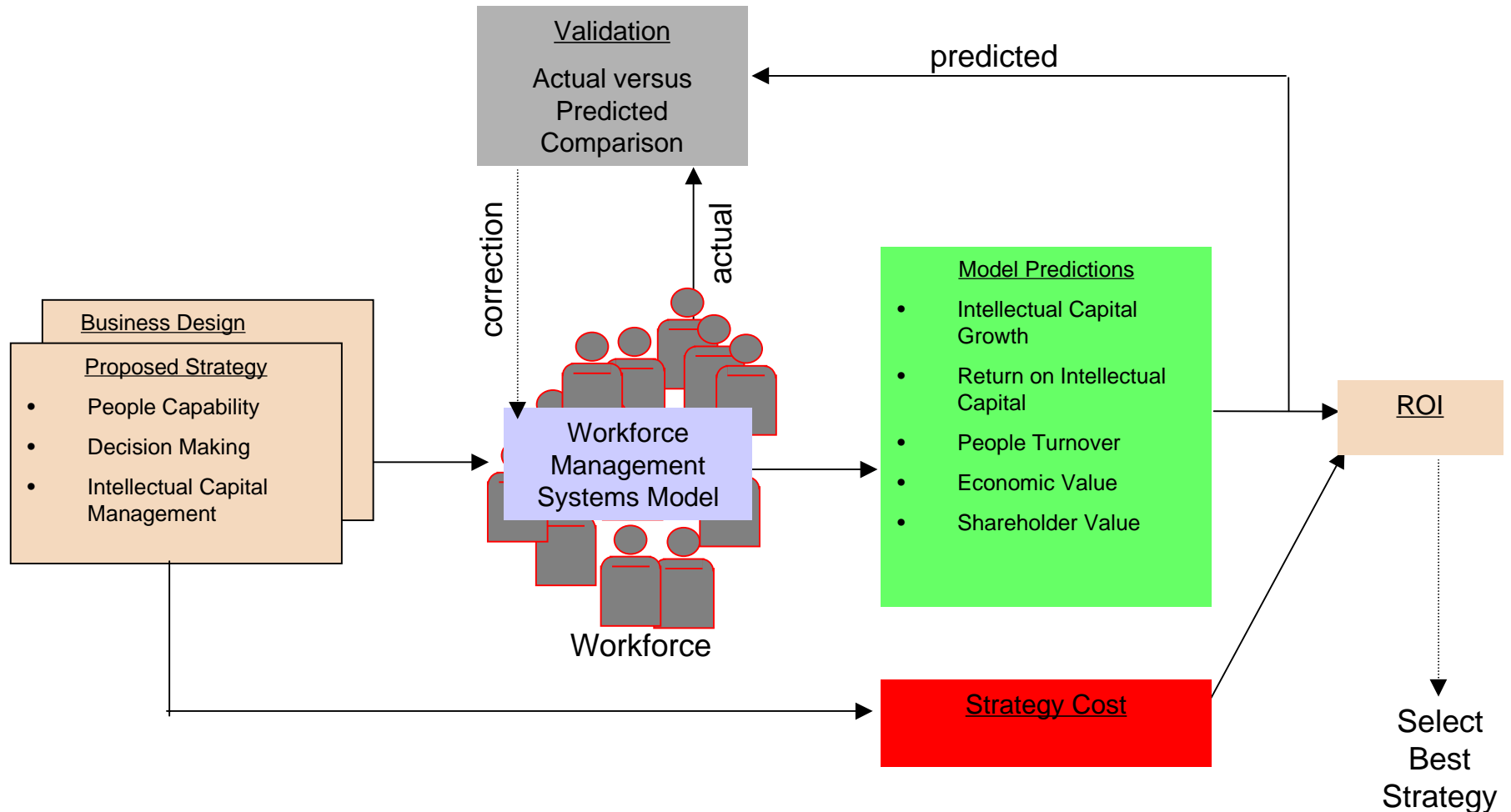


Some firms whose Intangible assets significantly exceed their Equity

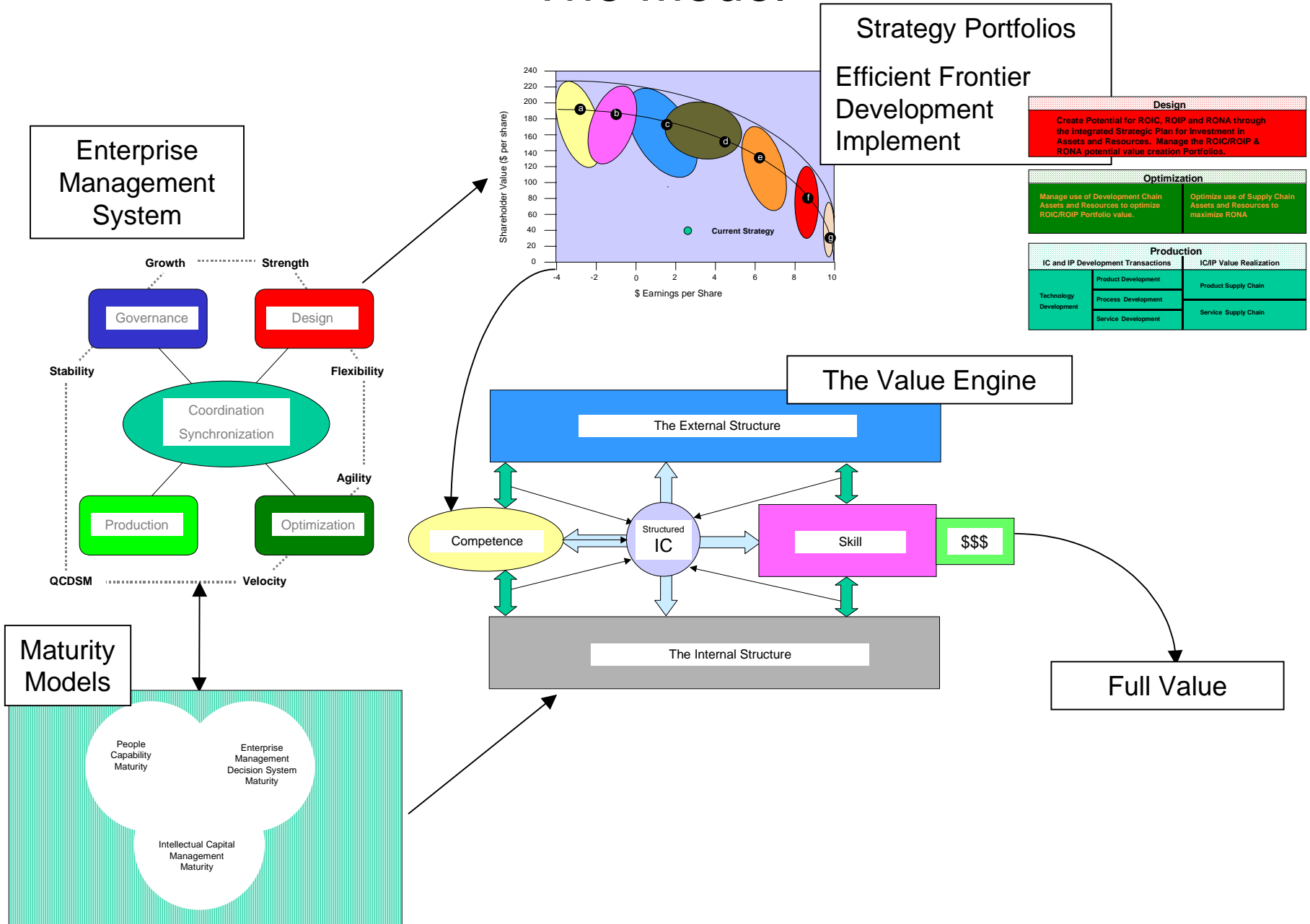
- Microsoft
- IBM
- McDonalds
- Coca Cola



Measurement Model for Intellectual Capital (Validated over Time)

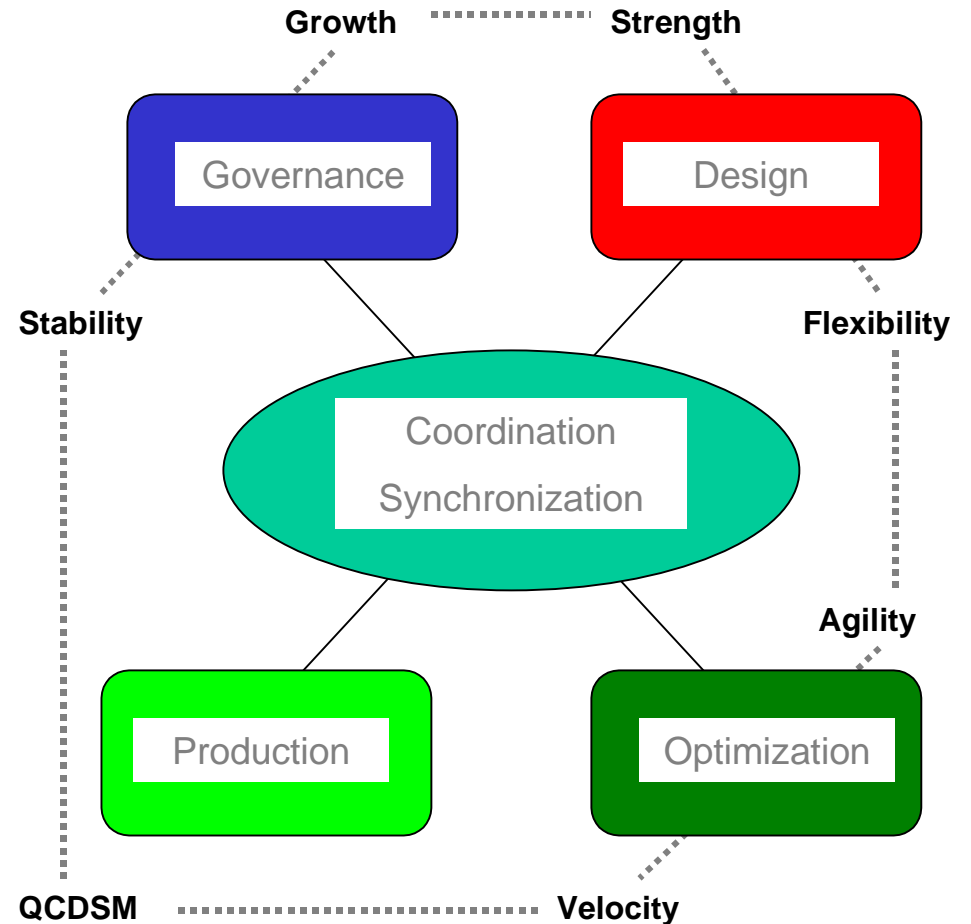


The Model



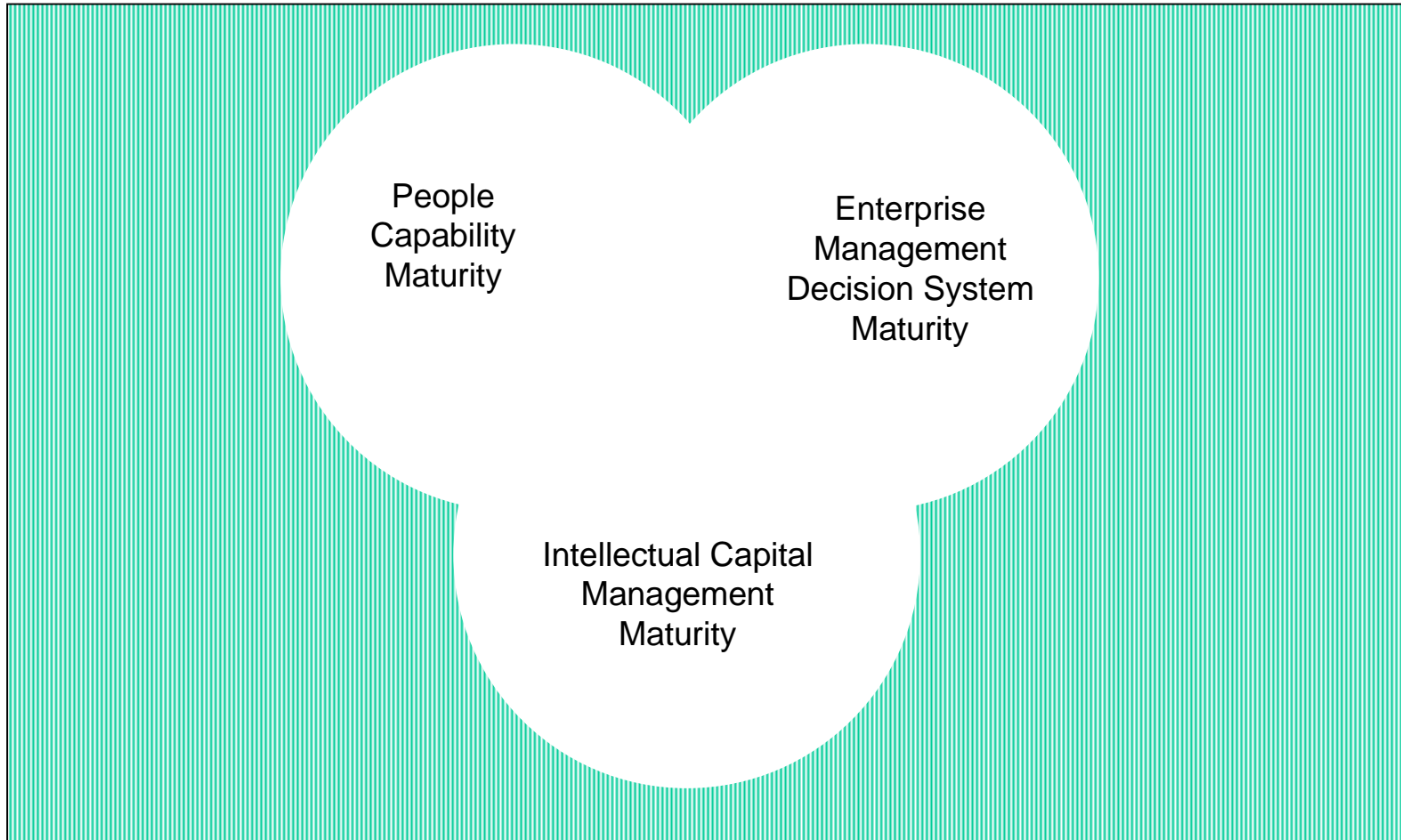
Enterprise Management System Components

- **Governance**
 - Strategy for Scope of Business and Position in Industry to create potential for stability and growth
- **Design**
 - Integrated strategy for Creating Future Value and achieving business strength and flexibility
- **Optimization**
 - Plan changes to implement the Design strategy (Agility)
 - Manage resources to achieve optimum use (Velocity)
- **Production**
 - Manage Technology Development, Product /Process/Services Development and the product and services supply chains to achieve quality, cost, delivery, safety and morale targets
- **Coordination / Synchronization**
 - The internal information system to manage focus on key issues and information sharing among management system components to achieve rapid resolution and strong concurrence on change actions

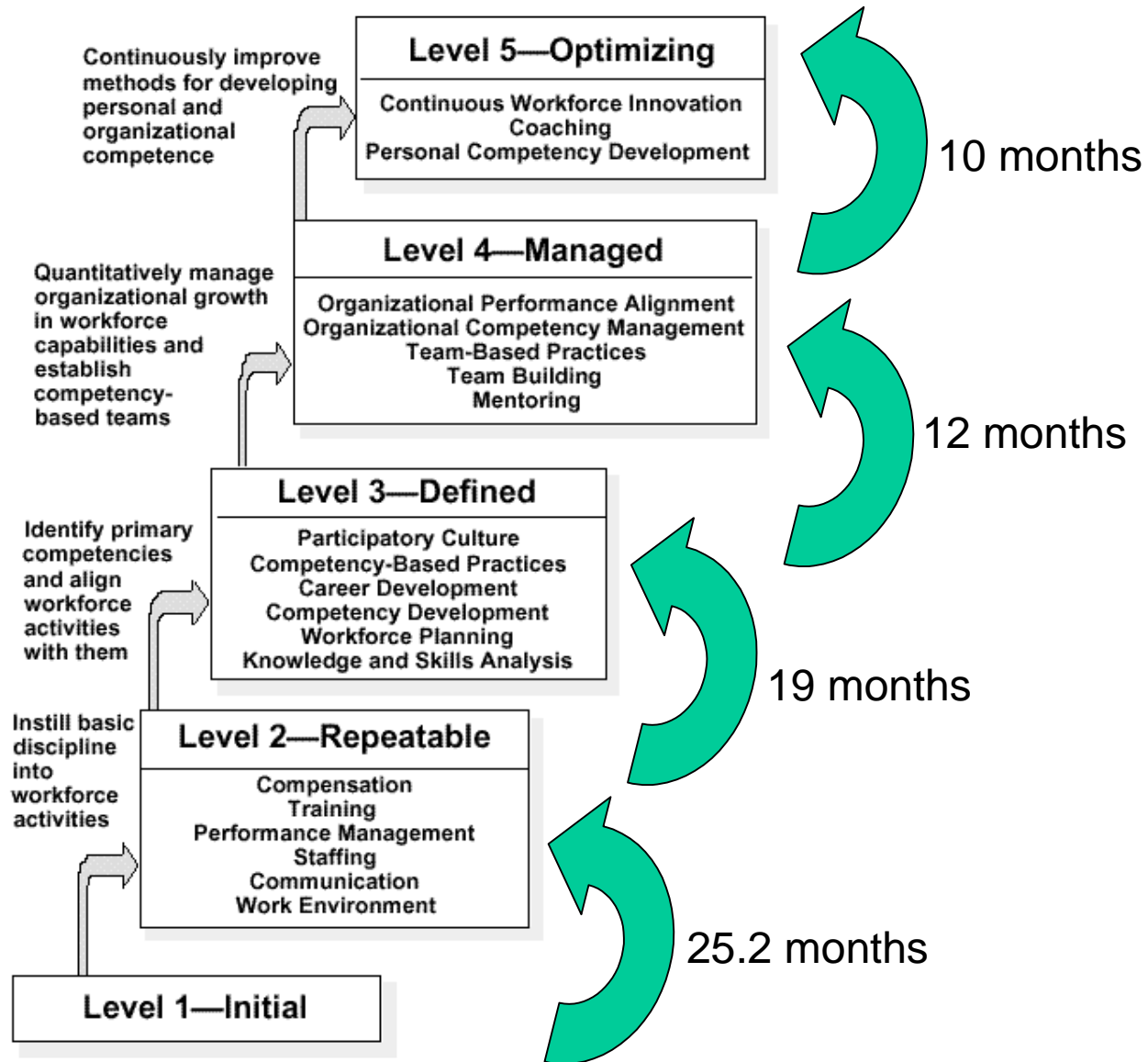


The People Perspective on Managing for Value

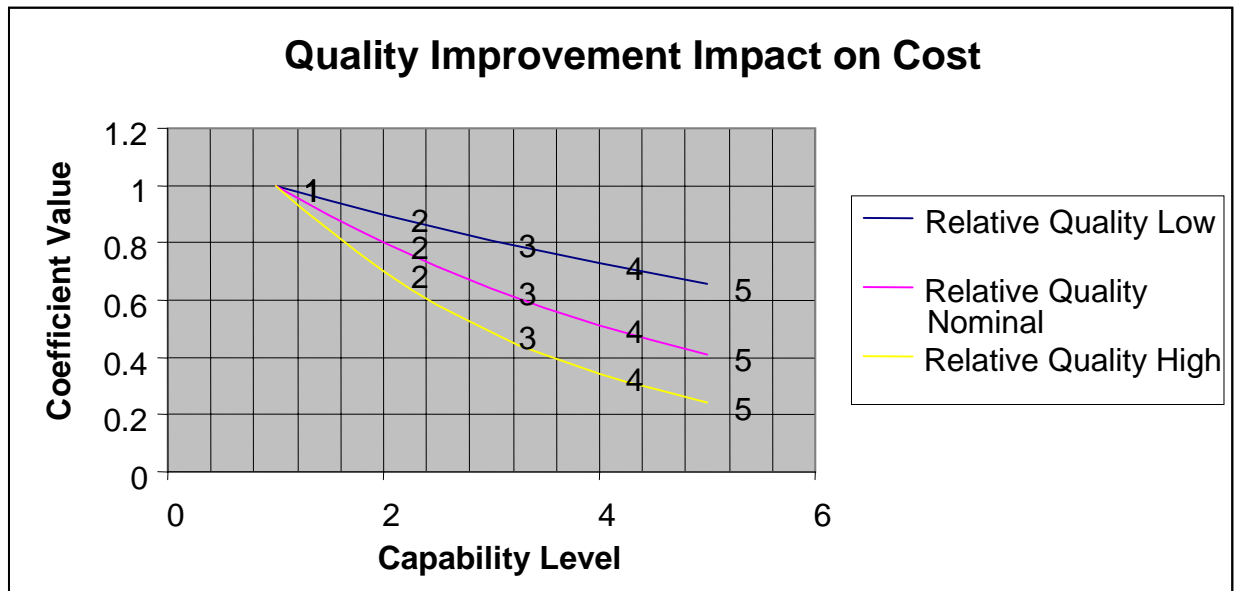
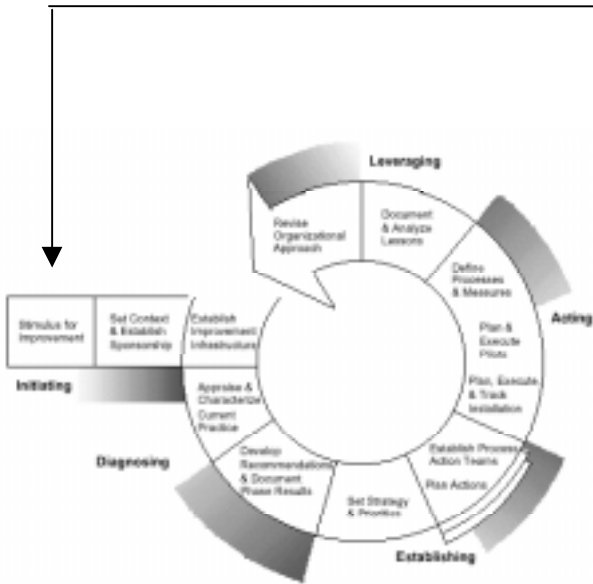
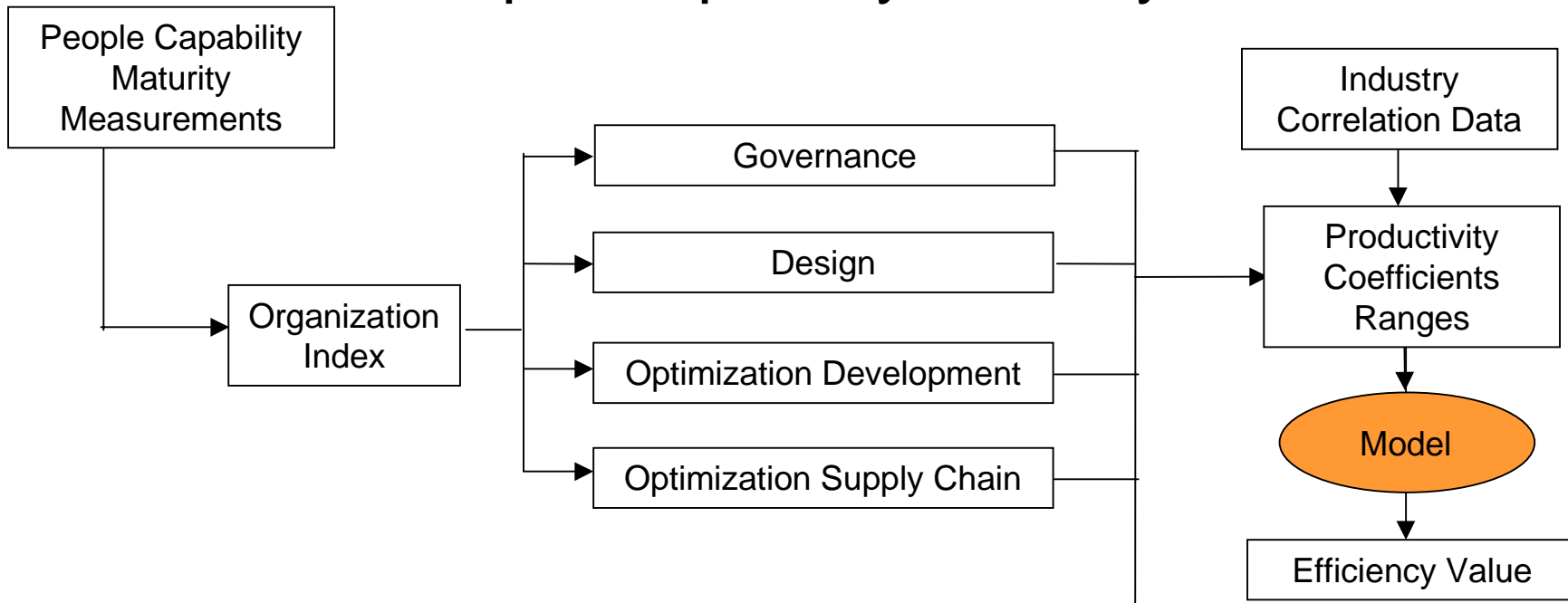
Improving the way we manage the enterprise, our people and our Intellectual Capital is essential for achieving Vision 2016 and full shareholder value



People Capability Maturity Levels

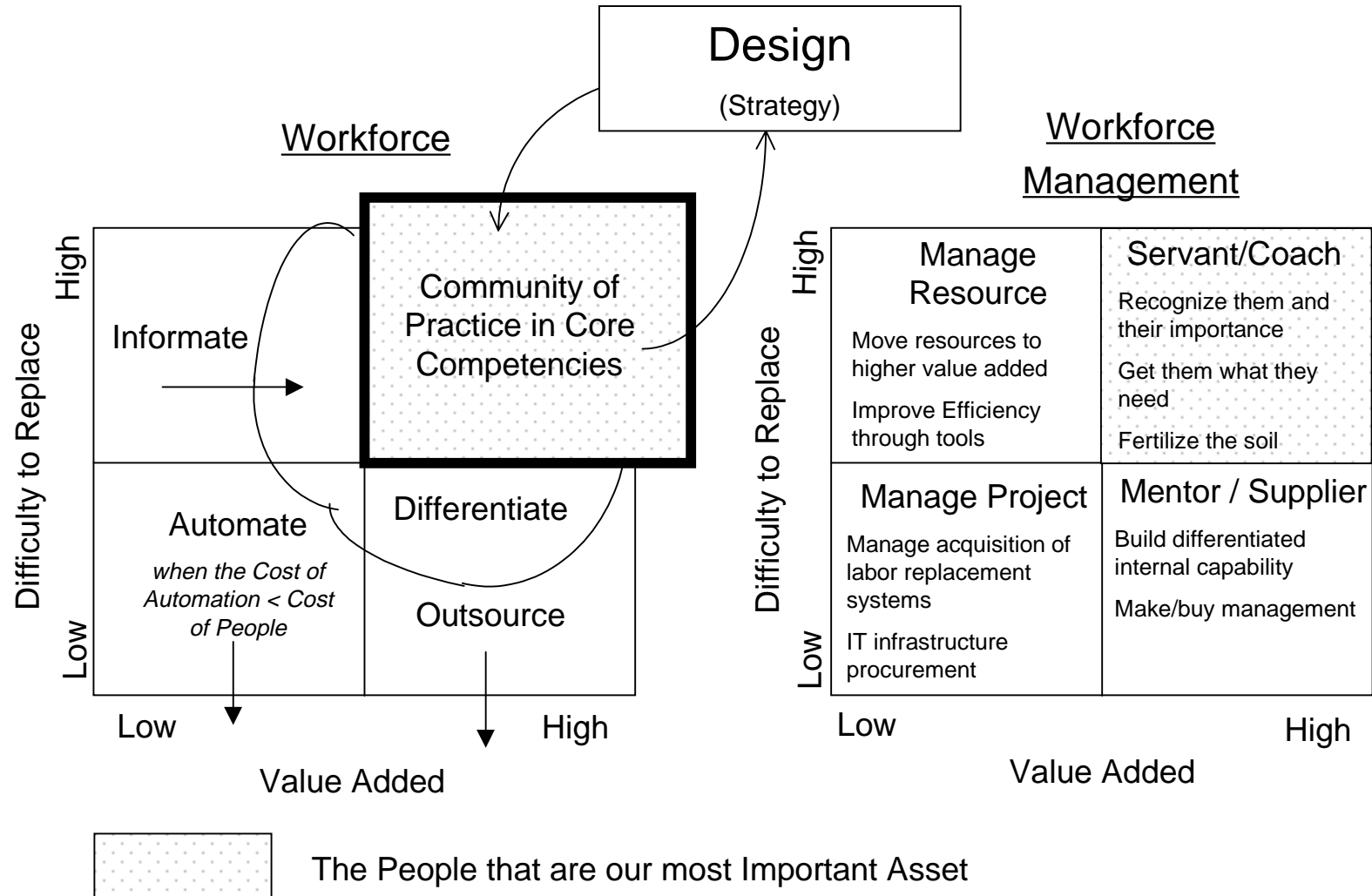


People Capability Maturity

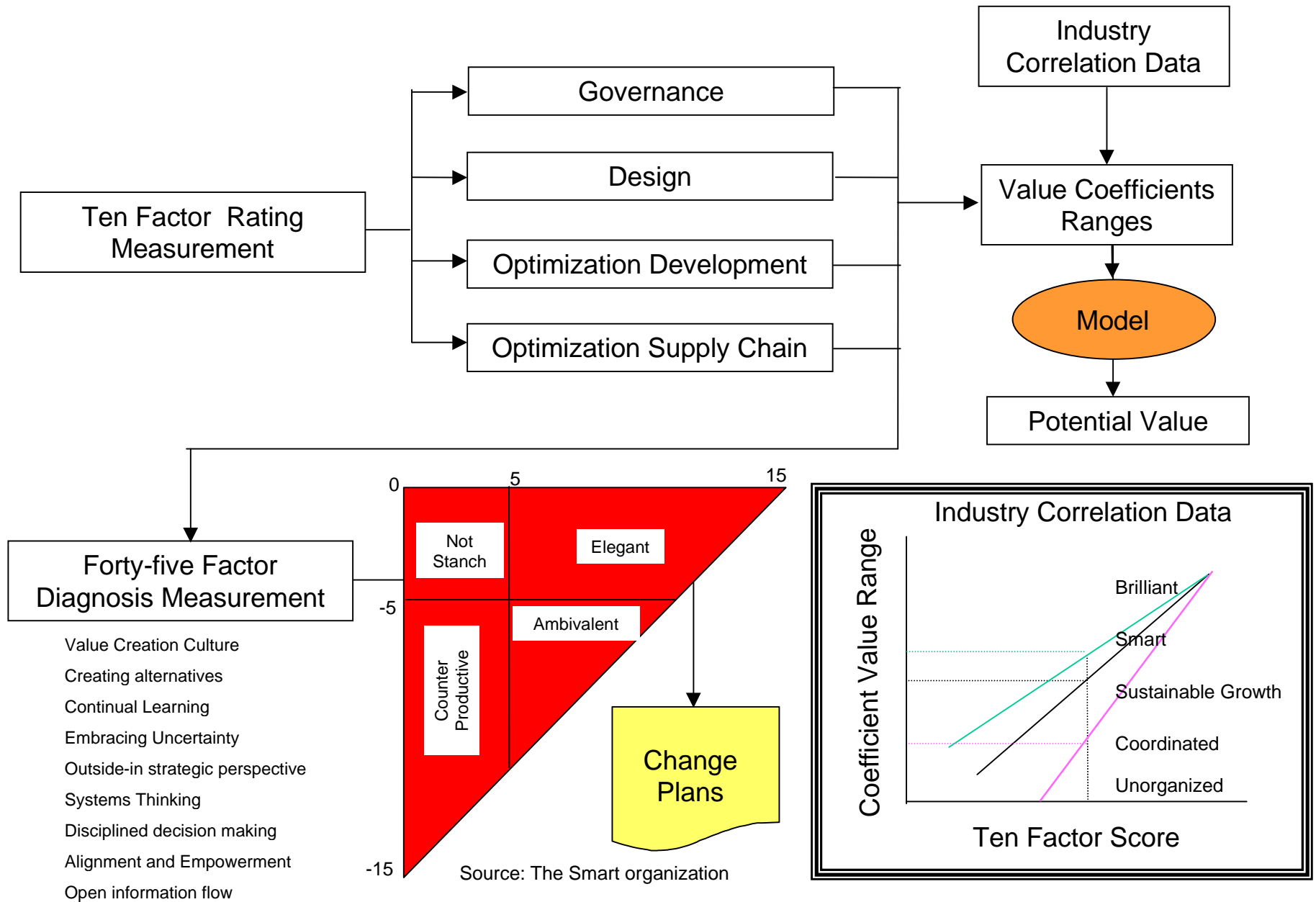


Differentiation in Management of the Workforce

The community of practice draws value dividends from the rest of the workforce only if it is fed by compelling-challenging-integrated strategy that provides a common focus and is allowed to cross the business boundaries



Enterprise Management Decision System Maturity



Basis for Maturity Level Measurement

Principle 8: Alignment and Empowerment

Coordinate Everyone Effectively

PHILOSOPHY The organization is guided through a shared understanding of its strategies for creating value. People are empowered and trusted to pursue value creation.

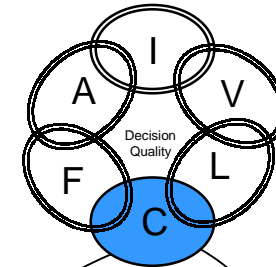
PERSONAL PERSPECTIVE People see themselves as part of a corporation-wide team, understand their individual roles and those of others. They feel empowered to act. They take responsibility both for action and for maintaining a shared sense of purpose.

ORGANIZATION AND CULTURE Strategic decisions are made through a participative process. Horizontal and vertical dialogue is used to realign the organization during periods of change.

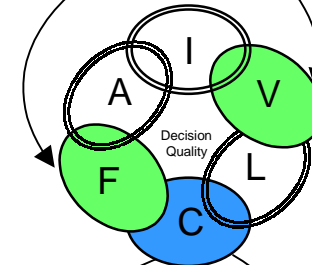
SUPPORT SYSTEMS A decision hierarchy maps decisions at multiple levels and sets coordinated strategic agendas. In the context of each decision area, the system guides management when to communicate about what, and when to take the next “strategic interlude.”

Commitment sets the Frame and Values for the Lower Level Portfolios

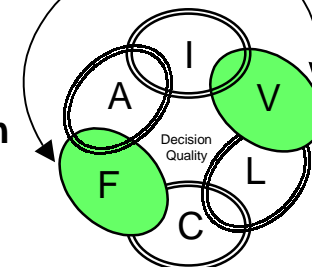
Design Portfolio



Development Portfolio



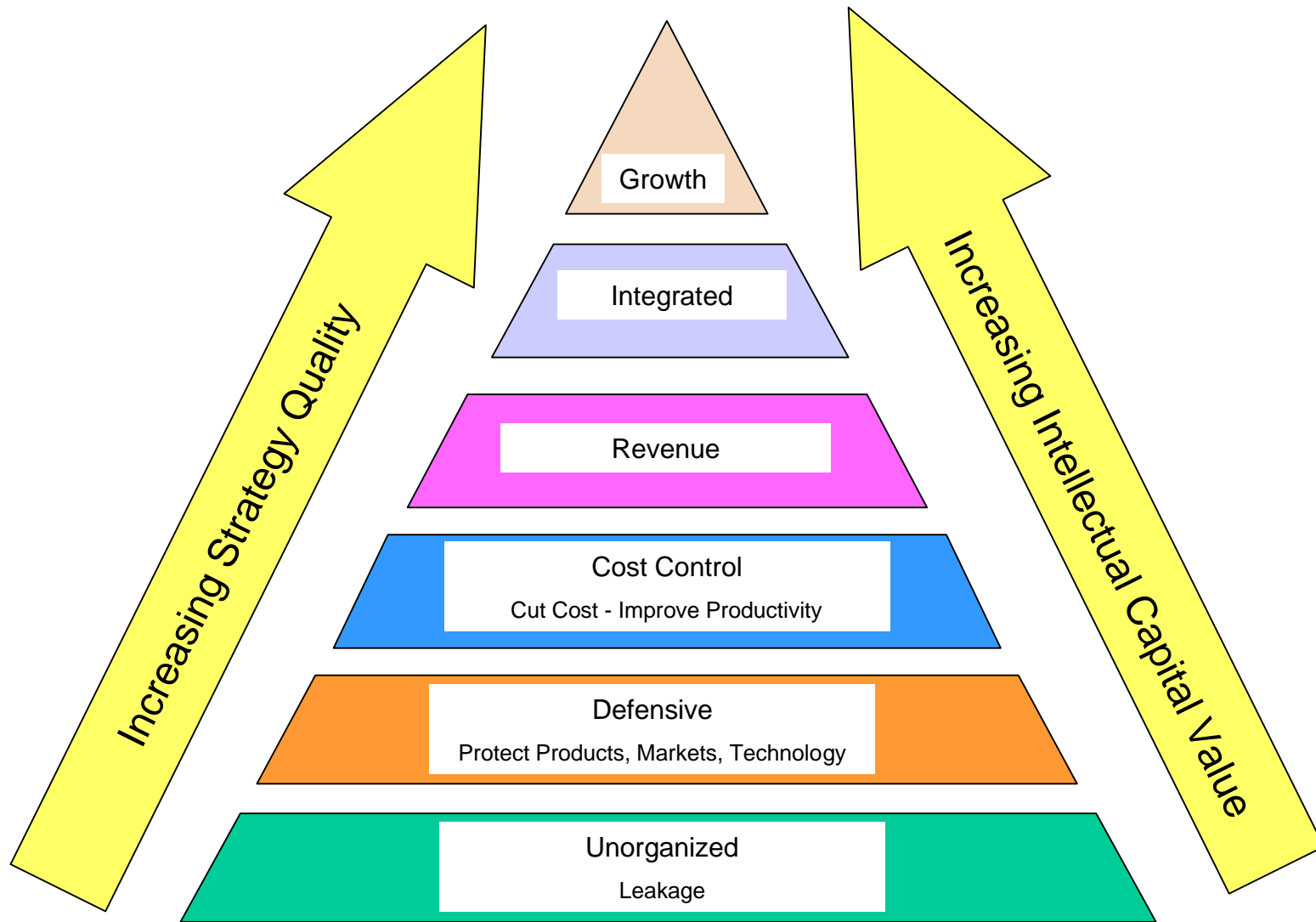
Implementation Portfolio



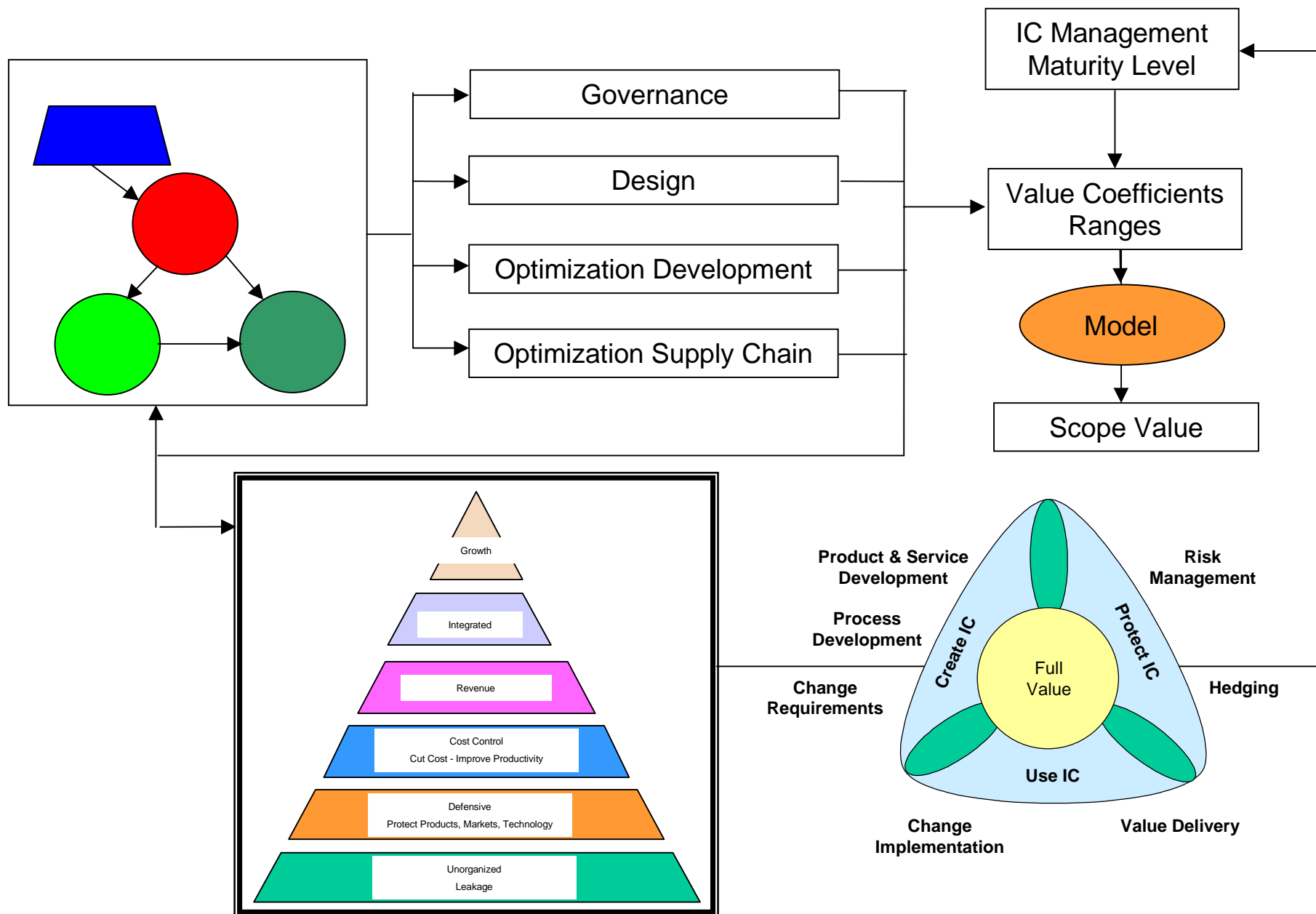
F = Frame
A = Alternatives
I = Information
V = Values
L = Logic
C = Commitment

Source: The Smart organization

The Intellectual Capital Value Management Hierarchy

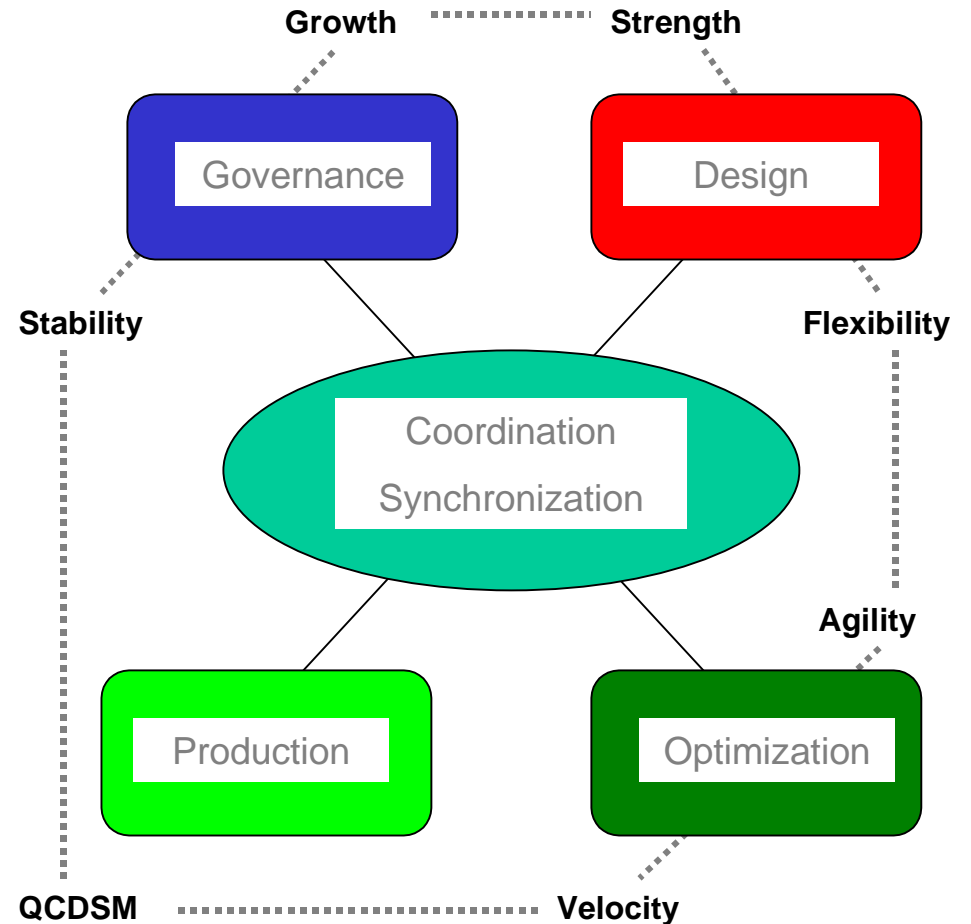


Intellectual Capital Management Maturity



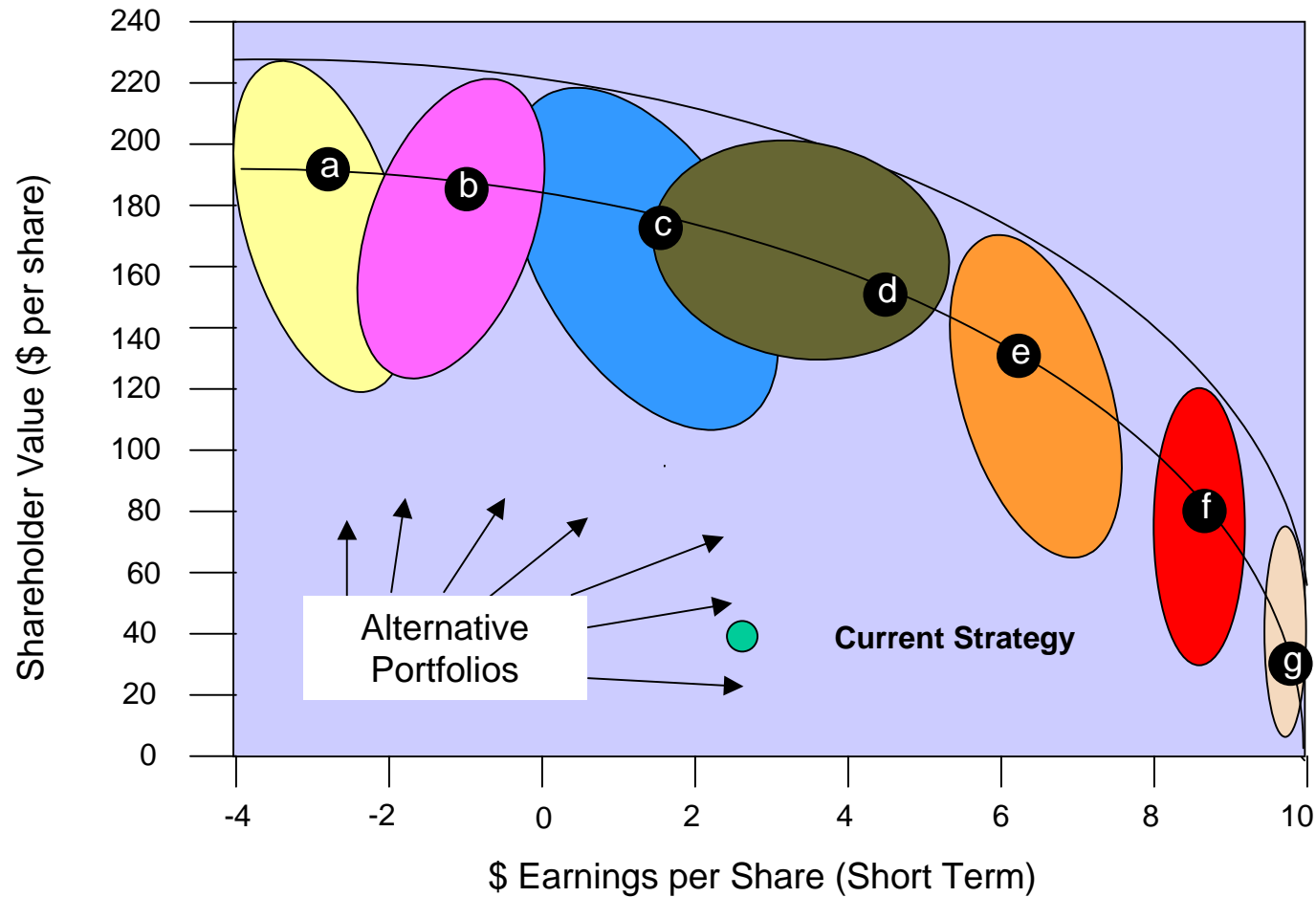
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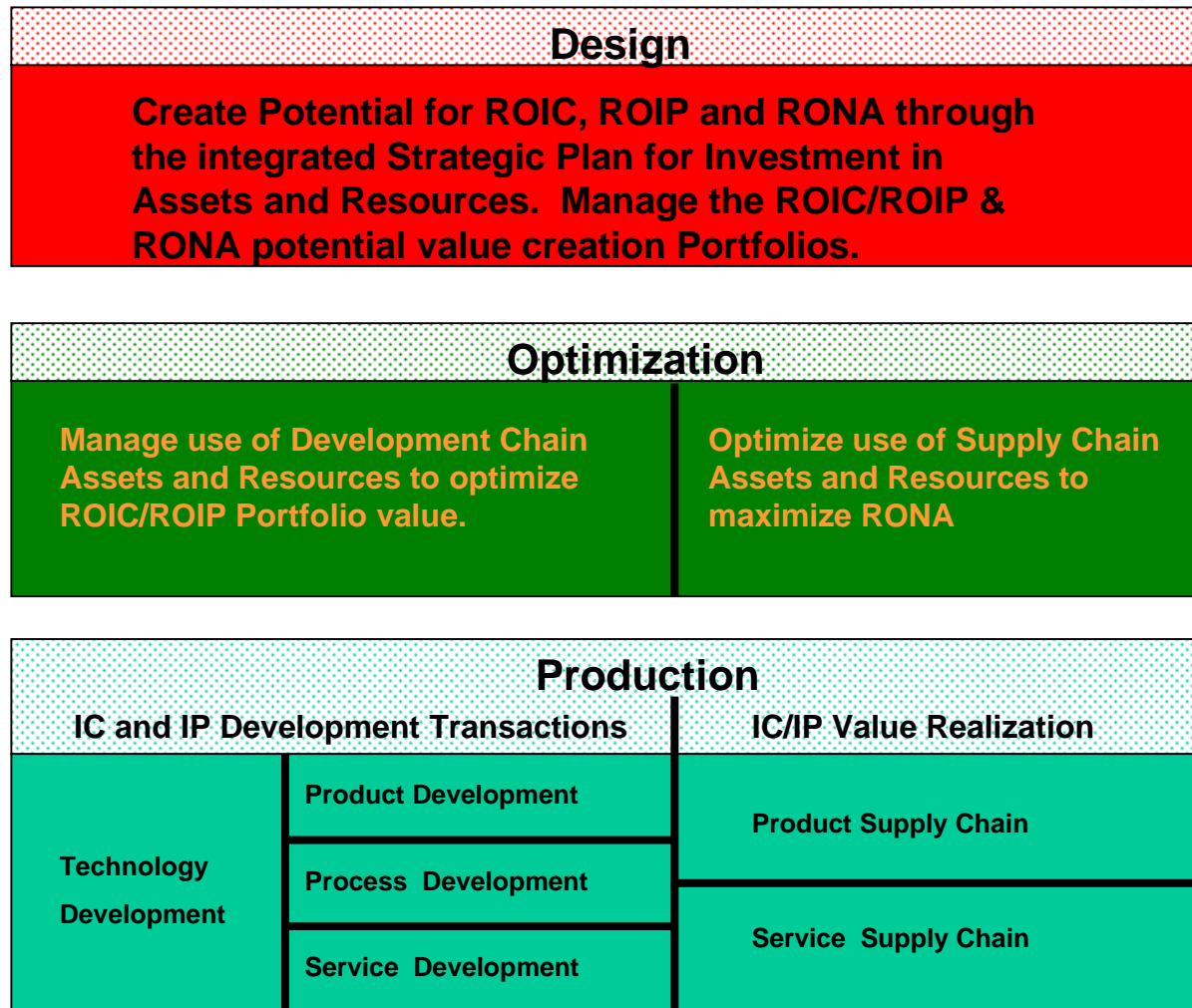
There may be a great deal of uncertainty in the efficient frontier

*Although **a** is the best long term choice for shareholder value the fourth best alternative, **d** may be selected because of its upside potential and its impact on Earnings per Share*

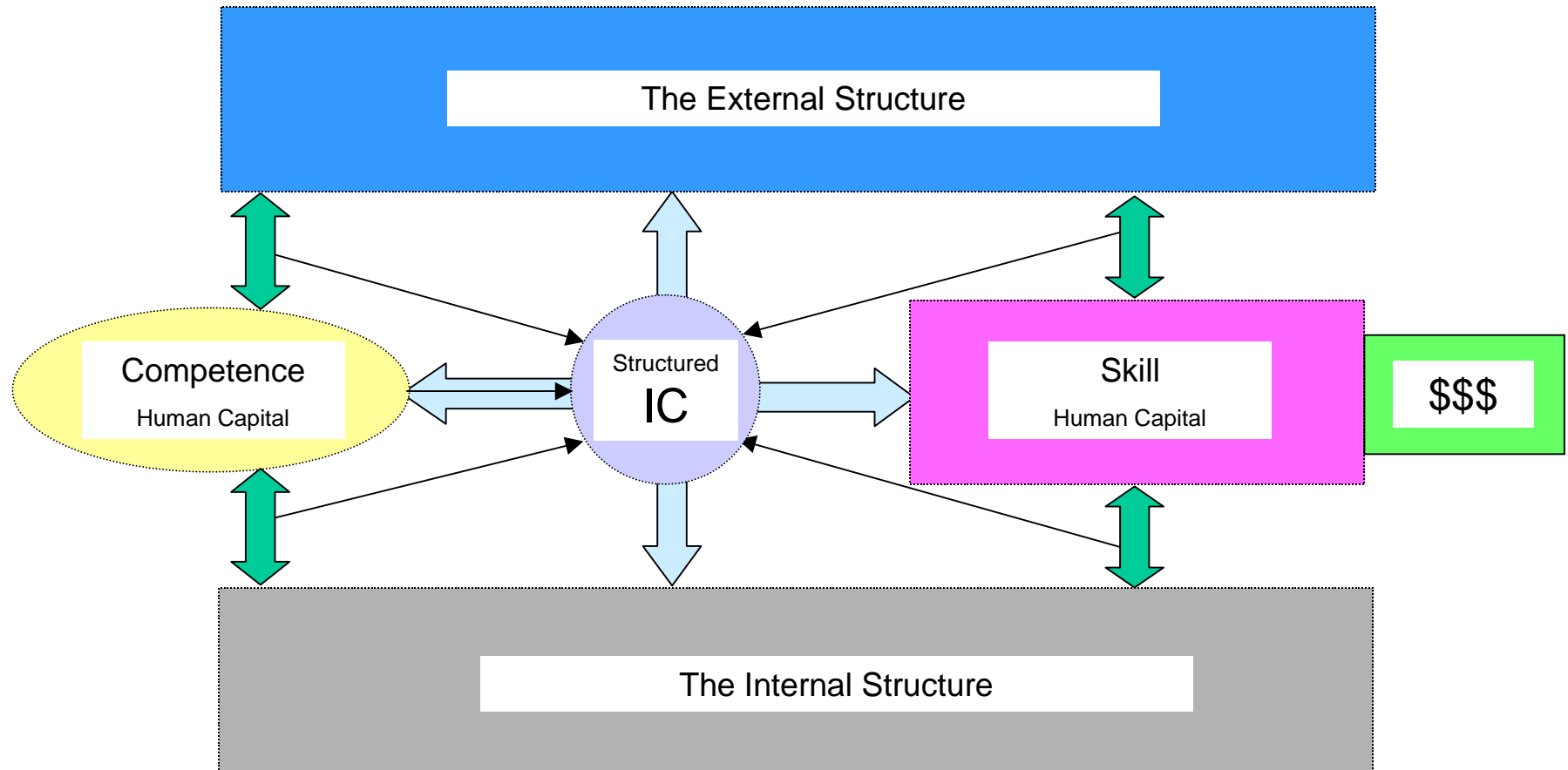


Source: Business Portfolio Management

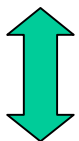
Position of ROIC / ROIP metrics in the enterprise management system



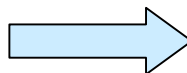
The Value Engine



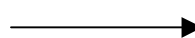
Legend:



A transaction resulting in the creation or destruction of Intellectual Capital



Use of Intellectual Capital



Creation of Intellectual capital

Discussion