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**Dissertation Title**

**Exploring the Design and Development of the Real Value© (RV)  
Methodology: A Value-Based Business Development  
Leadership Metrics System.**

**By**

**Michael Taylor**

**911308701**

In partial fulfilment of the Master of Science in Leadership and Innovation  
Degree, Faculty of Engineering, University of KwaZulu Natal,

As the candidate's Supervisor I agree/do not agree to the submission of  
this thesis.

Date of Submission: July 2009

Supervisor: Professor Robert Taylor, Head Leadership Centre, UKZN

## **DECLARATION**

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Michael Taylor  
(911 308 701)

## **Abstract**

The dissertation explores and explains the design and development of the researcher's Real Value© methodology, through participative action research. The action research (participative exploratory research) was undertaken in the form of professional pilot projects as real world commercial research, for the formulation and emergence of the value-based business development leadership metrics system: The Real Value© Methodology.

The outcomes of the action research are captured in select strategic knowledge reports (i.e. client pilot project research reports) which demonstrate the emergence of the Real Value© methodology, in the client and commercial context, through the entire action research process. The clients were contracted on a professional basis and the fees generated from the commercial projects were utilised to fund the resources required to do the knowledge investigations of the client organisations.

The methodology was intended as a strategic management system, and subsequently developed, through the action research and pilot projects, into a value-based business development leadership metrics system. The Real Value© methodology aims to create, develop and measure the real value of intangible assets (vs. physical assets) in a continuous and discontinuous process of business development: value that is created and sustained through the highest and best application and utilisation of intangible assets in the knowledge (and industrial) economic context. (Intangible assets herein classified as brand, intellectual property, technology, and human and customer capital).

The participative action research was originally inspired by the first Module of the MSc programme 'Managing Complexity' facilitated by Professor Steen Martiny (Copenhagen Business School) during the comparative exercise on 'Extraordinary and Ordinary Management', and specifically during the reading of the first precept of Stacey's (2000) 'Extraordinary Management Theory':

"Detect and attract attention to important external and internal issues, ordinarily not noticed."

The above precept captures the essence and intrinsic motivation of the researcher for undertaking and performing the participative action research of the dissertation. The dissertation explains the real world professional pilot projects and participative exploratory action research that was undertaken by the researcher in the design and development of the Real Value© methodology.

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## **Summary**

### **Real Value© Methodology**

Hamel and Prahalad (1996: 201) assert that, "The most powerful way to prevail in global competition is still invisible to many companies". The objective of the participative action research and subsequent dissertation is to explore and explain the design and development of the Real Value© methodology respectively, a value-based business development leadership metrics system that is proposed as one of 'the most powerful ways to prevail' in the global knowledge-based economy.

The Real Value© methodology is based on a 'participative inquiry' into business development leadership in the global knowledge-economic context. It is a participative and exploratory action research methodology, designed and developed to discover, potentially, the best, the most powerful and profitable ways for international firms, through their executive, management and human capital, to prevail in the global knowledge-based economy. (Stacey, 2000)

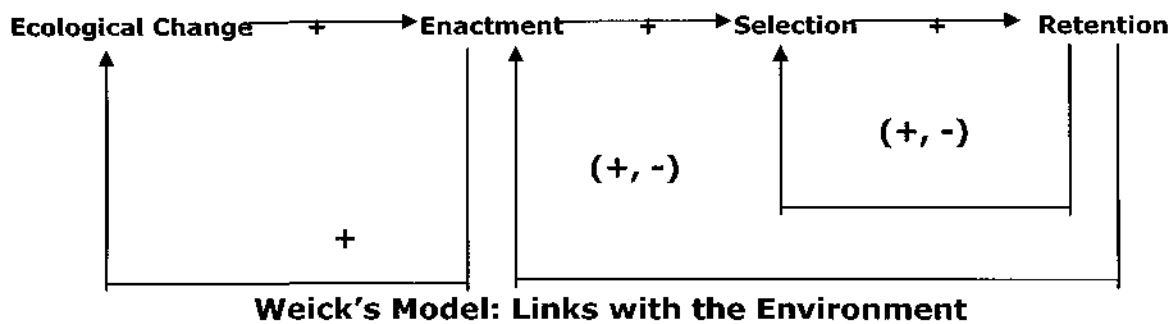
### **Stacey and Weick: A Constructivist Perspective**

The action research is inspired primarily by the work of Stacey (2000) and Weick who describe leadership, strategy and organisational development, in the knowledge and industrial economic context of the information age, from a constructivist point of view. Both Stacey and Weick are of the view that we are active participants, consciously engaged in a process of reality construction and creation, through a complex process of human interactions, communications and relationships. They suggest that our experience of reality is largely subjective



and interpretive, and that these interpretations and subjective experiences are fused together through individual and group cognitive and communicative processes, that form the basis of reality construction and creation, and our experience of it. The researcher supports the view that our subjective experiences, perceptions and memories, and their associated syntax and linguistic arrangements create our realities, and are in turn, created by them, in a continuous cycle of conscious and unconscious reality construction, interpretation and expression (Stacey, 2000).

In terms of this relationship psychology and constructivist approach to leadership, strategy and business development, the researcher references Weick's model (Stacey, 2000) 'Links with the Environment'. Weick explains the organisation's links with the environment in terms of feedback loops. First, we consider the terms used in the model and what the loop connections between them signify:



- **Ecological Change** – means the changes occurring in the market and wider environments that an organisation operates in. Such changes are primarily the actions undertaken by actors in the environment. These external actions may lead people in an organisation to undertake actions

too – hence the arrow and the + sign running from ecological change to enactment.

- **Enactment** – what the actors within the organisation itself do – the actions they undertake. The term enactment is used rather than the term action, to indicate that people within an organisation do not simply anticipate, react or adapt to what actors in the environment can be objectively observed to do. Instead, people within an organisation are prompted by their subjective perceptions of what actors in the environment are doing or might do. It is those perceptions that drive their actions.
- **Retention** – is the process of storing what has been perceived and learned from previous actions. It is the shared memory of the collection of people constituting the organisation, built up from what they have done together over the past, reflecting their perceptions of what has worked and what has not worked – this will prompt similar enactment now.
- **Selection** – is the process through which organisational actors focus on some meanings of what they are doing and some perceptions of what others are doing, while ignoring others. What is selected for retention depends upon what has been done or enacted and what has been perceived (the positive arrow from enactment to selection). What is selected to focus on now depends on the mental models already built up.

“By looking at the interactions between an organisation and its environment in this way, Weick clarifies the concept of managers creating the reality they

respond to... by taking a particular action, people within an organisation may cause people outside it to do what they do – the former are therefore in a real sense creating, or enacting, their own environment.” (Stacey, 2000: 152)

Hamel and Prahalad (1996) stress the role of organisations in creating their own environments instead of simply adapting to them. They have studied a number of global companies in North America, Europe and Japan and suggest that what distinguishes companies (e.g. General Motors, Caterpillar and Xerox) are the mental models guiding their respective actions, in which they are perceived to be enacting their environments, in contrast to simply reacting to them.

### **Complex Responsive Process (CRP)**

**Stacey (2000: 277) suggests that, “managers are understood to be participants in complex responsive processes, engaged in participative enquiry into what they are doing and what steps they should take next.”**

Stacey (2000) defines the Complex Responsive Process (CRP) as the complex range of interactions between individuals within organisational environments in the process of communication and conversation, at any level of individual, group and organisational participation. The emphasis being on the quality of relationships that constitute the interaction, the individual thereby becomes the ‘singular’ and the group becomes the ‘plural’, of this relationship and interaction.

The implication being that individual and group are both ‘participants’ – ‘singular’ interacting with ‘plural’, and vice versa – who are participating in a process of reality creation; the creation and evolution of ‘meaning and themes’,

where the course of action to be taken, current action, and possible action outcomes, emerge simultaneously.

**“Themes organising the experience of being together in a group and themes organising the silent conversation of mind evolve simultaneously in the absence of an overall blueprint.” (Stacey, 2000: 387)**

The Complex Responsive Process (CRP) is the foundation for the successful application of extraordinary management. The methodology applied is that of the ‘participative inquirer’ (vs. the classical ‘objective observer’ methodology), who engages the communication and management process, through direct participation, in the often uncertain and unpredictable context of the knowledge-based economy.

Stacey (2000) refers to extraordinary leadership and more specifically, conscious, participative human interaction, as ‘relationship psychology’, which is the crux of CRP. The energy and intelligence generated by CRP creates the capacity for ‘random mutation’ and ‘cross-over replication’; terms used in computer simulations of the Complex Adaptive System (CAS), to illustrate the potential complexity of ‘relationship psychology’, in human interaction and participation.

The analogue of the CAS computer simulations and their digital symbols, are equated with human gestures, actions and responses – the human symbols – which interact and create a spontaneous ‘evolutionary’ process of ‘meaning and

themes'. These themes and patterns are centred in, and constrained by, the ideologies and power relations that form, and are formed by, the interaction between individuals; which create, sustain and support organisational life, and that organisational life sustains, supports and creates (Stacey, 2000).

The analogue for the 'random mutations' of the CAS digital symbols and system is the interplay and pattern of imperfect conversation, communication and associated misunderstandings of the CRP hypothesis. The analogue for 'cross-over replication' of CAS, is 'cross-fertilisation' in CRP, referring to the merging of individual and group 'diversity and deviance' that exists within the process of human interaction and communication.

**Comparative computer simulations of complex systems, with human analogues, orthodox and radical, capture the essence referred to above:**

<b>Computer Simulations</b>	<b>Orthodox Analogue</b>	<b>Radical Analogue</b>
<b>The Programmer</b>	<b>CEO</b>	<b>None</b>
The whole is a complex adaptive system	The whole is a complex adaptive system	The whole is a complex responsive process
Consisting of electric pulses and digital symbols	Consisting of electrochemical pulses and representations	Consisting of body symbols in the medium, rhythm, sound, etc.
Arranged as algorithmic rules called agents	Arranged as schemas and mental models as basis of individual agent	Arranged as narratives and propositional themes that organise experience, i.e. agency in individual and group
Reproduced through replication with random mutation and cross-over replication	Reproduced through individual choice to change mental model	Reproduced through replication with misunderstanding and cross-fertilisation, i.e. deviance
What organises itself is arrangements in the digital code and the pattern of the whole attractor at the same time	What organises itself is individual humans	What organises itself is the arrangements of symbols and themes in conversations that are individual mind and group at the same time
What emerges is rearrangements in code/attractor	What emerges is detail of action	What emerges is rearrangements of conversational themes
Novelty emerges at the edge of chaos, i.e. paradox of stability and instability	Edge of chaos defined as crisis and stress	Edge of chaos defined as good enough holding of anxiety of not knowing
Radical unpredictability	Unpredictability played down	Radical unpredictability
Boundaries set by programmer	Boundaries set by CEO, i.e. simple rules	Boundaries set by internal dynamics of relationship

Human Analogues of Simulations of Complex Systems, Figure 17.1, Stacey, (2000)

**Extraordinary Management Approach**

The research is exploratory and inductive, demonstrating an interpretive and comparative study of management, both classically, in terms of the industrial economic context, and creatively, through a 'complex responsive process' of extraordinary leadership (Stacey, 2000).

The dissertation explores the role and impact of knowledge or intangible assets in business leadership, through the formulation and emergence of a new value-based business development leadership metrics methodology, defined as the Real Value© system of leadership. The basis of the Real Value© methodology is 'Extraordinary Management Theory' as defined by Stacey, in which 'intangible assets' (knowledge and relationship capital) are the crux of value creation in the knowledge-based economy (Stacey, 2000).

According to Stacey (2000), 'Extraordinary Management Theory' consists of the following guiding principles or 'creative precepts':

- **Detect and attract attention to important external and internal issues, ordinarily not noticed.**
- **Initiate goal formulation and the interpretation and choice of action preferences.**
- **Assure proper action according to selected action preferences. Focus on the attention and power behind critical and common action.**
- **Pushing for learning experiences.**
- **Assure incorporation of learning outcomes in organisational memory.**

The extraordinary approach to management is essential for the effective management of knowledge within the contextual environment of the complex global knowledge-based economy. The extraordinary approach enables the conscious enactment of reality creation, by a conscious awareness of important and complex detail, issues, events and information, within a series of complex responsive processes between individuals, and between individuals and their environments.

The merging of different behaviours, competencies, values and attitudes, the 'human elements' create the possibility for the emergence of new 'meanings and themes', the new 'attractors', that emerge during the process of relating and conversation, between different and diverse individuals.

The new energy, information and intelligence presented on the CRP and 'Extraordinary Management' platform is the new opportunity and possibility presented for managing knowledge and intangible assets within the context of organisational diversity, complexity and the unpredictability of the 'intangible' knowledge-driven economy.

By contrast, the conventional approach to management is predominantly cybernetic, or referred to as the 'strategic choice framework', which advocates predetermined goal setting, tactics, strategies and negative feedback from the environment to re-direct the business toward equilibrium. Referred to as negative feedback because the responses to feedback are contrary to the direction and action currently being performed – an action or direction that is



contrary to, or does not support, the pre-defined strategy and therefore needs to be redirected.

### **Ordinary (Classical) Management Theory**

The theory of 'Ordinary Management' is based on the following classical concepts:

- 1. Vision is created that excites the organisation to take action that will realise the vision.**
- 2. Strategies are formulated and plans created that assume the vision will be realised within specific and pre-defined time frames.**
- 3. Organisation is set-up with the intention to achieve and materialise the strategy and plans.**
- 4. Organisational structure, culture and systems are designed to support the direction that will lead to the achievement of the strategic goals.**
- 5. Procedures, protocol and performance standards are defined against which to measure and quantify the performance of the business.**
- 6. The organisational culture is uniform.**

**7. Action is seen as a requirement for keeping the business on the intended, predetermined course.**

The idea is that decision and action are based on a pre-defined strategy, or vision that directs the course of business to a point or position of equilibrium, with little emphasis on real creative action and innovation. The means of execution are chains of command, systems of control and uniform cultures – versus creative, innovative cultures, that are autonomous and accountable – that are aimed principally at stability and restrictive planning processes, and the execution of goal attainment and the pre-defined strategy.

The ordinary approach to management views the individual as 'prior and primary' to the group and is agent in the activities in which the organisation is involved. The business strategies and plans are seen as a blueprint for the strategic direction of the business. Senior management formulates plans, and the board, under the direction of the CEO or Chairman, predetermine the direction of the business.

The nature of this interaction occurs at the macro level of the organisation, by 'objective observers', who oversee the activities that the business engages in. The value or quality of activities and actions is measured against, or determined by, the extent to which they bring the organisation closer to equilibrium or to the realisation of the vision. Action taken and acts performed, that are perceived as being off-course, are then re-directed via negative feedback to the original aim and intention of the business.

## **A Comparative Analysis**

### **Complex Responsive Processes vs. Classical Management Theory**

<b><u>Creative, Complex Responsive Processes</u></b>	<b><u>Mechanical, Classical Management Theory</u></b>
<p>1. Change and transformation are inherent qualities of dynamic systems. The goal of management is to increase learning and self-organising in continuously changing contexts.</p>	<p>Organisations exist in equilibrium, therefore change is non-normal process. The goal of management is to increase stability through planning, organising and controlling behaviours.</p>
<p>2. Organisational behaviour is inherently nonlinear, and results may be non-proportional to corresponding actions. New models and methods are needed to understand change.</p>	<p>Organisational behaviour is essentially linear and predictable, and results are proportional to causes. Thus, linear regression models explain most of the variance of organisational change.</p>
<p>3. Inputs do not cause outputs. The elements of a system are independent and mutually causal.</p>	<p>System components are independent, and can be analysed by separating them from the rest of the system, as well as from their outcomes.</p>
<p>4. An organisation is defined, first of all, according to its underlying order and principles. These give rise to surface-level organising structures, including design, strategy, leadership, controls, and culture.</p>	<p>An organisation can be completely defined in terms of its design, strategy, leadership, controls and culture.</p>
<p>5. Change should be encouraged through embracing tension, increasing information flow, and pushing authority downwards.</p>	<p>Change should be controlled by minimising uncertainty and tension, limiting information, and centralising decision-making.</p>
<p>6. Long-term organisational success is based on optimising resource flow and continuous learning. A manager's emphasis is on supporting structures that accomplish these goals.</p>	<p>Organisational success is based on maximising resource utilisation, to maximise profit and increase shareholder wealth. A manager's emphasis is on efficiency and effectiveness, and avoiding both transformation and chaos.</p>

Steen Martiny, CBS, Denmark: Core Module-Managing Complexity

### **Extraordinary Management Summary**

In comparison, and by contrast to 'Ordinary Management' theory, the extraordinary complex responsive process perspective and approach to managing organisations, is centred in a paradoxical and complex relationship of managing competition and co-operation concurrently. The potential for new knowledge, value creation and innovation opportunity arises from the tension and anxiety that emerge from this complex relationship. This paradoxical dynamic influences the way in which we interpret information and create knowledge, and the way in which we measure and manage intangible assets in the knowledge-based economy.

## **Chapter 1 Real Value©: Knowledge Context**

### **Problem Statement – A Classical Knowledge Context**

Technology and innovation driven processes have significantly changed the structure of enterprises in the so-called knowledge economy. In the knowledge economy, industrial value chain processes no longer dominate value creation. Wealth and growth are primarily driven by knowledge and intangible assets, which include critical facets that have previously been invisible in value consolidation and financial processes, such as; brand value, leadership competence, human capital contributions, technology capital, intellectual property ownership, and relationship and reputation (Lev, 2001).

Traditional accounting principles inform investors about the physical and financial capital spent by a company but do little to provide insights into the increasingly critical intangible assets. This is particularly the case with intellectual capital and innovation that can dramatically increase a company's market share and free cash flow in the future (Stanfield, 2002).

Stanfield (2002: 47) claims that, "tangible assets represent approximately fifteen percent of a company's market value with the balance and bulk of value residing in intangible assets". In recent years, there has been a surge in investments in intangible assets, creating radical increases in value, which traditional financial reporting does not reflect. In today's market, investments in intangibles yield the highest return, especially as investors are looking to future value, to determine investment viability.

The researcher supports the view that enterprises in the modern economy are facing pressure to quantify these previously invisible or hidden value drivers to investors. Increasingly, a concrete systemic process is required to produce reliable reports on a company's intangible and innovation assets. The new knowledge can then be applied to access a range of new resources and competencies and to dramatically increase the innovation and intangible value of an organisation. The substantial increase in a company's Real Value© can be achieved and subsequently communicated to shareholders, investors, clients and key stakeholders.

The root of the problem is knowledge, or the lack thereof, in the classical approach to management, of 'the most powerful ways' to create and then sustain positions of competitive advantage in the global and knowledge-based economy (Hamel and Prahalad, 2000).

The global and knowledge-based economy requires a new system of leadership that can assist the access to 'hidden knowledge' and 'untapped value' within an organisation's value chain, and to effectively convert this intangible value into tangible results. Within the classical mindset and mechanical paradigm of the industrial economy, managers are limited in their skill and ability to execute such conversions of knowledge into financial results, as the focus of traditional thinking is, to a greater or lesser extent, on the management of tangible assets such as land, labour, factories, buildings, and physical inventory (Lev, 2001).

Firstly, the access to, and measurement of, intangible asset value is limited within the existing and dominating structures and practices of financial management and reporting, e.g. GAAP (General Accepted Accounting Practices), and secondly, as a

result managers (within an industrial paradigm) are limited in their capacity to acquire and then convert 'intangible value' into market leadership, and therefore to strategically apply the acquired knowledge to produce tangible results (Hamel and Prahalad, 1996).

Hamel and Prahalad (1996: 149) reinforce this idea in the following statement, "We meet few senior management teams who seem to be fully conscious of their responsibility to develop industry foresight; who understand that, unless they first win today's battle for intellectual leadership, they will be unlikely to win tomorrow's battle for market leadership".

### **Real Value© Solution and Application**

Real Value© is applied primarily for the purpose of converting intangible assets – including brand, technology, intellectual property, and human and customer capital – into tangible value; the sales, revenues, profits, dividends, earnings, cash flows and / or physical assets that are produced by, or from, such strategic and commercial application of the system: a knowledge and intangible asset based solution.

The system includes seven 'knowledge-solutions' each representing a unique vector-quantity – a business vision and / or strategy aimed at creating value in terms of future income, profits and cash flows – that are measured as the distinctive earnings generated by and from physical, financial and knowledge assets. The strategic vectors are aimed at creating and capturing real returns (in company earnings) on individual and organisational knowledge asset investments, in the form of technology, intellectual property, brand and human and customer capital

investments. This is achieved through the acquisition of, and access to, company knowledge: knowledge of a company's products, markets, technology, customers and competitors as well as through the structure and channels of relationships that are generating value across the supply chain. Knowledge is then measured in terms of its comparative contribution to the actual and future earnings of a company compared with the physical and financial asset contribution.

Kaplan and Norton (2004: 138) clearly illustrate the role, importance and impact of intangible assets in business leadership suggesting that, "organisations create sustainable value from leveraging their intangible assets – human capital, information capital, and organisational capital, which together form the responsive high-quality processes, customer relationships, brand, leadership and innovation capabilities and company culture ... the trend away from the physical, product-driven economy, based on tangible assets, to the knowledge and service economy, based on intangible assets, has been occurring for decades. Even after the bursting of the NASDAQ and dot-com bubbles, intangible assets – those not measured by a company's financial system – account for more than 75 percent of a company's value. The average company's tangible assets – the net book value of assets less liabilities – represent less than 2.5 percent of market value".

### **Dissertation Intent and Argument**

The intent of the dissertation exposition is to demonstrate and disclose 'one of the most powerful ways to prevail' in the global knowledge economy, and secondly, to develop the value-based business development leadership metrics system to further explicate the idea and value of Stacey's (2000) 'extraordinary approach' to leadership in the knowledge economy.

The dissertation aims is to explore and explain the design and development of the Real Value© methodology in terms of its application and potential as 'one of the most powerful ways to prevail' in the knowledge economic context. Concomitantly it strives to bridge the knowledge gap between traditional, or classical management theory, and extraordinary or innovation management theory.

Stacey (2000) describes 'extraordinary management' as an approach to leadership that is based on, or centred in, the complex set of relationships of an organisation, with its internal and external environment. Within this unique approach to leadership and / or management, the emphasis is on the complex nature of interrelated intangible assets, including the relationships between key individuals, stakeholders and groups, within and without the organisation, that are part of the value chain and responsible for creating value for the organisation. The details and effects of these intangible assets and transactions are excluded from the classical financial reporting system of the firm.

### **Core Argument**

The researcher argues that the effective management and measurement of intangible assets is the key driver of competitive advantage, value creation and sustainability in the knowledge economy, in the context of the classical accounting system (GAAP) based on the measuring of tangible assets – in a consumerist, material and largely linear and mechanical world.

### **Dissertation Aim and Objective**

The dissertation aims and objectives are; firstly, to explore and explain the Real Value© methodology, secondly, to explain Real Value© in terms of the action



research that was undertaken and performed by the researcher, and thirdly, to discover, define and describe the taxonomy and priority of components that constitute the system as they emerged through the action research process.

As a result, the researcher desired to explore and expand the study of the methodology through action research and commercial pilot projects, as a means to research, test and develop the value-based business development leadership metrics system. The model was initially intended as a strategic knowledge management system designed by the researcher to access and extract 'hidden knowledge', within an organisation and its value network, which is 'ordinarily not noticed', as a way for organisations to achieve the competitive advantage, i.e. a knowledge-based business development leadership system (Stacey, 2000).

The model aims to access 'hidden knowledge' and extract 'untapped value' that is interpreted and applied as customised business development leadership solutions, client-centric solutions that meet, and even exceed, customer expectations in terms of value created.

'Hidden knowledge' is the tacit knowledge residing in organisational, customer and human capital, and 'untapped value' is the potential 'real value' residing in such tacit and / or intangible assets. Real Value© is the process of converting this 'tacit knowledge' and 'hidden value' into market leadership, tangible results and profitable financial outcomes (Hamel and Prahalad, 1996).

The model still serves to achieve the access to, and extraction of, 'hidden knowledge' as a fundamental principle and aim, but further evolved into a value-

based business development leadership metrics system, with the specialised capability of creating, defining and measuring the 'real value' of business development projects and business development leadership in the financial performance of the firm.

**The Dissertation purpose and proposal is to:**

- Explore and explain the design and development of the Real Value© methodology – a value-based business development leadership metrics system, the purpose of which is to discover, define and measure the 'real value' of business development leadership in the financial performance of the firm.
- Explain the professional pilot projects and action research that were undertaken in the development of the value-based leadership metrics methodology.
- Explain the value-based leadership metrics system as a knowledge platform upon which 'real value' can be discovered, defined and measured.
- Explore a strategic and systemic process of value-based business development leadership that focuses first and foremost on the value of intangible assets.
- Create a legitimate, credible and recognised research and academic report for the ongoing development of the proposed business leadership metrics model.

## **Real Value© Summary**

Firstly, a systemic participative action research appraisal is performed on the internal and external environment of a company's value network. The investigation is systemic in that an appraisal is performed of the internal environment of an organisation in terms of leadership and human capital structure, its culture, strategy and systems that are created to manage its assets, both tangible and intangible, and to deliver value.

Secondly, a research appraisal is done of the external supply chain, and the relationship of the organisation with its macro market context. Specifically, its external network of customers, suppliers, alliances, partners and competitors, to determine their current and future impact on the financial performance and profitability of the organisation. Company research is focused on how value is created through the value and supply chain, and on the effective delivery of this value to the market, as a means to access, acquire and then to convert knowledge into Real Value©.

The research process is participative action research applied to, and performed with, various companies within a consulting context, which emerged as participating commercial clients in the research process. The clients' value and supply chain became the real world research terrain for the application of the new value-based leadership methodology, in the form of professional pilot projects.

The research was performed as a series of consultations and interviews across the structure of the client organisation, including both the internal and external

context of the organisation. The interviews included individual and group-management and operational-information forums, innovation audits and specialised scenario interviews. The process stressed interactive dialogue to generate the desired organisational information at all levels of the organisation.

The research process was performed in the context of the client value chain, as strategic investigations of the company, its culture and leadership. The conversion of this information is captured in the strategic knowledge report/s. (Appendix 1-1.1, Research Result-RMG Report)

The research culminated in the RMG (Results Media Group (Pty) Ltd) consulting project and Real Value© appraisal, wherein the researcher discovered the 'real value' of the value-based leadership metrics system as an intangible asset appraisal system in the process of business development leadership. The culminating RMG research report reveals the research result and outcome of the Real Value© dissertation and action research process.

## **Chapter 2 Real Value©: Literature Review**

### **Introduction: The Real Value© Methodology**

In terms of the value-based business development leadership system proposed by the researcher, the role of, and investment in, intangible or knowledge assets, and their concomitant measurement and management, is the key value driver of business development leadership in the knowledge-based economy. The knowledge and innovation-driven economy with its emphasis on intangibles and intangible assets creates the context and conditions, the impetus and driving force, for the emergence of the Real Value© methodology.

Ungerer *et.al.* (2006: 57) claim that, "Knowledge is emerging as the key currency for businesses wanting to compete successfully in the 21<sup>st</sup> century. Successful companies tend to be those which rely on their ability to innovate, use information constructively and leverage employee competences to create sustainable growth rather than focusing only on tangible assets such as buildings, machines or inventory as primary wealth generators".

### **An Economic Context of Intangibles**

What is new, driving the recent (since the mid-1980s) surge in intangibles, is the unique combination of two related economic forces. One is intensified business competition, brought about by the globalisation of trade and deregulation in key economic sectors, for example, telecommunications, electricity, transportation and financial services. The second is the advent of information technologies, most recently exemplified by the Internet. These two fundamental developments – one economic and political, the other technological – have dramatically

changed the structure of corporations and have catapulted intangibles into the role of the major value driver of business in developed countries (Lev, 2001).

Intangible assets have been described by Kaplan and Norton (2004) as 'knowledge that exists in an organisation to create differential advantage' or 'the capabilities of the company's employees to satisfy customer needs'. Intangible assets encompass such diverse items as patents, copyrights, workforce knowledge, leadership, information systems, and work processes (Kaplan and Norton, 2004).

### **The Era of Intangibles**

At the dawn of the 21<sup>st</sup> century, employment is again shifting, this time from service workers to knowledge workers. Knowledge workers create wealth by exchanging knowledge assets and relationship assets using emotions and time. Knowledge managers are responsible for managing knowledge workers; knowledge managers are therefore responsible for managing the quality of four fundamental factors of production: '(1) knowledge assets, (2) relationship assets, (3) emotional assets, and (4) time assets' (Stanfield, 2002).

Stanfield (2002) supports the view that intangible management is therefore the management of skills and abilities required to sustainably generate financial and emotional wealth from the four fundamental factors of production that dominate the value creation process in the current economic system. Stanfield (2002) further defines the four main intangible asset classes in the value creation process of the knowledge-driven organisation as follows:

**1. Knowledge Assets:** This is the fundamental knowledge that the person requires to deliver value.

**2. Relationship Assets:** This is the relationship quality that a person requires to communicate a value proposition to the person seeking the knowledge and the relationship.

**3. Emotional Assets:** This is the ability of an individual to manage their own emotions and the emotions of those he or she interacts within a constructive and sustainable manner. Emotional intelligence is essential in the knowledge-based economy. Emotional assets are the key to sustainability, value provision, productivity, and profitability for organisations.

**4. Time Assets:** This is regarded as the fourth dimension and is the only universal thing that everyone has access to but no one owns. Time assets present the only way in which relationship assets, emotional assets, and knowledge assets can be applied and leveraged.

Lev (2001: 136) suggests that, "Wealth and growth in today's economy are driven primarily by intangible (intellectual) assets. Physical and financial assets are rapidly becoming commodities, yielding at best an average return on investment". Intangible assets represent on average eighty five percent of the market value of the Standard & Poor's (S&P) 500 companies (Stanfield, 2002).

### **Real Value© Purpose**

The purpose of the Real Value© system is to capture the 'real value' of intangible assets residing in a firm and its value network. The means by which this is achieved is through the strategic management and integration of the abovementioned intangible assets in the form of knowledge assets, relationship assets, emotional assets and time assets. The Real Value© system is proposed as an effective way of managing, aligning and integrating these intangible assets for optimal value creation and competitive advantage, directed at managing a sustainable and profitable future for the firm in the knowledge economic context.

### **Intangible Asset Categories**

Generally, appraisers and economists categorise individual intangible assets into several distinct categories. This categorisation of intangible assets is made for general asset identification and classification purposes. The intangible assets are often grouped in the same category when similar valuation methods are particularly applicable to that group of assets.

Reilly and Schweih's (1998: 39-40) classify intangibles as per the following intangible asset taxonomy:

- "Marketing-related intangible assets (e.g., trademarks, trade names, brand names, logos).
- Technology-related intangible assets (e.g., process patents, patent applications, technical documentation, such as laboratory notebooks, technical know-how).



- Artistic-related intangible assets (e.g., literary works and copyrights, musical compositions, copyrights, maps, engravings).
- Data processing-related intangible assets (e.g., proprietary computer software, software copyrights, automated databases, integrated circuit masks and masters).
- Engineering-related intangible assets (e.g. industrial design, product patents, trade secrets, engineering drawings and schematics, blueprints and proprietary documentation).
- Customer-related intangible assets (e.g. customer lists, customer contracts, customer relationships, open purchase orders).
- Contract-related intangible assets (e.g. favourable supplier contracts, license agreements, franchise agreements, non-complete agreements).
- Human capital-related intangible assets (e.g. a trained and assembled workforce, employment agreements, union contracts).
- Location-related intangible assets (e.g. leasehold interests, mineral exploitation rights, easements, air rights, water rights).
- Goodwill-related intangible assets (e.g. institutional goodwill, professional practice goodwill, personal goodwill of a professional, celebrity goodwill,

general business going-concern value).” Reilly and Schweihs (1998: 39-40)

### **Real Value©: Intangible Asset Management**

Intangible assets categorised as organisational, customer and human capital are the basis of intangible asset management, and therefore of the Real Value© methodology. Tangible assets are viewed as the means by which intangible assets can be leveraged to produce ‘real value’. The focus of value creation in the knowledge economy is on knowledge assets in the form of research and development, intellectual property, brand, technology, human and customer capital and relationships. The extent to which a company can effectively manage these intangible assets determines their capacity for value creation in the knowledge economic context (Kaplan and Norton, 2004).

Real Value© is a strategic knowledge management system which focuses on intangible assets in the research and business development process, and on the relationship between and role of tangible assets in the leveraging of intangible asset value. The purpose of the system is to unlock the ‘real value’ or real potential of intangible assets, by investigating and / or researching the past, present and future impact of intangible assets on the current and potential future value created by the firm. Value that is created and measured in terms of income, profits, cash flow, net assets and / or dividends that are produced through a pre-defined measurable trading cycle, encompassing the relationship, role and impact of organisational, human and customer capital on such value creation.

Intellectual capital as defined by Ungerer *et.al.* (2006), comprises three core elements that, through their unique combination, constitute the total intangible concept, with a fourth element emerging from their application in the knowledge economic context:

### **1. Organisational (Structural) Capital**

Structural capital is seen to contain those mechanisms and structures of the organisation that assist employees in contributing to business performance. It creates the basis for turning individual know-how into organisational property. Structural capital is the critical link that allows intellectual capital to be measured on an organisational level, and comprises the following:

1. Organisational processes, routines, structures and culture. It also includes infrastructure assets related to methodologies and processes that enable the organisation to function (e.g. risk management methodologies, sales force management methods, databases of information related to markets or customers, communication processes and systems).
2. Renewal and development activities aimed at the future, e.g. research and development, process re-engineering, and new products, markets and customers created through the process of strategic innovation.
3. The sharing of knowledge requires structural assets such as information systems, knowledge-sharing platforms and team structures and processes that allow individual know-how to become the property of a group or enterprise. Almost all-explicit knowledge belongs to the domain of

structural capital in the form of documents, databases, manuals, formulae, recipes, procedures and intellectual property.

Organisational capital creates the platform upon which to transform knowledge and physical assets into customer value.

## **2. Customer (Relationship) Capital**

Customer or relationship capital consists of knowledge of marketing channels, and relationships with external stakeholders (e.g. suppliers, customers, alliances, local communities, industry associates and shareholders). It represents the potential a firm has through relationships external to the firm.

Ungerer *et.al.* (2006) claim that the essence of customer capital is knowledge embedded in relationships external to the firm. Knowledge embedded in customer capital is the most difficult to codify due to its external nature. Customer capital contributes to the market and customer orientation of a firm.

Customer capital represents the potential that customers will keep doing business with a firm. The external sources of information serve as the basis for stimulating internal innovation related to products and services for customers. Customer capital is valuable when it either reduces the cost of marketing, or increases the number of repeat sales, or long-term sales.

## **3. Human Capital**

Human Capital comprises the unique combination of skills, knowledge and know-how, experience, competencies, attitudes and cultural mindsets of the people in

the business. Human capital can be described as a collection of intangible resources embedded in the people of the firm. These include competencies based on skills and knowledge, and attitudes reflected in the motivational level within the firm, and the leadership qualities of management Ungerer *et.al.* (2006).

The two major contributors to the value of human capital are education and employee satisfaction, this being the premise upon which the effective management of intellectual capital assets will yield higher financial capital results and the potential to create sustainable organisational value. Human capital includes a combination of four primary factors at an individual level: genetic inheritance, education, experience and attitude towards life and business Ungerer *et.al.* (2006).

Relationship capital is the key determinant of human capital effectiveness in the form of revenue and income per employee. This reinforces the notion that relationships are critical to unlocking business value.

Ungerer *et.al.* (2006) further suggest that human capital is also the ability of employees, contractors, suppliers and other company-related people to develop solutions to customers' problems. Human capital is a critical resource because it can create value for the company through the application of knowledge and skills to create products and services to satisfy the needs of customers. The value creation can be direct, through interaction with customers (e.g. advice) or indirect, through the creation of intellectual assets (e.g. a software programme that is sold to customers).

Human capital is the source of innovation and strategic renewal according to Ungerer *et.al.* (2006), and its potential for benefit is more than the cost of the asset, and represents the stock of knowledge that exists at the individual level in an organisation.

#### **4. Financial Capital**

Financial capital is created through the unique and successful combination of the above three capitals, within the specific context in which the organisation operates. Financial capital includes both the monetary, financial assets and physical assets that constitute the tangible assets in the total organisational value spectrum.

#### **The Real Value© Paradox**

Real Value© is therefore viewed as a system of business development leadership that is designed to create tangible assets in the form of monetary, financial and physical assets through the strategic application, design, development and / or acquisition of intangible assets.

Real Value© as a system supports the optimal management and measurement of intangible assets in the knowledge economic context, as the basis of value creation, and for firms wanting to discover 'one of the most powerful ways to prevail' in the knowledge economy.

#### **Financial Performance and Reporting**

Lev (2001) summarises intangible assets as non-physical sources of value (claims to future benefits) generated by innovation (discovery), unique

organisational designs, or human resource practices. Intangibles often interact with tangible and financial assets to create corporate value and economic growth.

Stanfield (2002) makes the necessary link between intangible asset management to financial performance. The implication being that the current reporting system is inadequate in that it is not designed to report on and record the value and impact of intangible assets on the financial performance of the firm.

Because conventional systems only measure changes in ownership as evidenced by financial transactions, competitive intangibles typically are not recorded in financial reports. Because we only manage what we measure, a failure to measure becomes a failure to manage (Stanfield, 2002).

Stanfield (2002) suggests that intangible assets surpass physical assets in most business enterprises, both in value and contribution to growth, yet they are routinely expensed in the financial reports and hence remain absent from corporate balance sheets. This asymmetric treatment of capitalising (considering as assets) physical and financial investments while expensing intangibles leads to a biased and deficient reporting of the firms' performance and value.

### **Real Value©: Strategic Intent**

The strategic intent of the Real Value© methodology is to provide a robust and reliable management, measurement and reporting system that defines, demonstrates and discloses the 'real value' of knowledge assets in the financial

performance of the firm. It also has the potential for impacting and influencing the necessity of incorporating an accounting system that includes intangible assets as capitalised assets on the balance sheet.

The mean market-to-book ratio of the Standard & Poor (S&P) 500 companies (among the largest 500 companies in the United States) is 6:1 (Lev, 2001). This means that for every six dollars of market value, only one dollar appears on the balance sheet, while the remaining five dollars represent intangible assets.

### **Intangible Management**

Intangibles require a different management methodology than tangibles with a concomitant new language to explain intangibles because the old rules of conventional management, when applied to intangibles, typically creates the opposite outcome of what is expected. Intangibles require a counterintuitive understanding that will allow us to identify, classify, measure, manage, and report intangible value (Stanfield, 2002).

According to Stanfield (2002: 134), "Significant economic growth occurs as one economic system gives way to another...The Knowledge Age is giving way to the Intangible Age, right now."

There are two types of intangibles according to Stanfield (2002): (1) hard intangibles – those that the law states can be owned (trademarks, patents, copyrights etc.) and (2) soft intangibles – those that cannot be owned, only managed and leveraged (service, satisfaction, knowledge, quality, etc).



Stanfield (2002: 96) extends this classification by stating that, "what is typically not known is that intangibles that can be owned [legal (or hard) intangibles] are actually created from intangibles that cannot be owned [competitive (or soft)] intangibles."

Lev (2001: 178) defines an intangible asset as, "a claim to future benefits that does not have a physical or financial (a stock or bond) embodiment. A patent, a brand, and a unique organizational structure (for example, an Internet-based supply chain) that generate cost savings are intangible assets."

### **Intangible Asset: Economic Value**

Reilly and Schweihs (2004: 36) define intangible assets as firstly, "in order for an intangible asset to have economic value, it should generate some measurable amount of economic benefit to its owner. The economic benefit to the owner may be in the form of an income increment or a cost decrement. The economic benefit is sometimes measured by comparing the amount of economic income otherwise available to the owner if the subject intangible did not exist. The economic benefit may be quantified using any measure of economic income, including net income (before or after tax), net operating income, gross cash flow, net cash flow, and so on. Secondly, in order for an intangible asset to have economic value, it should potentially enhance the value of the other assets with which it is associated. The other assets associated with the subject intangible may include tangible personal property, (tangible) real estate, or other intangible assets. If an intangible asset is added to an assemblage of other assets (tangible or intangible), the combination should result in a value

increment. The subject intangible should have a positive contributory effect on the value of the assemblage of assets.”

The term intangible is used in the accounting literature, knowledge assets by economists, and intellectual capital in the management and legal literature but they refer essentially to the same thing: a non-physical claim to future benefits. When the claim is legally secured (protected), such as in the case of patents, trademarks, or copyrights, the asset is generally referred to as intellectual property.

Reilly and Schweihs (2004) suggest that it should be noted that the demarcation lines between intangible assets and other forms of capital are often blurry. Intangibles are frequently embedded in physical assets (for example, the technology and knowledge contained in an airplane) and the labour (the tacit knowledge of employees), leading to considerable interaction between tangible and intangible assets in the creation of value.

Intangible transactions (or expectations of current and future organisational behaviour and value) create intangible performance (service, satisfaction, knowledge, quality, etc.) that gives an organisation the ability to make and receive financial transactions. To manage financial transactions, we must first manage intangible transactions (Stanfield, 2002).

### **Tangible and Intangible Assets**

Reilly and Schweihs (2004) argue that, tangible assets are often required in order to fully realise the value (or the income-producing capacity) of intangible

assets. For example you must have computer hardware (tangible asset) in order to effectively exploit the positive attributes of computer software (an intangible asset). Working capital (and other monetary assets) and machinery and equipment are often necessary for the commercialisation of intangible assets (such as patents, trademarks, copyrights, goodwill etc).

Intangible assets do, however, have a value separate and distinct from the value of tangible assets. Intangible assets possess a value of and by themselves, and still require the use, or using up, of tangible assets or financial assets in order to fully realise their value.

In summary, intangible assets have value separate and distinct from tangible assets, even though the intangible asset may (at some point in the commercialisation process) require the use of tangible assets in order to realise its full value. Likewise, tangible assets have value separate and distinct from intangible assets and other tangible assets. This is true even though the tangible assets may require the use of intangible assets in order to realise their full value.

### **Evolution of Intangible Assets**

Ungerer *et.al.* (2006) classify the evolution of intangible assets in terms of the following chronological periods in our socio-economic history:

- The first wave of the Agricultural Era: 8000 BC – 1750
- The second wave of the Industrial Era: 1650-1955

- The third wave of the Information Era: 1955-2030

It is estimated that the Information Age will last for approximately eighty years, before being surpassed by the biotechnology economy. A fourth wave based on ecological values and co-creation will follow the Information Age (Ungerer *et.al.* 2006).

Stanfield (2002) suggests we are in a transition from the Knowledge Age, which was preceded by the Industrial Age, to the Intangible Age, which is differentiated from the Knowledge Age by the specific identification, measurement and management of intangibles (Stanfield, 2002).

Reilly and Schweihs refer to the fact that the appraisal and analysis of intangible assets has directly evolved from the discipline of economics. Their view is based on the premise that, "the theoretical concepts and quantitative procedures that collectively represent intangible asset valuation are unambiguous applications of applied microeconomics." (Reilly and Schweihs, 1998: 86)

Reilly and Schweihs (1998) are of the opinion that the collective body of appraisal theory and practice – including the valuation of intangible assets – can ultimately be traced back to the classical economist, Adam Smith, and to his landmark treatise 'The Wealth of Nations' published in 1776.

Reilly and Schweihs (1998) explain that the theoretical underpinnings of modern appraisal practice can be traced through Adam Smith to the classical economists David Ricardo and Thomas Malthus and, through them, to the neoclassical economists John Stuart Mill, Leon Walras, Alfred Marshall and Irving Fisher. Of

these inspired economists, Alfred Marshall presented the most comprehensive and cogent discussion of 'value theory' in his authoritative text, 'Principles of Economics' published in 1890.

According to Reilly and Schweihs (1998) economic theory was brought into the modern era and the foundations of appraisal theory embedded within economic theory became particularly obvious in 'The General Theory of Employment, Interest and Money', the landmark work published in 1936 by John Maynard Keynes. Around the time that Keynes published his authoritative text, 'value theory' was beginning to be segmented for application to different types of assets, properties, and business interests.

Reilly and Schweihs (1998) further explain that a number of land economists focused on the development of real estate appraisal analysis. The work of many of these land economists was ultimately synthesised in the first edition of 'The Appraisal of Real Estate', published in 1951 by the then 'Society of Real Estate Appraisers'. A number of financial economists focused on the development of business appraisal and security analysis. The classical example of the development of this discipline segment is Benjamin Graham and David Dodd's 'Security Analysis', first published in 1934.

In 1937, James Bonbright (then Professor of Finance at Columbia University) published 'The Valuation of Property'. Bonbright attempted to integrate the value theories of the land economists with those of the financial economists. He recognised that the common element in these theories was that the analyst is attempting to value property rights – or the bundle of legal rights and economic

benefits related to property ownership – regardless of whether the property is real or personal, tangible or intangible.

### **The Intangible Age**

Organisational success in the Intangible Age requires new thinking frameworks and mental models. Success in a knowledge-based economy depends on new capabilities for individuals and organisations. Organisations need to create knowledge recipes, potent combinations of tacit and implicit knowledge, if they want to succeed and create sustainable long-term financial performance.

Ungerer *et.al.* (2006: 179) assert that, “It is important to realise that the knowledge economy of the Information Age will transform Industrial Age economics, but not erase it. The Industrial Revolution did not put an end to agriculture, because we still have to eat. The Information Revolution will not put an end to industry, because we still need physical, tangible items like houses, cars and refreshment drinks. No one can say for certain what the new ways of working and prospering in this revolution will create; in a revolution the only surety is surprise.”

Summary of Three Distinctive Periods (Ungerer *et.al.* 2006, Table 1.3, Pg 23)

<b>Era</b>	<b>Agriculture (8000 BC-1750)</b>	<b>Industrial (1650-1955)</b>	<b>Information (1955-2030)</b>
<b>Wealth</b>	Land	Physical resources: Land and capital	Knowledge
<b>By-Product</b>	Land erosion	Industrial pollution	Lack of Individual privacy
<b>Key Assumption</b>	“Land is wealth”	“We need to separate things to manage them.”  “Money is Wealth”	“We are connected, need to cooperate”  Relationing is wealth

## **Knowledge Economics**

The economic value derived from knowledge economics; value that comes from creating, processing, communicating and selling information grows significantly faster than the value added by traditional goods and services. While the value of traditional goods and services shrinks, the information content of that offering grows proportionally larger.

Ungerer *et.al.* (2006: 207) state that, "Intangibles, as the primary construct of knowledge economics, are inherently different from physical and financial assets. Intangible assets are non-physical sources, which are of value and represent a non-physical claim to future benefits. An intangible asset is a claim to future benefits that does not have a physical or financial (a stock or bond) embodiment."

American Airlines makes more money from its Sabre reservation system than from its airline operations, Ford Motor Company makes more money from financing cars than making them, and Marriott Hotels makes more money from managing contracts to run hotels, than from owning the physical assets of land and buildings.

"A direct, causal relationship exists between intangible transactions and short-term and long-term financial performance. Financial transactions and financial performance are the end result (or accumulation and translation) of numerous intangible transactions." (Stanfield, 2002: 175)

The goal is growth in all capitals – financial, human, and structural and customer capital. Ungerer *et.al.* (2006: 47) are of the view that, “the logic of a business case for focusing on knowledge-based assets growth, from a systems thinking perspective, is as follows:

- Differentiation is the basis for increased competitiveness. The lower the imitability of offerings (ability to copy), the higher the potential for differentiation and competitiveness.
- A high differentiation potential is directly dependent on a robust innovation capacity.
- Innovation is enabled by access to a superior stock of intellectual capital
- Attracting, building and retaining intellectual capital requires a positive organisational image.
- Organisational image and position in the market remain dependent on positive and sustainable financial performance.
- The image of the organisation is also dependent on the reputation of its leadership.

Differentiation is the core of successful business strategy. Sustained value differentiation is dependent on some form of inimitability. Intangible assets (and combinations thereof) are the most difficult to imitate and create the natural basis for longer-term competitiveness.”

In an environment where innovations are imitated by competitors at an accelerated pace, and where small firms often gain market share from larger ones by introducing new and fresh offerings, it is a firm’s intellectual capital –



their knowledge, experience, expertise, and associated soft assets, rather than their hard physical and financial capital – that increasingly determines their competitive positions Ungerer *et.al.* (2006).

### **Real Value©: Strategic Focus**

The aim of the researcher's Real Value© methodology is the contribution to and creation of long-term, sustainable financial performance for organisations, entrepreneurs and individuals competing within the unpredictable, uncertain and dynamic context of knowledge economics.

The strategic focus of the Real Value© methodology is knowledge and / or intangible and intellectual assets, and the innovative ways in which these critical assets can be created, leveraged and optimally positioned and applied within an organisation's value network (both the internal and external network). This approach requires a system in which knowledge can be systemically and accurately measured for long-term sustainable financial performance.

The researcher advocates that the successful management and optimal alignment of intangible assets in the knowledge economic context is imperative for extraordinary levels of financial performance, including liquidity, profitability and increasing bottom and top line revenues, with the concomitant exceptional returns on physical, financial and knowledge assets.

Due to the shift in competitive emphasis now being on value creation – the movement from tangibles to intangibles – organisations need to recognise the need to manage knowledge-based assets more systematically and strategically.

### **Chapter 3 Real Value©: Research Methodology**

The approach to the dissertation research is experiential and action-based, and relies largely on the iterative and reciprocal relationship between the researched, the researcher, the research and the research outcomes, in a continuous cycle of Real Value© discovery, design and development.

The Kolb (1985) learning cycle and the researcher's interpretation of the cycle, describes these stages of experiential learning in relation to the Real Value© system as follows: Concrete Experience (experiencing and participating in the Real Value© pilot projects), Reflection and Review (consciously reflecting on, interpreting and evaluating the action research experience), Conceptualisation (conceptualising and creating the design and development of the Real Value© methodology) and Active Experimentation (applying the current level of design and development to the succeeding pilot project/s in a progressive process of Real Value© discovery and development), and thereby to continue the Kolb experiential learning cycle in the ongoing design and development of the Real Value© system.

The intent of the action research is to discover, interpret and apply new knowledge to support the researcher's emergent thesis in terms of designing and developing the proposed value-based business development leadership metrics methodology. The researcher has been engaged in various work assignments and specifically involved in a diverse range of action research pilot projects that provide the commercial context and conditions for the achievement of the

research result and outcome, and the emergence of the value-based business development leadership metrics system.

The research is not intended to deduce and analyse an existing idea or theorem, and thereby assimilate, advance and extend, through evidenced based observation, that theorem. Rather it is intended as an action-based research process through which ***a value-based business development leadership metrics methodology is discovered, designed and developed***, which emerged from the information and knowledge that was generated through the complete action research process, in terms of the experiential action-based learning cycle described above.

The intellectual and academic components of the Master of Science in Leadership and Innovation: the course modules and material, the prescribed texts, the case studies, contact sessions and assignments and their real world application in the action research projects, provide the critical context and essential content for the design of the leadership methodology.

### **Explanation of the Research**

The research is centred in the 'participative inquiry' methodology. The research method being explorative and action-based, demands direct participation in the client organisation and value network.

The design and development of the leadership methodology has been a continuous process through the MSc programme that radically emerged during the latter stages of the MSc course work and action research. It emerged

specifically as a result of the New Economy module in which the MSc students were assigned to create a new organisational entity, either as an entity within or as a possible extension of their current organisational role, or as an independent and new economic venture.

The Corporate Finance module followed the New Economy module in which the researcher's initial knowledge methodology, as a new economic entity, was selected as one of three investment case studies for the duration and required completion of the Corporate Finance module, by the nominated participating student groups.

The New Economy Module was the ninth MSc module of twelve, and the initial design of the methodology was as a result and culmination of the MSc contact sessions, research assignments and client contracts that had been completed at that stage of the MSc programme.

It was specifically as a result of the New Economy assignment that the author created the initial knowledge framework of the methodology, explained the concept, thinking and rationale of the system, and established the initial sequence and reciprocity of relationships between the critical knowledge components that constitute the nomenclature of the methodology.

### **Justification of the Research Method**

The research is justified in terms of the emerging need and associated urgency for an alternative business development system that places first and foremost the importance of measuring and managing the value of intangible assets in the

leadership of the firm. The method is justified in that there are two research processes happening simultaneously, that being, the theoretical research of the MSc modules, the course work and assignments, and the action-based research of the contracted companies as pilot projects, in the discovery, design and development of the business development leadership system.

The simultaneous application of course work and real world action research reinforces and accelerates the learning process and enables and enhances the learning experience leading to deeper and keener insights and understanding of the often complex and sometimes complicated nature of the businesses and companies being researched, and thereby concomitantly adding to the value of the system.

The research is inductive and predominantly qualitative (bar the financial and fact finding information obtained by the disclosure of this information by the client company), and in terms of the proposed methodology depends on a participative and interactive study of the contracted client.

This is a dynamic process in which knowledge about the client organisation is discovered in relation to the focus of constituent components of the methodology, as well as in relation to, the design and structure of the constituent components, in the practical, experiential and action-based application in the client context.

The application of the emerging methodology in the context of the client organisations, and within the real world research setting, revealed the function

and workings of the Real Value© system as 'one of the most powerful ways to prevail' in global competitiveness, i.e. how to best discover, extract and realise this potential value, within the context of the researched company, in and through the business development process.

The result is a more refined, rigorous methodology, which discloses the reciprocal relationship and collaborative exchange of value and knowledge between the methodology itself and the organisational entity, within its external and internal milieu, and its impact on the learning opportunities and discoveries, through that symbiotic interaction.

### **Research Aim and Intent**

The aim of the research is to explore and discover the essential elements and critical components of the Real Value© methodology, and to explain the optimal component relationships emerging from this knowledge matrix.

The research process is applied within the internal and external environments and value chain of client organisations, through participative action research and intensive network and participative client interaction. This requires a direct and relationship marketing process communicating the potential value of the emerging leadership methodology with prospective clients, in order to secure the action research pilot projects.

The research method applied is also interpretive. The explorative and 'participative inquirer' (Stacey, 2000) methodology has been applied to support

the participative nature of the proposed leadership methodology in the real world client context; a process of experiential learning and knowledge discovery.

Kitchen (1999: 129) explains the process in the following way, "The inductive research researcher should go directly to the real world and generate data so that the implicit patterns of the human world can be understood and then explained. Inductive researchers do not merely collect data, they also generate it. In the generation of data, researchers must decide, by using initiative, intuition and subjectivity, what to focus on, and what to leave alone. One of the leading philosophers who promulgated this perspective was Popper (1959). He demonstrated that it was logically inconsistent for deductivists to claim to have exclusive access to fundamental scientific laws. The basis of his argument is that deductive research relies on verification as the final proof of a scientific theory. Popper demonstrates that real scientific advances are made when researchers use falsification in preference to verification."

The researcher advocates that classical scientific theory (Newtonian-Based Motion Physics, and Descartes' Mind-Matter distinction), based on deductive methods, is limited in that its bias is toward a supposed external, objective, quantifiable reality, existing independent of our subjective experience of it. This view of the world is based on a linear, mechanical mental model, in which participants, participating in the reality creation process, are defined as 'objective observers', observing an external, separate reality from their experience of that object or world.

## **Explorative Action Research**

The action research is inductive and explorative and relies largely on the initiative, action, intuition, interpretation and understanding of the researcher, as prior and post generated knowledge, of the research topic.

"One of the main implicit assumptions of all inductive research is that the world is socially integrated. Patterns of behaviour exist whether they are researched or not. It is the inductive researcher's task to discover these patterns by emergence rather than forcing a preconceived agenda on the data." (Kitchen, 1999: 189)

In terms of research aims, classical scientific theories have as their aims the manipulation of the outside world. If correct, they enable the researchers who have mastered them to cope effectively with the environment and pursue their chosen ends. Critical theories aim at emancipation and enlightenment, at bringing to light hidden coercion and enabling users of theory to determine their own true interests. In terms of cognitive structure, scientific theories objectify and make a clear, self-evident distinction between theory and its object domain. Critical theory is essentially reflective or self referential, with the object domain integrated within the theoretical and subjective approach. In terms of evidence, scientific theories find empirical confirmation through observation and experiment. Critical theories find their cognitive acceptability through a complicated process of evaluation concentrating on demonstration of their reflective acceptability (Kitchen, 1999).



## **Description of the Research Method**

The research method involves communicating the application and benefit of the emerging leadership methodology to a network of contacts and the prospective client organisation, contracting the client and applying and implementing various strategic knowledge tools and techniques for the application of the methodology.

Critical research places emphasis on action through research, an approach advocated and applied by the researcher, to reinforce the 'participative inquirer' methodology of Stacey (2000), and to demonstrate the strategic approach of the proposed methodology in action.

The principal knowledge research tools and '**thought leadership**' approaches or concepts applied in the knowledge research and synthesis processes are:

**1. Scenario Planning** – working from the premise that the future is plural and can be created, mapping out multiple potential futures for the client organisation.

**2. Systems Theory** – the internal and external engagement and investigation of the client's business environment and network of relationships and establishing the strategic links between them.

**3. Complex Response Process** – engaging in dialogue, conversation, interaction and communication within the client company across the spectrum of the value chain. This complex process involved consciously managing the diverse intellectual, emotional and psychological experiences of the participants through

the action research process and clarifying the misunderstanding, uncertainty, and possible confusion permeating the unpredictability of the research process.

**4. Quantum Theory** – actively and intentionally performing the action research and participating in the client organisation on the assumption that the internal and external context and knowledge domains of the client organisation are connected, interdependent and indivisible, at a subatomic, energetic level of interaction and energy exchange.

Quantum theory defines an invisible, indivisible microscopic world, which exists between atoms and between the spaces in atoms, and more specifically, the space between the electrons constituting the atom. This 'falsification' of classical scientific theory, by quantum theory, has posed certain questions about the nature of the universe, our existence and interaction with and relationship to the world.

Bohm (1989: 38) suggests that, "Quantum concepts imply that the world acts more like a single indivisible unit, in which even the 'intrinsic' nature of each part (wave or particle) depends to some degree on its relationship to its surroundings".

Quantum theory does however, in terms of its underlying assumption (i.e. the 'oneness' and interrelatedness of everything, the 'single, indivisible unit') recognise the classical level as an extension and expression of the microscopic quantum level, existing in relationship with the classical, as its extended 'surroundings'.

Bohm (1989: 43) concludes that, "quantum theory presupposes the classical level and the general correctness of classical concepts in describing this level; it does not deduce classical concepts as limiting cases of quantum concepts".

**Quantum Theory-Theoretical concepts:** (Bohm, 1989: 371)

- "The classical concept of a continuous and precisely defined trajectory is fundamentally altered by the introduction of a description of motion in terms of a series of indivisible transitions.
- The rigid determinism of classical theory is replaced by the concept of causality as an appropriate and statistical trend.
- The classical assumption that elementary particles have an "intrinsic" nature, which can never change, is replaced by the assumption that they can act either like waves or like particles, depending on how they are treated by the surrounding environment."

The above points reflect a different kind of world to the one suggested by classical scientific theory. The interaction of space and time is defined not by a single, linear trajectory, but rather, by a 'series of indivisible transitions...an appropriate and statistical trend', that emerges through a complex series of relationships and interactions between individual entities or 'waves and particles', with each other (Bohm, 1989).

Moreover, that these entities behave differently depending on the environment that they are exposed to or are functioning within. This refers to a systemic and

reciprocal relationship of individuals, with their environment, and the impact that their interactions and actions have on each other, the environment and vice versa, 'depending on how they are treated' (Bohm, 1989).

The above systems of knowledge leadership are implemented in the action research process through various investigative knowledge and innovation research techniques: individual company consultations; leadership and management interviews on company culture, structure and performance; general management meetings; innovation audit questionnaires; specialised scenario sessions; and the strategic interrogation of the client's operating and strategic environment – the internal and external locale of its value network – to align with the strategic intent and future potential of the client organisation.

The approach is scenario and future based with the key tools utilised in the action research projects being: the 'scenario interviews' (evaluator/observer present), one-on-one 'leadership interviews' (management and executive), critical 'open information forums' (group-based) and 'operational interviews' (individual based) with key operational and financial personnel. The 'voice of the customer' is also integrated to qualify the customer's perceptions of the client organisation and their experience in comparison to the company's perception of their service delivery.

### **Research Process and Procedure**

The research process begins with investigating the internal environment of the client organisation, and then the external constituents comprising the value network: customers, buyers, suppliers, partners and alliances. The process

unfolds through specialised strategic-scenario sessions and consultations with select leaders and high-performers; open information forums with project managers; leadership interviews, meetings and consultations with executive members, shareholders and board members; operational and financial consultations; information technology meetings, and ad hoc interaction at all levels, and with all internal personnel.

These are the primary knowledge generating sources, including secondary sources such as; the Internet, websites, corporate literature, professional industry journals and editorials, advertising material, and annual, management and industry reports.

Meetings and interviews are set up with the contracted client company's value network, specifically a select cadre of clients, buyers, key suppliers, service providers and / or partners. The 'voice of the customer' is incorporated to establish the dominant attitudes and perceptions of the client's network, toward the client company. The interviews, consultations and meetings, both internal and external, are organised and implemented by the researcher, to demonstrate and discover the power and appropriateness of the 'participative inquirer' methodology, the action-based, experiential process, as it applies to the emerging value-based leadership model.

The objective of the knowledge investigation and reconnoitre, (a term used and applied by the researcher for the knowledge investigation), is to discover and extract new knowledge. The research includes defining the quality of the client's existing and key relationships, or lack thereof, between its internal (company,

leadership and human capital relationships) and external environment (customer, supplier, stakeholder and partner relationships) focusing on the relationship of tangible and intangible assets and the importance of these relationships in creating future value, and in managing the future value of the organisation.

### **Action Research Process: Sequence and Steps**

1. Contact the prospective client company.
2. Present and propose the prospective value-based leadership model.
3. Present and discuss the potential Real Value© concept.
4. Arrange follow-up meetings to discuss the commercial aspects of the project.
5. Agree on the commercial terms of the consulting contract.
6. Sign and secure the consulting project contract – phase 1 (Research and knowledge investigation).
7. Begin the project (phase 1) and design the project plan.
8. Present the project plan to the company executive and management.
9. Execute project: set up meetings/consultations with internal stakeholders.
10. Execute project: set up meetings/consultations with external stakeholders.
11. Analyse and synthesise the information and knowledge.
12. Structure, process and publish the strategic knowledge report.
13. Present the findings on the knowledge investigation to management.
14. Agree to the Real Value© appraisal (phase 2).

15. Analyse financials – report the knowledge asset value of the company in terms of the Real Value© methodology and valuation methods applied.

16. Define and recommend the future knowledge and intangible asset investments to maximise the real return on knowledge.

### **Action Research Projects: Key Role and Project Outcome/s**

Herewith the complex set of client projects and contracted companies, out of which the Real Value© methodology emerged and was formulated, with the actual number of interviews and active participants in chronological order, with a description of the key role and outcome/s of the research project in the design and development of Real Value©.

#### **1. Collaborative Xchange (2001) Interviews 30 Participants 10**

The project introduced the researcher directly to the Knowledge and / or New Economy and the significance of supply chain collaboration and information exchange within that context. The project also inspired and compelled the researcher to choose the MSc in Leadership and Innovation as a Masters degree.

The particular outcome for the researcher was the adoption of an executive level perspective on the significance of a well managed supply chain within the business development process, specifically focused on a technology system applied for the purpose of creating supply chain collaboration and real time information exchange.

The supply chain project allowed the researcher to research an industry supply chain and to make the strategic links between marketing, sales, logistics, finance, and supply chain management. The strategic project exposed the researcher to very important business development skills and activities in the form of an email and emarketing campaign, editorial placement, the launch of the CX technology offering through a planned product launch and marketing conference, interacting and participating with and researching clients at an executive level, and selling and presenting the product offering through direct and relationship marketing, and executive level sales and business development presentations.

## **2. Evolution Advertising (2002/3) Interviews 9 Participants 3**

Evolution was the opening client contract in which the researcher applied the scenario planning tool to the advertising agency, and simultaneously discovered the potential of scenario planning as a strategic solution, and the potential for future professional consulting work as a result of the success of the project.

The outcome of the Evolution strategic scenario project empowered the researcher to further pursue the scenario planning solution with new clients which was the impetus for the succeeding contract with Wise capital and RMG, named 'Liquid'.

## **3. RMG/'Liquid'/Wise Capital (2003) Interviews 27 Participants 9**

The 'Liquid' project introduced the researcher to the financial aspects of business leadership and specifically corporate finance, venture capital and private equity and the concept and imperative of effectively measuring and managing



intangible value in the business development process; the crux of the RV methodology.

**4. A&I Distributors (2003/4)**                      **Interviews 6**                      **Participants 2**

The researcher applied the Fuzzy Logic concept 'Quantum-Time-Travel' (aligning past, present and future business leadership performance) as defined by the researcher, to A&I Distributors, to demonstrate the current versus future value of the enterprise in its final stages of operational; a key concept in the strategic application of the RV system.

**5. TWOMA (2003/4)**                                      **Interviews 9**                                      **Participants 3**

The TWOMA project highlighted different marketing and supply channels through which an enterprise can create and add value to their existing service offering. These included alternate marketing, media, Online, DVD and Internet and emarketing channels, and how new versions of a product mix or value proposition can emerge through a combinatorial approach to enterprise marketing and management. It also revealed the importance of identifying the individual strengths of the human capital, management, and executive, in the effective leadership of an enterprise.

**6. Giant Leap (2004/5)**                                      **Interviews 18**                                      **Participants 6**

The Giant Leap project, named 'The Quantum Leap Project', represents a major milestone in the development of the Real Value© system in that the project specifically focused on the potential integration of the tangible asset product offering of Giant Leap, with the intangible asset contribution of the RV system,

as a parallel and new revenue generating opportunity; the principal aim of the RV system in the commercialisation process within the contracted client context.

### **7. PDP (2005)**

**Interviews 5**

**Participants 1**

The PDP project was the first real world investment case proposition that was designed for a proposed retail business, including the brand concept, service offering, corporate ID and business model, which was, the investment proposition, successfully awarded to PDP by the associated investment bank.

### **8. Dentsply SA (2005/6)**

**Interviews 28**

**Participants 7**

Dentsply exposed the researcher to the marketing and management limitations of a company centric, cost-cutting corporate strategy, in which the South African and Sub-Saharan marketing and warehousing operations were transferred to the UK-based operation, executed through a drop-ship supply chain and a local sales force and distribution network, whose incentives and budgets were adversely affected as a result, respectively, and therefore the obvious negative impact on sales performance.

### **9. RMG/Contact Media (2006/7)**

**Interviews 50**

**Participants 22**

RMG was a culminating project in the design and development of the Real Value© methodology, in that the obviousness of the appraisal system emerged suddenly, serendipitously and dramatically during the research process. It was as if the 'pieces of the puzzle' came together and led to the identification, definition and measuring of the intangible assets of RMG through the dynamic action research and concomitant business development process. The project with RMG represents the critical milestone in the development of the methodology as

a strategically applied business development leadership metrics system, as the ultimate fusion of the previous seven years of research and development.

**10. Lasec SA (2008)**

**Interviews 65**

**Participants 18**

Lasec SA further extended the development of the methodology in revealing the power of a participative and future-focused, action-based market and customer centric approach to business development; through a human capital oriented key account strategy that generated dramatic increases in sales. The importance of a strong cultural fit with an organisation, in the complex knowledge driven economy, was also made evident, and the potentially and actual disruptive impact of apposing political, power and leadership structures within an organisation.

**Leatt Corp. Inc (Ongoing Agreement) Interviews 45**

**Participants 21**

Leatt Corp. Inc. represents the actual strategic application of the business development system on all levels of required competency, strategically, operationally, logistically and in terms of human capital leadership competency. It also demonstrates the highly profitable impact of an innovative, customer and market centric, future and action-based, business development strategy and action-plan, which is focused on a set of desired future results, regardless of the current or past trading conditions. This on proviso that the company is supported by an excellent product range, solid intellectual property portfolio, and exceptional leadership, as is the case with Leatt Corp. Inc. The opportunity also represents the power of a virtually ideal cultural fit and the importance of that for maximising performance in the knowledge economy.

### **Summary: A Systematic Description**

A prerequisite to successfully implementing the research process and project is to get full support and buy-in from management and the board of directors, with general consensus by senior and middle management for the project. This involves presenting and communicating the value and benefits of the model to the respective decision makers and to relevant groups, i.e. middle management and the board of directors, and to agree on the targeted outcomes for each stage of the action research process.

The research is implemented by conducting general internal interviews, as described above, then the more specific leadership and competency consultations with the CEO and executive, followed by project manager, 'knowledge worker' and senior manager meetings. The internal process is completed with a rigorous scenario-session interview with each of the executive and senior managers. This process takes in the region of six to eight weeks.

The focus and action then shifts to the external environment in which meetings and consultations are set up with key clients, buyers, suppliers, alliances and partners to establish the kind of relationships and 'partners' that are driving value within the existing operating environment of the business. Emphasis is placed on any problems, obstacles or issues that are impeding and obstructing the progress of the organisation in terms of its strategic intent and immediate strategic objectives.

Following the action research and knowledge investigation of the client's internal and external environment, a strategic knowledge appraisal, future and scenario-

based, with alternate scenario-income statements, is processed and published, as a Real Value© valuation proposition and report. (See Appendix 1-1.1)

## **Chapter 4 Real Value©: Pilot Projects**

### **Action Research – Key Pilot Projects**

The professional pilot projects demonstrate the process of exploration in the design and development of the Real Value® methodology, as it unfolded from inception through the various action research pilot projects, and emerged into its current state of relative completion and fulfilment.

The Real Value© system is dynamic, and was initially designed as a strategic knowledge and innovation system; a knowledge-based system to be applied in the process of innovation to minimise risk and maximise the opportunity for competitive advantage and value creation, by companies wishing to compete in the knowledge-based, global and technology-driven economy.

The methodology subsequently emerged as a value-based business development leadership metrics system, with the principal aim being the discovery of knowledge and the appraisal of such knowledge, as knowledge capital, (by participatory leadership through the lifespan of an organisation) and within the uncertain, complex and unpredictable context of the knowledge economy.

### **Key Chronological Action Research 2002 – 2009**

#### **Explanation, Interpretation and Result/s of Key Pilot Projects**

The selected professional pilot projects represent the key areas of the exploratory action research process for the design and development of the Real Value© methodology. These projects comprise the contracted, customised projects for client organisations, which provided the real world opportunity for

the action learning of the researcher, that lead to the following experiential project results:

### **1. Evolution® Advertising Agency – A Strategic Scenario Plan – 2002/3**

The research process was initiated by the first pilot project with the advertising agency Evolution®, which was contracted for the Scenario Planning module assignment. The initial assignment with Evolution® represents the basis of the development of the system on two levels, firstly, it initiated the process of contracting commercial clients on a consulting basis, and secondly, it provided a real world commercial context for the emergence of the methodology, and specifically for the scenario planning tool.

Evolution® (Pty) Ltd was contracted to execute the mandate of the Scenario Planning module and project. The project instruction was to contract a client company for the application of scenario planning in terms of the module guidelines and specifications of the scenario planning process and model (Facilitator, Prof. Louis van der Merwe).

The Evolution® project represents the initial action of the inductive research and consulting projects (in terms of the dissertation knowledge acquisition process, and the project's role and relevance in creating real commercial opportunity), and opened a window of opportunity for further action research and consulting work in pursuit of designing and developing the Real Value© methodology.

The Evolution® scenario plan was successfully completed and the feedback from the client was very encouraging and positive in terms of the knowledge that was

created, shared and revealed in the final scenario plan report. The client shared what they perceived to be the potential 'commercial value' of the process and culminating report in specific and immediate financial terms i.e. not considering any future value that could be derived from such recommendations as contained in the report for future client projects.

The client feedback served as a benchmark and guideline for negotiating new contracts, which instilled a sense of confidence in the researcher in terms of the approach and model. Scenario planning now serves as a key tool in the future-based approach of the Real Value© methodology.

## **2. RMG/'Liquid'-A Corporate Finance Project-2003/4**

An intensive process of new real world experience, new knowledge acquisition and exposure demonstrates the second phase of development. The researcher was exposed to a 'knowledge initiation' a kind of 'knowledge baptism' into the world of corporate finance, venture capital and private equity through a venture capital project with RMG and Wise Capital named 'Liquid'.

The corporate finance environment provided the strategic knowledge context into which the researcher began to interpret the Real Value© methodology from a financial and intellectual property valuation perspective. This experience was preceded by the Corporate Finance module of the MSc and led to a prospective venture capital deal with RMG, Evolution® and Wise Capital.

Although in its infancy, the researcher applied the methodology, at its then stage of development to RMG, which initiated the 'Liquid' venture capital process



with Evolution® and Wise Capital, and with select strategic partners, who would serve as prospective shareholders, investors and stakeholders in the venture capital deal.

'Liquid' emerged as a direct result of continued consulting work, and the Corporate Finance Module of the MSc, delivered by John Wise. Further clients were contracted to apply the Real Value© system in its evolution, revealing and unfolding various key attributes of the value-based leadership system. The next significant contracted client RMG (the first RMG contract), specialising in media, communications and advertising sales, was strategically appropriate and opportune, following the preceding project with Evolution®.

The 'Liquid' investment entity emerged as a result of an intended and prospective integrated services business model, including management consulting, communications, and corporate finance and advertising solutions. The aim being to merge RMG, Evolution® and Wise Capital, optimally integrated via the researcher's proposed value-based business development leadership system. The integrated services business opportunity was further developed and captured in an investment case, and simultaneously presented to prospective clients, venture capitalists, international investors and potential strategic and private equity partners.

The integrated services venture capital and investment project was unsuccessful, but the researcher continued this course of action in an emergent real world investment case with PDP (Paul Dinsdale Properties), in which the evolving value-based leadership system was applied, as a sole proprietor by the

researcher, (i.e. not as part of the 'Liquid' integrated services model) to a real world successful investment case.

Both projects, PDP and 'Liquid', initiated by the Corporate Finance Module of the MSc, culminated and serve as critical and complementary learning components in the knowledge acquisition process, that revealed, highlighted and exposed the key attributes, relevance and 'real value' of the financial facets of the Real Value© methodology, specifically as an innovation investment and valuation system.

### **3. Giant Leap – 'The Quantum Leap Project' – 2004/5**

The third phase of development was the action research project with Giant Leap (Pty) Ltd (corporate interior architects), described as the 'Quantum Leap Project' which represents the next level of development of the Real Value© methodology. The Giant Leap project is a real world commercial application of the 'quantum-model' in a real world consulting context, on the platform of the scenario planning tool applied with Evolution®, the subsequent first Results Media Group venture capital project, and the concomitant 'Liquid' corporate finance venture.

The 'Quantum Leap Project' introduced specifically the future-based aspect of the methodology with the emphasis being on creating and leveraging intangible and innovation assets for Giant Leap, through a physical participation and investigation of the Giant Leap organisation and their value network. This included meetings with shareholders and key stakeholders in the Giant Leap

network including key clients, suppliers, partners, distributors and service providers.

### **'Giant Leap meets Quantum Leap'**

The 'Quantum Leap Project' is essentially the strategic application of the Real Value© methodology to Giant Leap to create a strategic knowledge design prototype that can be reproduced for, marketed to and distributed into the existing and new Giant Leap client network to create additional value for the Giant Leap Group. The service-based model includes select service providers and / or 'partners' who are specialists in their respective fields who provide the specific knowledge solutions infrastructure; technology, knowledge or skill sets that are required for intangible asset integration. These include brand developers, human capital specialists, communication specialists, technology and financial experts.

The aim is to simultaneously develop, market and capture the 'real value' residing in the synergy of Giant Leap and Quantum Leap – the latent value residing in intangible assets – in leadership, intellectual property, brand, technology, intelligence and human capital, strategically aligned and integrated with the innovative service and product-based Giant Leap business model, to achieve increasing and exponential returns.

Two distinctive entities, Giant Leap and Quantum Leap, merge as a joint value creating entity, in which their unique intangible assets are aligned and integrated to create new knowledge assets, artefacts and infrastructure – to build and leverage the Giant Leap Group brand and business model.

To achieve the 'Quantum Leap' attention and activity is focused on building the business, brand and business model, and on key relationships within the value network. Developing the value network itself is crucial, comprising Giant Leap clients, property brokers, property developers, architects, service providers and partners/suppliers. The knowledge and value that can be created and captured by these relationships, and through the configuration of critical and complementary assets that drive value creation, is imperative. 'Real value' is generated and leveraged through important shareholder and stakeholders associations and relationships and the company reputation, credibility and goodwill.

#### **UNISYS 3D – VE-2004/5**

Additionally, the Giant Leap project provided an opportunity to work with the Unisys (3D-VE, Visible Enterprise) Executive, as a prospective service provider to Giant Leap. The intent was the conversion or transference of the Real Value© methodology into the Unisys 3D-VE format as a demonstration of the strategic compatibility of the system with an information technology infrastructure.

#### **4. PDP Properties – A Retail Investment Case – 2005**

The PDP (Paul Dinsdale Properties) investment case was the next step and project in the design and development of the Real Value© methodology. The PDP project represents the first real opportunity to apply the methodology to a future-based real world financial and valuation project in the form of a retail investment case.

The researcher was tasked with defining the future structure and service offering of the proposed retail investment, creating the corporate ID, and designing the

business model and brand concept for the retail business. The financial institution, ABSA BANK, approved the investment funds for the retail investment project for 'The Durban Point Waterfront Property Development'.

### **5. Results Media Group – Knowledge Asset Valuation (2006/7)**

The Real Value© methodology culminated in a full Real Value© asset appraisal with the Results Media Group (Pty) Ltd in 2006 and 2007. The researcher re-contracted RMG (the second RMG contract) for the purpose of applying the emerging methodology to RMG through which the Real Value© system emerged as a value-based leadership metrics systems.

The strategic application of the methodology involved an extensive participative enquiry and research of RMG's internal and external operating and strategic environment. Internally the process included leadership interviews and executive meetings, individual interviews and consultations regarding the structure, culture and core competencies of the organisation, as well as the competencies and skill sets of the human capital spectrum of RMG.

Consultations and interviews also included a 'quantum-inquiry' into the personal and professional ambitions and aspirations of the RMG executive, senior and junior managers, and top performers, to align the strategic intent of the individuals, as far as possible, with the strategic intent of RMG.

The research also included meetings and discussions with employees across the board. The internal investigation included a detailed analysis of the financial statements of RMG specifically in terms of the Baruch Lev Formula (see Chapter

6 definition) and the contribution of knowledge assets to RMG earnings, and to the financial performance of the firm. The internal investigation concluded with an innovation audit, conducted and completed with all executive and senior management, and specialised scenario interviews as a premise to the design of the future-based scenario plan for RMG.

The external participative inquiry included meetings, consultations and interviews with IP media partners, BEE partners, and key clients and stakeholders with a vested interest in RMG. The aim of the external meetings and inquiry is to establish the quality of relationships with RMG and with the RMG value network, and the extent to which the network can complement the creation of sustainable earnings, value creation and competitive advantage for RMG.

The aim of the process being to better understand the 'voice of the customer' and the perceptions of the 'customers' in terms of RMG as a commercial entity and supplier of media and publishing services, and particularly the quality of RMG service delivery, customer service and level of professionalism in dealing with customers. Attention is also on any specific and / or general problems the customers and partners may perceive, or actually experience, in their dealings with RMG, and any key areas of improvement and urgent attention that is required to ensure the ongoing and credible reputation of RMG.

The purpose of such interviews and consultations is to access the energy and information residing in the value network (dormant and dynamic), that can then be applied in the innovation process, and ultimately to convert that information

into knowledge, and to incorporate the newly discovered and defined knowledge within the workings and application of the Real Value© system.

### **RMG Value-Based Leadership Metrics Proposition**

The purpose of the investigation process is to access critical information and knowledge about RMG that is ordinarily not noticed in the day-to-day management and operations of the company, to discover a value-based leadership metrics solution, which can assist RMG to pursue the best, most beneficial and profitable path for employees, investors, shareholders and stakeholders.

- The aim being, to discover the highest and best possible way forward (a strategic future-scenarios valuation proposition) for the RMG Group, considering all knowledge accessed and interpreted during the investigation process.
- The publishing of a valuation report containing the proposed value-based leadership metrics solution. (A knowledge asset valuation vs. a financial valuation proposition.)
- The presentation and discussion of the RMG investment solution and innovation valuation proposition, with RMG, both individually and as an executive group.
- The innovation investment and valuation purpose and process is executed to form and forge a powerful and pragmatic leadership platform of the RMG Group.

**The pilot project action research is centred in the following four knowledge research components, as per the researcher's application, interpretation and definition of them in the discovery, design and development of the RV methodology:**

**1. Extraordinary Management Approach:** the extraordinary management approach is systemic and emphasises a synthesis of knowledge within the internal and external environment within which an organisation operates. The strategic knowledge synthesis is initiated through action-based, experiential participation, within an organisation's value network, in pursuit of competitive advantage and sustainable value creation.

Extraordinary management focuses on quality action and acquiring and developing the skill and capacity for performing selected action preferences. Engaging 'complexity at the edge of chaos' (Stacey, 2000), for the purpose of generating new innovative opportunity, through selected action preferences, is the principal aim.

This innovative approach to management is centred in a conscious and strategic awareness of an organisation's environment, and an intuitive, perceptive intelligence of the reciprocal exchange of energy and information, flowing through and between the internal and external channels of the value chain and distribution network (Stacey, 2000).

This practice and awareness produces a sharp focus on the micro details, and incisive awareness of the macro context, within which individuals and



organisations compete and co-operate, with an astute skill and ability to 'attract attention' to important issues and information 'otherwise not noticed' (Stacey, 2000).

**2. Participative Inquirer Methodology:** the 'participative inquirer' (Stacey, 2000), refers to the nature of interaction between an individual and his / her environment. The participative approach contrasts the 'objective observer' methodology, in that the actors and participants in any given situation and / or processes, are seen to be participants, engaged in the process of enacting and creating their reality. By comparison the 'objective observer' is seen to be simply observing an external reality, or if the case may be, acting outside reality, a reality that is external and independent of their experience and perception of it. The researcher holds the former view, which reinforces the action-based nature of his research, which is a 'participative inquiry' into, and interaction with, the contracted client companies and their value networks, engaged pragmatically and directly in 'quantum-processes' of experiential learning and knowledge discovery.

### **3. A Quantum-Model**

The 'quantum-model' creates the possibility for the discovery of new information and knowledge. The old linear and mechanical paradigm is rapidly losing its power on the systems of our world. We have entered a new and different time – a new age immersed in a metaphysical paradigm of circular causality, diversity and complexity, and intangible knowledge flows – a quantum-model centred in the idea of an emergent microscopic creative principle.

Seife (2000: 182) describes the emerging 'new' knowledge in the following way, "The electron that scientists see in the laboratory – the electron that physicists, chemists, and engineers have known and loved for decades – is an impostor. It is not the true electron. The true electron is hidden in a shroud of particles, made up of the zero-point fluctuations, those particles that constantly pop in and out of existence. As an electron sits in the vacuum, it occasionally absorbs or spits out one of these particles, such as a photon. The swarm of particles makes it difficult to get a measurement of the electron's mass and charge, because the particles interfere with the measurement, masking the electron's true properties. The 'true' electron is a bit heavier and carries a greater charge than the electron that physicists observe...according to the rule of quantum mechanics, the zero-dimensional electron has infinite mass and infinite charge."

Quantum-knowledge is not defined in classical or conventional terms, but rather as an evolving, emerging, dynamic entity, a microscopic intelligence – to be allied with, aligned with – for real creative purpose. Quantum-knowledge accessed, discovered and applied, with a specific and creative outcome in mind, makes it useful.

"It is only at the microscopic (or quantum level), however, that the indivisible unity of the various parts of the world produces significant effects, so that at the macroscopic (or classical) level, the parts act, to a very high degree of approximation, as if they did have a complete separate existence....moreover, this interdependence is reciprocal, for it is only in terms of a quantum theory of its component molecules that the large-scale behaviour of a system can be fully understood. Thus large-scale and small-scale properties are both needed to

describe complementary aspects of a more fundamental indivisible unit, namely, the system as a whole." (Bohm, 1989: 392)

The 'quantum bridge', referred to as the 'quantum membrane', resides between the visible, the tangible, the physical and atomic (the classical, macroscopic context) and the invisible, the intangible, the sub-atomic, quantum-field (the quantum, microscopic matrix), an all pervading sub-atomic creative quantum-principle (Seife, 2000).

Seife (2000: 87) states that, "A zero in quantum mechanics means that the entire universe – including the vacuum – is filled with an infinite amount of energy: the zero-point energy."

The infinite quantum void, 'zero-point energy', holds the 'hidden and latent' energy, the information and emerging, evolving intelligence – the energetic driving force of the creative principle – that can propel us into new perceptions of knowledge, accelerate shifts in understanding and insight, and intensify intuition, action and decision, a new principle-centred dispensation of unlimited creative resolution (Seife, 2000).

The researcher has an appreciation, awareness and affinity for the invisible quantum-void, the infinite 'zero-point' and its associated 'quantum-point' of potentiality, also referred to as the cosmic point of potential in quantum mechanics, as relates, in this instance, to the subject area of accessing 'hidden knowledge' (Seife, 2000).

### **Strategic Intent – ‘Quantum Leaps in Value’**

The strategic intent of the proposed Real Value© methodology is to translate the ‘latent and hidden energy’ – the information and intelligence accessed at ‘zero-point’, interpreted and engineered, into specific, custom leadership solutions – into explicitly measured, managed and quantifiably defined ‘quantum leaps in value’. A ‘quantum leap in value’ is a radical and dramatic and /or exponential increase in value in either, revenues, gross profits, net profits, cash flows, dividends, net assets and / or return on investments and / or assets.

“When you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind: it may be the beginning of knowledge, but you have scarcely, in your thoughts, advanced to the stage of science.” (Seife, 2000: 186)

### **Summary – Action-Based Pilot Projects**

The action-based, client research projects are the pragmatic mechanism through which the researcher has applied the above approaches as a basis to the research, as well as the pragmatic application of the methodology in a professional context.

The strategic research contracts have afforded the researcher the opportunity to learn, discover and develop the essential elements and critical components of the proposed leadership methodology, through and by the real opportunities, challenges, risks, resistance to, and obstacles presented by, the application of the methodology in the real world commercial and consulting client projects.

Complex responsive processes are central to the research in that the researcher has engaged the complex relations that exist within the client organisations and the network of relationships constituting the internal and external environments of the client organisation.

The relationships referred to are those between individuals and the human capital that constitutes the value network of the organisation, and more significantly the quality of the relationship of tangible and intangible assets and the role they play in creating value and their impact on future value innovation, which highlighted the following knowledge gaps in the client companies through the research process.

### **Key Knowledge and Knowledge Gaps**

The key knowledge and knowledge gaps are those areas of knowledge that are lacking, latent or hidden, and reside between the researcher's aims, objectives and expectations of the research conducted in the commercial consulting context and the actual experience, outcomes and results, the discovery of knowledge through the knowledge research investigations, of the client organisation. The key knowledge and knowledge gaps are defined as per the following nomenclature.

**1. Pilot Project Interventions:** The pilot projects were relatively short-term interventions, ranging from one to twelve months in duration. Initially with the aim of producing a future-based and scenario-designed knowledge report on the clients' relationship with its value network, and the potential for future value creation, with a focus on the internal and external relationships driving current

and future value. Strictly speaking, the consultant or researcher was not ready for the consulting pilot projects, in that, the knowledge to be gained, discovered and learnt from the pilot projects was still to emerge and unfold through the application of the methodology. The researcher was continually reaching out and searching for the completion of the solution, for the end result, sensing its final fruition, and being compelled to continue until the initial development of the product completed itself.

This process was also limited by the fact that the researcher was testing and developing, through the interventions, the application of the value-based leadership metrics methodology, and therefore was undergoing a dual process of discovery. Firstly, a discovery of knowledge presented by the client company and its network, through the knowledge investigation, i.e. the objective of the application, and secondly, a discovery of the application of the methodology, and how it works in practice, specifically focusing on future value and the management of future value.

Hamel and Prahalad (2000: 97) suggest that, "Getting to the future first may allow a company to establish a virtual monopoly in a particular new product category, as Chrysler in minivans and Sony did in portable audio products...it may allow a company to set standards and capture the royalties that flow from owning critical intellectual property rights, as Matsushita did in VCRs and Intel has done in microprocessors. Getting to the future first may enable a company to establish the rules by which other companies will have to compete."

**2. Future Value Management:** Future value is classically viewed and largely managed as projected sales forecasts of current business, from the platform of past performance, and within the parameters of the existing business model.

The scenario-designed strategy and future-based methodology is about discovering and defining future opportunities, from a future-based perspective, and then incrementally aligning current operations and strategic options with the desired future states, with their own set of alternate IP (intellectual property) income statements, for each scenario. This requires a paradigm shift from the current trajectory of business performance to new emerging opportunities and / or trajectories for value creation in the future (Reilly and Schweihs, 2004).

The calculation of the knowledge asset value of past performance is then juxtaposed against the calculation of the knowledge asset value of future-based performance, in terms of the new emerging opportunities. This creates a knowledge value gap between current performance and the future performance as defined by the new opportunities.

The knowledge and innovation valuation demonstrates and defines the differential returns on financial, physical and knowledge assets, both currently, and their impact on future earnings, in terms of the opportunities defined in the future-based knowledge report. The future earnings are discounted, by an applied direct capitalisation rate, to arrive at a net present value of future earnings. (See Real Value© methodology definition: Chapter 6)

The differential between the current knowledge asset value, and the knowledge asset value calculated at net present value of future earnings, is the knowledge and / or value gap that needs to be traversed to realise the future value. This is more than simply projecting sales from the past to the future along an existing trajectory of past and future performance.

The above concept and approach to strategic management presented an area of confusion and resistance around the application of the future based methodology, the aim of which is to explore and discover new innovations and / or business models for the creation of future value, in terms of the discovery of new technology, and through the integration and application of intangible assets.

Tidd *et.al.* (2001: 198) suggest that, "Firm's strategies are strongly constrained by their current position and by the specific opportunities open to them in future: in other words, they are path dependent. At any point in time, two sets of constraints make path-dependency in corporate innovation strategy inevitable: those of the present and likely future state of technological knowledge, and those of the limits of corporate competence."

The researcher advocates, that through the application of the Real Value© methodology, and within the particular strategic knowledge context of the organisation, the organisation can create and select profitable future pathways. These pathways allow for flexibility and variance in technological feasibility, that minimise path dependency through the discovery and selection of new opportunity and strategic options that would otherwise be invisible to the organisation. These opportunities create a potential demand for a new set of



corporate competencies, which can be commercialised and converted into real value, through effective collaboration, creative leadership, and the application of intangible and / or knowledge assets within the organisation's value network.

**3. Knowledge Economic Concepts:** The researcher observed a surprising lack of association, knowledge and identification from clients with regards the new knowledge economic concepts, subjects and principles being presented and discussed with them. There was a distinct knowledge gap between the researcher's theoretical knowledge and intellectual understanding of the knowledge economy, subjects and concepts, and the real world application and acceptance of that knowledge by prospective clients in the consulting environments.

The general mindset is largely that of the industrial economy paradigm emphasising physical assets, products and supply chains, as the main source of value creation. This goes hand in hand with the ordinary approach to management based on a linear and mechanical mindset embedded in the idea of control and domination of markets versus the extraordinary approach that values creativity and innovation, and collaboration in the management of knowledge assets, as the primary drivers of value creation and competitive advantage.

These include, but are not limited to, a lack of knowledge pertaining to innovation and knowledge management, the use of scenario planning as a strategic tool, systems and complexity theory, and their relevance to the global knowledge economy, the relationship of intellectual capital and market and

knowledge leadership, and the role of intangible assets in the process of value creation, competitive advantage and innovation management.

Ungerer *et.al.* (2006: 178), identify three clear knowledge points for the development of a knowledge management process:

1. "The company must have moved beyond the stage of reviewing business performance only from a financial perspective.
2. The company must have a clearly defined business idea, direction and strategy. Clarity on the strategic direction of the firm is essential for developing an intellectual capital perspective.
3. There must be a clear operation commitment to engage in the subject of intellectual capital that is visibly supported by top management."

**4. Innovation and Innovation Management:** Although there was general identification and consensus with the idea of innovation and the importance of it in business and financial performance, there was a lack of knowledge and consensus about innovation and innovation management, and how best to access and then extract the innovation potential or value of innovation for the client organisation.

This was accompanied by an absence, in most cases, of an innovation culture and any formal structures to support such a culture, with the predominant mode of operations still focused on control rather than on creativity. Creativity was largely accepted as the innate ability or talent possessed by certain individuals and top performers, without any real or observed need to nurture and / or

exploit the latent creativity residing in the organisation, its leadership, or human capital in general.

Tidd *et.al.* (2001: 238), suggest that, "innovation is a core process concerned with renewing what the organisation offers (its products and / or services) and the ways in which it generates and delivers these. Whether the organisation is concerned with bricks, bread, banking or baby care, the underlying challenge is still the same – how to obtain a competitive edge through innovation – and through this creative process to survive and grow?"

**5. Financial and Bottom Line Objectives:** There was a priority focus on current operations and the achievement of financial and bottom line objectives. This need to achieve the bottom line results seem to supersede all other areas of business development. That is, provided the bottom line was being met, there was an apparent lack of urgency to other areas of business development, and, if the company was presented with cash flow issues then that became a priority versus any immediate concern with innovation and knowledge asset management.

Lev (2001: 196) states that, "Physical, human and financial assets are rival or scarce assets. In contrast, intangible assets are, in general, non-rival; they can be developed at the same time in multiple uses. Herein lies their scalability... intangibles are often characterised by increasing returns to scale. The usefulness of the ideas, knowledge, and research embedded in a new drug or computer operating system is not limited by the diminishing returns to scale typical of physical assets."

**6. Knowledge Sharing Limitations:** The question of knowledge sharing is a sensitive and controversial one, with different levels of knowledge and information being protected by individuals at different levels of organisational management and in various positions of power. Therefore, the idea that all knowledge is available for sharing for the ultimate purpose of advancing the organisation to create the competitive advantage has its limitations, and is naïve.

Ungerer *et.al.* (2006: 117) argue that, "There is a strong level of hypocrisy in praising co-operation and knowledge sharing while promoting the power players who keep their cards (and their knowledge) close to their chests illustrates that we don't really value knowledge and the way it flows through the organisation, betraying the fact that we view knowledge only as a thing that can be bartered (I'll show you mine if you show me yours)."

This mindset is cultivated by an environment of intense competition where even your colleague and customer is seen as a potential adversary, and where information is strictly guarded as the 'know how' and 'trade secrets' of a few individuals in power, who are responsible and accountable for the success of the organisation. This mindset is reinforced by the 'elite leadership' who can also be extremely protective and secretive about the exact and real performance of their companies, with the idea of not wanting to evoke any resentments, envious emotions or to avoid any real, perceived or potential-internal or external-threat to the control or management of the organisation. One CEO explicitly stated that, "we can't let 'them' (the employees) know exactly what is going on here, what we are really doing".

In this way, he kept his subordinates separate from the 'real value' of the organisation and as such created an environment in which the employees felt that they were not part of the future plans for the organisation, and consequently did not fully embrace their roles within the organisation, working in a mindset of suspicion and / or resentment toward the leadership of the company.

In some instances, this highly protected environment and approach to management created a feeling of mystery and intrigue about working for this albeit successful company, and that there was perhaps something really worthwhile to be achieved working within this discrete and secretive milieu; that on achieving one's professional goals and on reaching top management, that one would be ready and brought into the inner circles of knowledge and power, as it were.

**7. Readiness of Company and Consultant:** The concepts and solutions that the researcher focused on, and presented to clients, was perceived to be new, innovative and, in some instances, radical and even foreign.

There was, however, a positive sense of anticipation about the possibilities and potential of the proposed knowledge solutions. This entailed an intensive and thorough relationship marketing exercise and communications process in which the researcher was challenged by discussing and selling the innovation service to the prospective clients – to management and the executive – as part of the research and pilot project process.

The research process involved informing and educating clients on the new knowledge economic principles of scenario planning, systems and complexity theory, intangible asset management and knowledge asset valuations, and their relevance to the client in terms of the future based Real Value© methodology proposed by the researcher, and as perceived by the client.

The knowledge and innovation research process and pilot projects were new terrain for the client company, but also for the researcher in terms of the application of the methodology as an experiential process for testing the validity and reliability of the leadership methodology, in real world commercial consulting projects.

The above experience of discovery and action required the full cycle of pilot projects for the methodology to develop from a strategic knowledge research solution of a company supply chain, to a future based and scenario design strategy, and ultimately into a value-based business development leadership metrics system, focusing on the appraisal of knowledge and innovation assets.

The Real Value© process or system of knowledge leadership has been an emerging and evolving methodology, system, and subject: an evolving body of knowledge, both for the researcher, and the client companies; a process through which the methodology emerged into its current format and level of development.

## **Chapter 5 Real Value©: Explained**

Real Value© is described as an exceptional and unique value-based leadership metrics methodology. It is an intangible or knowledge asset appraisal system that, through its application, can access, extract and leverage the 'real value' residing in an organisation's value chain (or network), both internally and externally.

The appraisal process unfolds through an intensive investigation of the organisation's strategic knowledge context, that is, the external context of the client organisation as defined and determined by its stakeholders, partners, alliances, suppliers, service providers, competitors and customers, as well as the broader environmental, social, political, economic, legal and technological context.

The internal environment specifically refers, in terms of the Real Value© system, to the executive and management structure and culture of the organisation, including its systems and infrastructure that enable value creation activity. Through the internal investigation attention is focused on intangible assets, including: intellectual property, technology, brand, human capital, and leadership.

The Real Value© concept is encompassed within an integrated strategic innovation system (ISIS-7), a strategic matrix spanning seven knowledge-solutions and value components that create the strategic framework and structure for the application of the system in the commercial context.

# THE REAL VALUE© MATRIX

## AN INTEGRATED STRATEGIC INNOVATION SYSTEM

### (ISIS-7)

<b><u>1-The Internal Domain</u></b> Critical Assets	<b><u>2-The External Domain</u></b> Complementary Assets	<b><u>3-The Historic Innovation Value</u></b> Historic Innovation Value
<b><u>4-The Future-Based Strategy</u></b> Future-Based Innovation Vectors		
<b><u>5-The Strategic Innovation Options</u></b> Strategic Innovation Vectors	<b><u>6-The Future Innovation Value</u></b> Future Innovation Investment Value	
<b><u>7-The Real Value©Valuation</u></b> Integrated Innovation Valuation		

### **Real Value© (RV) System Explained**

RV is a strategic structure and integrated system, a structure designed to manage the reciprocal relationship between the internal and external intangible knowledge flows and domains of an organisational entity. This is particularly appropriate in the management of global, knowledge based organisations, in the complex information and industrial economic context, to create a means and method by which their 'real value' can be managed and measured, through a robust systemic approach.

The strategic structure and system is based on a foundation of knowledge that is accessed and extracted through a 'participative inquiry' into the internal and external environments of an organisational entity, to establish its current approach to leadership and its current position as a business, and the relationship that exists between that leadership and position, that has created



and led to the current scenario. This position then takes on a knowledge economic value through the application of a valuation method to establish a numeric value for the past-current performance, expressed in earnings, and / or return on assets; physical, financial, and knowledge assets. This financial value and position is then explained in terms of the intangible and / or knowledge assets that have been identified and defined in terms of their actual and potential contribution to the current position and performance of the business, encompassing the strengths, weaknesses, opportunities and threats of that position.

The application of the strategic system then precedes to the future and scenario-based strategy, which encompasses the full future potential value of the organisation, in terms of the creation and description of a series of probable scenarios, that are synthesised into a 'real value' potential for the business. This is achieved on the back of an intensive and specialised future-based investigation of the business in which the main opportunities and scenarios for achieving and maximising future performance are discovered.

A set of IP (intellectual property) income and financial statements are formulated from which the same valuation method is applied to the future scenarios to establish the potential return on physical, financial and knowledge assets in the future, that can be derived from the successful achievement of that future state.

The process then unfolds into the next stage in which the customers and markets are redefined in terms of the new knowledge that has been accessed

through the entire process. Strategic innovation is the key capability at this stage to define and identify the new opportunities, at the customer and market level, which will potentially bring about the future value defined in the future based strategy.

It is within this context that the new innovations emerge, and are discovered, that can support the movement of the organisation in the dynamic direction which has been defined in the scenario-designed strategy and through the strategic innovation process. Future investments are then made in relation to the new innovations that are discovered and defined and in terms of their potential to bring the organisation closer to its future value.

**The Real Value© Analogy** (As created by the researcher)

Through a figurative fusion of the diverse colours of the visible colour spectrum from its opposite polarities, blue and red – with blue being a high frequency, fast and short wavelength, and red its opposite – stimulates a diverse coalescence of key colour elements. The emerging resultant colour configurations represent new energy, ideas, creativity, intelligence, knowledge and innovation through which real transformation and organisational renewal can be attained.

New creative energy and practical power emerges which has the potential to transform the status quo, the inertia, the inaction and the predilection toward the 'static mobility' of the 'Red Queen' (in Lewis Carroll's *Through the Looking-Glass*), into a new dynamic process of discovery, innovation, value creation and

powerful competitive advantage, driven and directed by (ISIS-7) and her robust knowledge-solutions.

The fusion of the (ISIS-7) methodology and modules with the associated seven diverse colours of the visible colour spectrum, within the new knowledge economic context, is our metaphor for the integration of space – the physical environment with designed form and structure – and time, the intangibles, technology and strategic intent, with the aim of producing innovative and new opportunity.

(ISIS-7) is an intelligence-entity whose primary purpose is knowledge creation through the precise access, acquisition and accrual of organisational, economic and business information and intelligence, within the above-mentioned context, as the 'raw materials' utilised in the creative process of powerful strategic knowledge.

Due to the increase in economic complexity and unpredictable global economics, and the risky transition into the knowledge economy, we view the development of strategic knowledge-solutions of (ISIS-7), as pivotal to the organisations 'leap' into the knowledge economy.

(ISIS-7) enables the accrual and acquisition of new and 'hidden' knowledge and the concomitant co-creation of knowledge assets, on the basis of the following seven 'innovation dimensions' as a means for extracting and integrating the information, intelligence and knowledge into the 'mind and memory' of the organisation.

The seven knowledge-solutions and value components, which constitute the matrix of (ISIS-7) and the resultant Real Value© methodology, are:

**Real Value© Modular Component Descriptions** (As created by the researcher)

**Module 1 – The Internal Domain (Red)**: Encompasses the 'quantum-inquiry' and investigation of the knowledge and critical assets that constitute the organisational, customer and human capital of the organisation.

The aim is to acquire a comprehensive knowledge of organisational performance in terms of the investment in intangible assets. These include primary investments in knowledge assets, and include, but are not limited to, investments in technology, intellectual property, and human capital, and to understand and gain insight into their concomitant and interdependent 'quantum relationships' in the process of value creation and overall financial performance.

The first dimension forms the basis and first stage of the investigation and is represented by the colour Red, reflecting the energy and information of the first colour of the spectrum. Red stands for stability, security and balance, which is required as a necessary knowledge platform upon which to launch the intangible and invisible 'quantum-inquiry' into knowledge assets.

The objective is to define past investments and investment trends in knowledge assets, for a period of three years, and their impact on company performance, value creation and competitive advantage. The primary knowledge assets referred to being brand, technology, intellectual property, human and customer

capital, and leadership, in the process of value creation, competitive advantage and ultimately financial performance.

**Module 2 – The External Domain (Orange)**: Encompasses the 'quantum-inquiry' and investigation of knowledge that is contained within the external value network of complementary assets that constitute the organisational, human and customer capital of an organisation, which includes the supplier, buyer, partner, alliance, and distribution network, of the organisational entity.

The aim is to acquire a comprehensive knowledge of organisational performance in terms of the investment in external and complementary assets, essentially customer capital, and the concomitant technology and collaboration tools, and investments in and exchanges of value with, the external value network.

The second dimension is the second stage of the investigation and is represented by the colour Orange, reflecting the energy and information of the second colour of the spectrum. Orange represents the creative urge for and impulse of relationship, and the will and desire to create in the 'energy of together'. The Orange energy and information is required as an essential knowledge platform upon which to establish the essential relationships and complementary assets that form the crux of the value network of an organisational entity. The objective is to define past knowledge asset investments in the external network, aligned with the internal investigation, and their impact on company performance, value creation and competitive advantage.

The process is undertaken to understand and gain insight into the interactive and interdependent relationships, within the internal and external environment, in the process of value creation, and in the overall financial performance of the firm.

**Module 3 – The Historic Knowledge Asset Appraisal (Yellow):** The third domain or module comprises the real measurement and valuation of knowledge and innovation assets, specifically past investments in knowledge and innovation assets; the organisational, human and customer capital investments, which constitute the internal and external context of the organisation, respectively.

The aim of the third module is to define past investments in knowledge and innovation assets, to create a solid knowledge platform upon which to launch the future-based and scenario-designed strategy, for future knowledge and innovation asset investments.

The third dimension is the third stage of the strategic application of the methodology and is represented by the colour Yellow. The third colour of the spectrum contains the energy and information of power, and the will to create and manifest, and in the case of the Real Value© methodology, the ability to act, create and manifest 'real value' and / or the capacity and competence to create, manage and measure the power of knowledge assets in the process of value creation.

The third domain represents the backdrop of the past, and acts as a knowledge asset investment indicator or barometer, of the past patterns and trends of

investments in knowledge assets, and their relationship to the successful financial performance, or not, of the firm.

In terms of the knowledge and innovation asset valuation and specifically in terms the Real Value© approach to knowledge asset valuations, an income-based valuation is applied in conjunction with the Knowledge Capital Formula of Baruch Lev (Professor Baruch Lev, the Phillip Bardes Professor of Accounting and Finance at the Stern School of Business, New York University, NYU). The Knowledge Capital Formula determines the contribution of intangible assets to the financial performance of a firm (Ungerer *et.al.*, 2006).

#### **Module 4 – A Future-Based and Scenario-Designed Strategy (Green):**

Module four, in terms of the strategic application of the Real Value© methodology, is the pivot upon which 'the most powerful way to prevail' in the knowledge, global and technology driven economy, is discovered and defined.

The future-based strategy is a knowledge design that defines the knowledge context (macro and micro) and the strategic knowledge content through which the most powerful futures can be achieved. The knowledge strategy contains the real strategic options and actions that can lead the organisation to the realisation of its most powerful and optimal futures, strategically and ideally, from an economic, social, and environmental perspective.

The fourth domain and module is represented by the colour Green, the fourth on the spectrum of visible light, characterised by the 'light of vision', expressed as powerful visions of the future, containing the unique and powerful energy,

information and knowledge of destiny, and the incredible desire, power and capacity to create reality, and to realise dreams and achieve the strategic intent.

**Module 5 – The Strategic Innovation Process (Blue)**: The fifth module is focused on redefining the relationship of the organisation with its value network, (in light of the new knowledge of the fourth domain), with the aim of creating and achieving the new opportunities for value creation within the value network.

The fifth domain is represented by the colour Blue, the fifth colour on the spectrum, characterised by the qualities of idea expression, communication, dialogue and conversation initiated by the strategic intent and vision of the organisation.

The fifth domain creates new choices and defines and communicates the action preferences that will support those choices, (and the 'vision of the future' defined in the fourth domain) achieved through participative, collaborative communication, dialogue and conversation within the organisation and its value network.

New innovative opportunities for value creation are achieved through a real participative process and effective interaction of the organisation with its value network, and within the organisation itself, with the aim of forging powerful relationships with its market, customers, shareholders and key stakeholders.

The fifth domain is a process of determining and choosing the action preferences through powerfully aligned and complementary relationships across the value network, (a customer and market centric approach) achieved through effective



communication, conversation and strategic dialogue, that serves as the compelling force and strategic impetus, which can initiate and create the change required to attract and to realise the most powerful and optimal futures.

**Module 6. The Future Knowledge Asset Appraisal (Indigo):** The sixth module comprises the next phase of knowledge leadership metrics; the future valuation of knowledge and innovation asset investments, the organisational, and human and customer capital investments, which constitute the internal and external future context of the organisation, respectively.

The sixth dimension is the sixth stage of the methodology and is represented by the colour Indigo. The sixth colour of the spectrum contains the energy, information and power of perception, with the ability to intuit and interpret new information, intelligence and opportunity.

The aim of the sixth module is to define and measure the future value of knowledge and innovation investments, in terms of the information and knowledge gained through modules one to five, and specifically in modules four and five. The ability to accurately define and interpret the information acquired and accrued in modules four and five, and then to synthesise (to integrate and measure future value) that knowledge in a future context is the crux of module six. The sixth domain represents the actual value of future opportunity, through forecasted future earnings and the distinctive contribution of physical, financial and knowledge assets to those earnings. This serves as the knowledge asset investment indicator or barometer, of future knowledge and innovation asset

investments, and their relationship to the successful financial performance, or not, of the firm.

In terms of the knowledge and innovation asset valuation and specifically in terms the Real Value© approach to knowledge asset valuations, an income-based valuation is applied in conjunction with the Knowledge Capital Formula. The Knowledge Capital Formula determines the contribution of knowledge assets to the financial performance of a firm (Ungerer *et.al.*, 2006).

**Module 7 – The Real Value© Appraisal (Violet):** The seventh module is the final module in the knowledge and innovation asset valuation and investment process. The seventh module is the domain in which the investment decisions, and actual investments, are made regarding the new investments in knowledge and innovation assets. The aim being to close the knowledge and innovation gap between past, current and future investments in intangible assets to achieve the earnings forecasted in module six. The purpose being to create intangible investment priorities and to select investments in organisational, customer and human capital to close the future-past knowledge value gap.

The seventh domain is represented by the colour Violet that reflects the condition of enlightenment and knowledge fulfilment. At the seventh level of the methodology the knowledge discovery cycle and decision process culminates in a full awareness of the strategic needs, position and priorities of the organisation in terms of its investment in knowledge and innovation assets, and the investment actions required to realise the new strategic intent.

The culminating action, indicative of the success of the Real Value© process, is to acquire, adopt and / or invest in new innovation and technology assets to fulfil the future-based earnings projections and knowledge asset appraisals.

The knowledge asset appraisal process is unravelled within a complex and paradoxical knowledge context that consists of accessing company information in the past and the future simultaneously, and by accessing company information in the internal and external environments concurrently. This complex process is better understood through the scientific concept of 'Fuzzy Logic'.

### **Value-Based Leadership Metrics – A Fuzzy Logic Perspective**

'Fuzzy Logic' is the skill and ability to make sense of seemingly contradictory and / or paradoxical, apposite and simultaneously complex ideas, concepts, terms, issues, experiences, events and information.

The notion and / or concept the researcher is most drawn to, in terms of 'Fuzzy Logic', is that there exists between two opposing ideas or concepts a range of possibility that includes and / or encompasses elements of both ends of the spectrum. The implication being that each end of the spectrum has innately the potential to be and /or become the other. To illustrate, the researcher uses a simple example of night and day. The one end of a spectrum being Day and the other Not Day, suggesting that if it is Not Day then it must by implication be Night or approaching the condition or state known as Night. This in turn suggests that Night or Not Day has the potential to move along the spectrum toward Day to be, and become, Day. From Not Day to Day and from Day to Not Day, a transformation occurs through this process in which the qualities,

properties and values of the one element or extreme exist and emerge in process to become the other.

The seeming opposites are constituted by diverse and often-contradictory qualities, i.e. 'night and day' that ultimately and figuratively transmute to become each other – they are, and represent, opposite sides of the same coin. The idea of one thing existing and emerging in the presence and constitution of another, the seemingly opposite configuration of elements blending and fusing then differentiating, the and / both versus the either / or, is the crux of 'Fuzzy Logic'. How much of one thing is represented in another, and vice versa. Where is the black in white and the white in black, and what lies between the diversity and duality? What exists between the material and the spiritual, the commercial and aesthetic, the masculine and feminine, the light and dark, the future and the present, and the Yin and the Yang? 'Fuzzy Logic' is a process of defining the relationships, and the interconnectedness, between seemingly opposing phenomenon in terms of the meaning and purpose they elicit and evoke.

The premise of 'Fuzzy Logic' is the concept of  $\langle 0.0 - 1.0 \rangle$  that represents a range of possibility within which real phenomena can be understood and explained, can be powerfully applied and utilised in the new economic context as a means to clarifying some of the potentially confusing and unclear issues predominating the global and technology driven dynamics of our modern economic context.

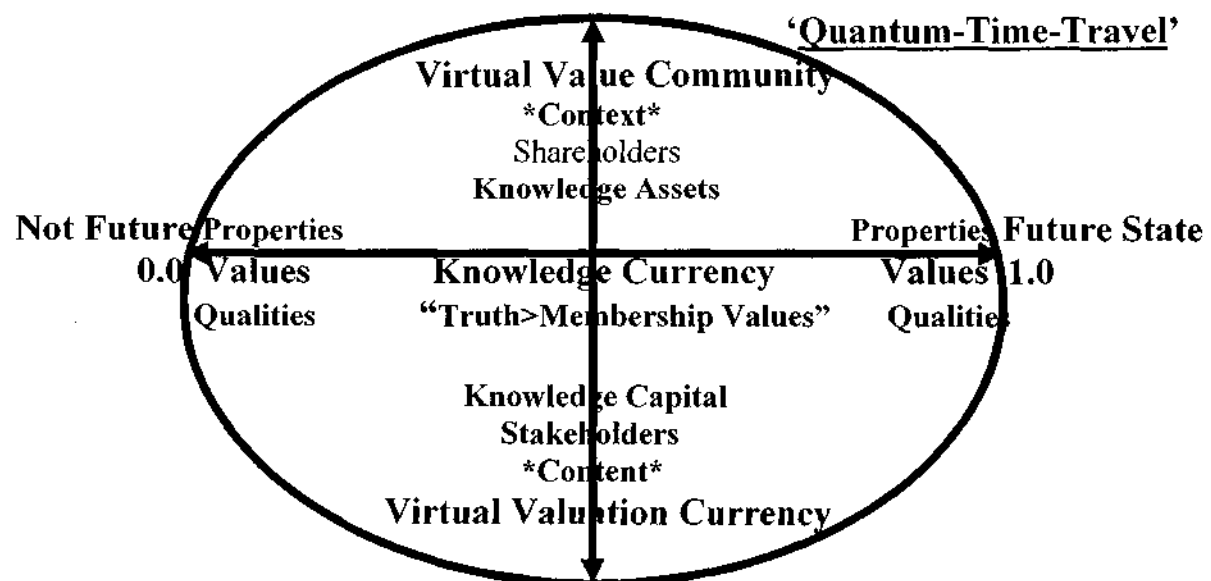
Brule in the Fuzzy Logic Module Course Work book (2002: 27) asserts that, "The notion central to fuzzy systems is that truth values (in fuzzy logic) or

membership values (in fuzzy sets) are indicated by a value on the range [0.0, 1.0], with 0.0 representing absolute Falseness and 1.0 representing absolute Truth.”

The researcher has incorporated the ‘Fuzzy Logic’ concept into the Real Value© methodology as a strategic means of bridging the value gap between the future vision and strategic intent of an organisation with its current performance, resources and competencies.

**‘Quantum-Time-Travel’ (A Real Value© Interpretation)**

Central to this process and methodology is a concept the researcher has termed ‘Quantum-Time-Travel’ (Q-T-T) the purpose of which is to ‘transport and / or transfer’ the values, qualities and properties of a future state toward which one is aiming, into the present. In ‘Fuzzy Logic’ terms to extract and elicit the primary properties and qualities of the ‘Future State’ (1.0) and to identify, extract, align and exploit them within the ‘Not Future State’ (0.0).



The Q-T-T concept and methodology is based on the assumption that the past, present and future contain ‘the stuff’, the essential properties, qualities and

values that are unique to, connected and common within each time-zone, and that can and should be harnessed and aligned for maximum value creation in the knowledge economic context and within the current global trading arena.

Q-T-T (a term coined by the researcher) generates the ability to create a knowledge economic platform and construct, a strategic knowledge map, by means of the 'quantum-access' to the future state. This future-present relationship becomes the power and impetus through which the future-present potential is created and quantified, against the backdrop of the past.

Q-T-T is the means by which the real inherent value within an organisation, enterprise and / or knowledge community is accessed, accrued and acquired. It is centred specifically in the relationship between the future and the present and concomitantly, the present and the future, set against the backdrop of the past. It draws attention to the relationships between the shareholders and stakeholders and the value that can be created and captured through these relationships, between the tangible and the intangible, the traditional and the innovative, and the known and the unknown.

It is centred in the notion that the properties, values and qualities of the future state can be 'transported and transferred' to the present in which the future state can thereby become manifest through the practice and application of the qualities and values that will bring that condition of state about.

Q-T-T is essentially about qualifying and quantifying the value of a future state and then through a process of discovery, choice and action, selecting those

action preferences, projects and ventures that will bring about its materialisation.

Scenario planning is essential to this process in which we qualify and quantify the value residing in the future state and / or scenarios and thereby define the strategic decisions and actions, the 'real-actions' or 'options' that need to be executed if the business is to realise and materialise its present-future strategic intent. The idea being that we have the capacity to 'bridge the gap' between the existing tangible 'assets' in the present with the intangible value residing in the future.

The Real Value© principles are based on future intangible values set against the backdrop of traditional tangible assets. The brand value and equity that is derived from this future-past relationship is encapsulated in the difference between the 'end' and / or future state value and the current value, expressed as a ratio.

The differential is then divided by the current value and multiplied by 100 and expressed as a percentage, which represents the virtual 'value-bridge/s' and extent of the 'gap' to be crossed. This value-gap is in turn segregated into individual and unique 'value-gaps' with their concomitant real-actions, options and 'truth values' that need to be executed and understood respectively, in order that the 'bridge' can be constructed and crossed, sometimes incrementally, the 'bricolage' way and sometimes radically, the 'brilliant' way (Stacey, 2000).

**E.g. Current Value (CV) = \$100mil---Future Value (FV) = \$800mil > Ratio is 8:1**

**I.e. Differential  $D/CV \times 100 = \$700\text{mil}/\$100\text{mil} \times 100 = 7 \times 100\% = 700\%$**

**Therefore: 8:1 = 700% = \$700million 'value-gap' (Three Year Calculation)**

The virtual 'value-bridge/s' is represented by the ratio 8:1 and 700% expressed as the value \$700million, which indicates simply the extent of the ground to be covered. This is normally a three year differential, but the same is applied to year one and two. This figure is then divided into the real-action-preferences and 'real-options' that constitute the projects and strategic initiatives in relation to the 'truth values' identified and required to 'bridge-the-gap' for each year, each with their own value component correlating and contributing to the \$700million target.

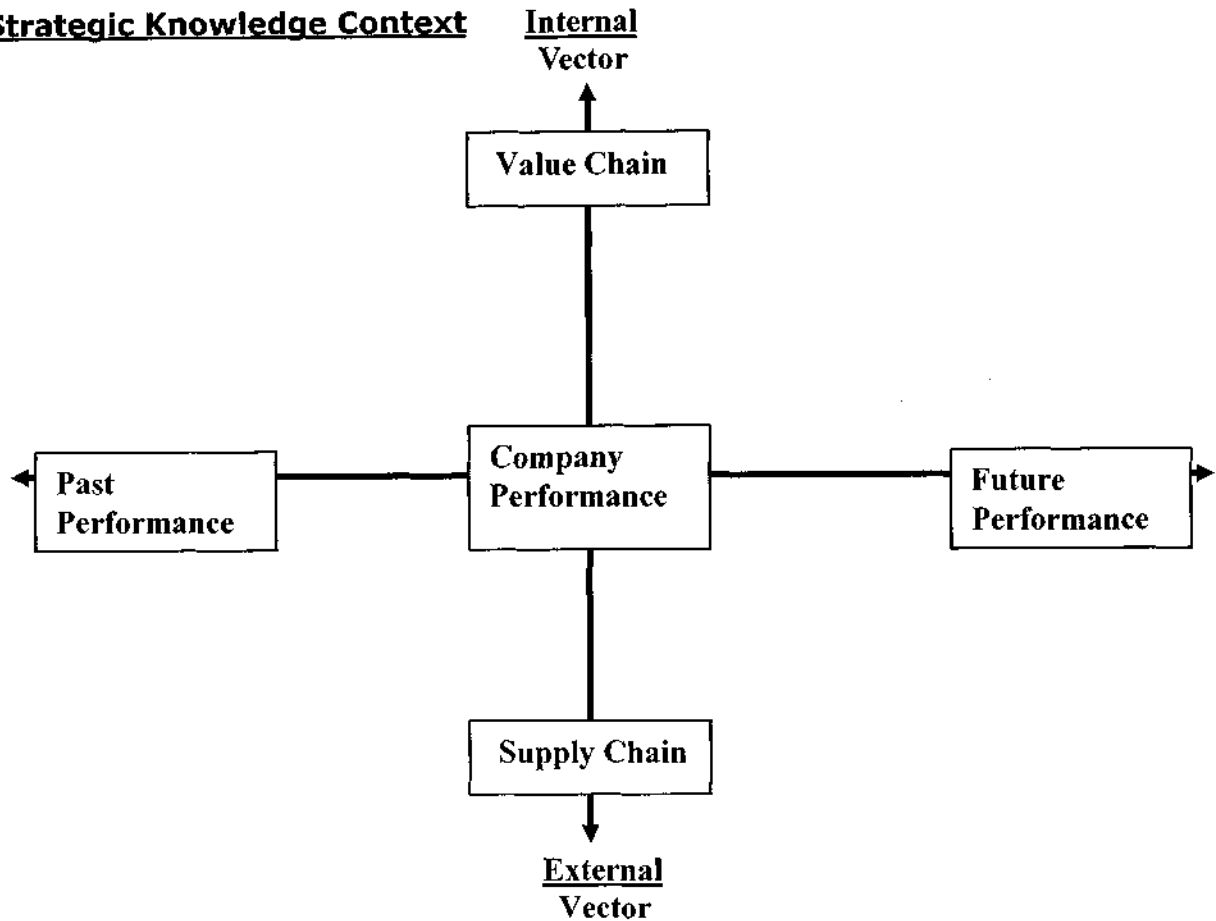
What differentiates our model is the way in which we quantify and define the value residing in the value network or constellation. We value the network with reference to key stakeholders and shareholders that constitute the constellation in terms of the relationship dynamics and interaction that will drive future value. We work off the platform of existing infrastructure and current value inherent and apparent within the existing tangible and intangible assets and the network of relationships that comprise the client's organisation configuration.

Critical to this process is the future-present and present-future oriented information and knowledge that needs to be accessed and accrued to acquire the insight and intelligence needed in order to identify the 'real value' opportunities in the present, the value gaps, through which the 'new opportunities' can be



envisioned and realised. 'Fuzzy Logic' and our associated Quantum-Time-Travel methodology are the means by which we are able to traverse this so-called unknown territory.

**Strategic Knowledge Context**



The Real Value© system encompasses the strategic knowledge context of an organisation, including the relationship between its internal and external environments and its relationship with the past, present and future time zones. These dimensions are allocated and illustrated on a graph between vertical and horizontal axes. The axes represent the company and its position in relation to the internal and external vectors of value creation, and the horizontal vector of competitive advantage, in terms of past and future performance, referred to as the strategic knowledge context.

A systemic knowledge investigation of the internal and external environment (of the company or client value network) is executed to create and convert intangible and innovation capital into 'real value'.

## **Chapter 6 Real Value©: Methodology**

### **The Real Value® Methodology: (as applied to RMG)**

The Real Value© system begins with an investigation of a company's internal environment and the quality of relationship with its external environment: a knowledge investigation of a company's value chain to discover the Real Value© residing in the complex network of relationships responsible for creating value.

Real Value© is a comprehensive value-based leadership metrics system. The formula being applied to determine the Real Value© of an organisation is the Baruch Lev Knowledge Capital Formula and the Direct Income Capitalisation Method, which are applied within the structure and framework of the Real Value© methodology. The basis of the RMG Valuation is the Real Value© Methodology applied in conjunction with the Knowledge Capital Formula. The Formula determines the contribution of knowledge assets to financial performance.

**The Baruch Lev Knowledge Capital Formula is defined as follows:** (the method is a tool for measuring the economic value of knowledge assets)

- Calculating knowledge capital starts with an average estimate of a company's annual normalised earnings.
- Calculate the average earnings for three years of historical data and three years of future earnings forecasts taken from IBES International earnings estimates.

- Establish the value of physical and financial assets and calculate the expected rate of return on the physical and financial assets. In terms of the Lev formula the expected – in terms of earnings – rate of return on physical assets is 7% and for financial assets is 4.5%.
- The expected after-tax rate of return of physical and financial assets is multiplied by the value of physical and financial assets respectively to determine the contribution of these asset classes to the earnings of the firm.
- Subtracting the physical asset and financial asset contribution to earnings from the normalised earnings leaves a balance or residual of normalised earnings unaccounted for.
- The residual earnings represent the balance of earnings generated by knowledge assets, or knowledge capital earnings (KCE).
- Knowledge based-earnings are then divided by an expected rate of return for knowledge assets. The average after-tax expected rate of return for three knowledge rich industries (software, biotechnology and pharmaceutical) provides the after-tax knowledge capital discount rate of 10.5%.
- Knowledge capital value is therefore calculated on the basis of the residual value of normalised earnings, after the returns on physical and financial assets are determined, by dividing the residual earnings by the knowledge capital discount rate of 10.5%.

- 'Comprehensive value' is then defined by Lev as the sum of financial capital (e.g. book value) and knowledge capital to determine the worth or value of corporate knowledge and ideas.

It is this financial measure of value, i.e. the contribution of intangible or knowledge assets to the financial performance of the firm that we define as: the 'future-current knowledge asset value', and the 'historic-current knowledge asset value captured' as the Real Value© of RMG.

In the above context, and through the application of the above knowledge valuation methods, we are able to capture the Real Value© of RMG. The Real Value© resides in the relationship of the future-current knowledge capital value with the historic-current knowledge capital value of RMG.

- ✓ **Historic-Current Value = Knowledge Asset Value of Historic-Current RMG Net Earnings Calculated as a Return on Knowledge and Innovation Assets.**
- ✓ **Future-Current Value = Knowledge Asset Value of Future Projected RMG Net Earnings Discounted to a Knowledge and Innovation Asset Net Present Value.**
- ✓ **RMG Real Value© = the RMG Future-Current Discounted Knowledge Asset Value Less the RMG Historic-Current Knowledge Asset Value.**

Intellectual capital or knowledge assets are the basis of value creation for RMG. Advertising sales and sales revenues, and the income derived from such sales, drive and determine RMG value. It is therefore essential to simultaneously

capture the knowledge asset value of RMG and to discount the knowledge capital value to a net present value via an income capitalisation rate.

### **Real Value© Methodology-Content and Structure**

The Real Value© methodology content and structure comprises the following fundamental modules and knowledge-solutions that coexist in a reciprocal relationship through the knowledge asset appraisal system:

#### **The Historic/Current Context Phase-1 (The Knowledge Platform)**

##### **Module1: Historic/Current [Internal] Knowledge Asset Appraisal**

- Appraise Organisational Investments in R&D, IP, and Technology.
- Appraise Brand, Customer and Human Capital Investments.
- Define Knowledge Asset Investment Trends for the Period.
- Define Knowledge Asset Investments for the Period.

##### **Module 2: Historic/Current [External] Value Network Investigation**

- Investigate Key Customers, Alliances, and Distribution Channels.
- Assess Investments in Product/s, Customers, Channels and Markets.
- Assess Value of Relationships in terms of Revenues and Profitability.

##### **Module 3: Historic/Current Knowledge Asset Value Calculation**

- Calculate Historic/Current Knowledge Asset Contribution to Earnings.
- Calculate Historic/Current Knowledge Asset Value of Earnings.
- Correlate Knowledge Asset Class, Knowledge Asset Investments. Knowledge Asset Earnings and Knowledge Asset Value vs. Physical/Financial Asset Value.

- Report Physical, Financial and Knowledge Asset Investment Findings.

### **The Future/Current Solution Phase-2 (The Knowledge Pivot)**

#### **Module 4: Future/Current Future-Based Innovation Strategy**

- Design a Future-Scenario and Knowledge-Based Innovation Strategy.
- Identify/Define Innovation Asset Investment Opportunities and Alternatives.
- Identify/Define the Knowledge Gap between Future and Historic Findings.

### **The Future/Current Solution Phase-3 (The Knowledge Pinnacle)**

#### **Module 5: Future/Current Business Model Strategic Innovation**

- Assess Investments in Product, Customers, Channels and Markets to Income.
- Assess Value of Network Relationships in terms of Revenues and Profitability.
- Assess Value of New Opportunities through Alternate IP Income Statements.
- Achieve Consensus on Future Earnings Forecasts of Business Model.

#### **Module 6: Future/Current Knowledge Asset Value Calculation**

- Calculate Knowledge and Innovation Asset Contribution To Future Earnings.
- Calculate Future/Current Knowledge Asset Value of Future Earnings.

## **Module 7: Real Value© Knowledge-Asset Investment Valuation**

- Define Real Value© (Historic/Current and Future/Current Value Differential).
- Create Intangible Investment Priorities and Select Investments in,
- Customer/Human Capital to Close The Future/Historic Knowledge Value Gap.
- Acquire, Adopt and / or Invest in New Innovation and Technology Assets.

### **A Future-Based Methodology and Scenario-Designed Strategy**

#### **A Future-Based Methodology**

The future-based Real Value© methodology provides the means and method for managing the future, and producing the strategic knowledge that can assist and enable organisations to compete and prevail in the future. The thrust of the methodology is the design of a knowledge platform and the production of knowledge-solutions that map the way to the future discovery of opportunity.

Strategic intent, in its original sense, is a term coined by the Japanese to mean a particular defined vision or dream that an organisation has that is beyond their current capacity to achieve. It creates a scenario/s toward which a company aspires and can move (Hamel and Prahalad, 1996).

Hamel and Prahalad (1996: 254) suggest that, "Strategic intent is our term for such an animating dream. Strategic intent is strategic architectures capstone. A strategic architecture may point the way to the future, but it's an ambitious and compelling strategic intent that provides the emotional and intellectual energy



for the journey...whereas the traditional view of strategy focuses on the 'fit' between existing resources and emerging opportunities, strategic intent creates, by design, a substantial 'misfit' between resources and aspirations...a strategic intent is differentiated; it implies a competitively unique point of view about the future. It holds out to employees the promise of exploring new competitive territory. Hence, it conveys a sense of discovery. Strategic intent has an emotional edge to it; it is a goal that employees perceive as inherently worthwhile. Hence, it implies a sense of destiny. Direction, discovery, and destiny – these are the attributes of strategic intent.”

Managing and creating the future, is about defining the direction, discoveries and destiny of the organisation in competing for and creating new core competencies. Competency is a combination of skill sets, new technologies and knowledge that create value. The best way to prevail and compete in the future is to acquire and develop the competencies that can enable the company to achieve and realise its strategic intent, its destiny (Ryle, 2002).

The futures are mapped out in terms of the scenario-designed strategy within which reference is made to the specific and technical competencies required to realise the emerging strategic intent and focusing question that is formulated to steer the anticipated success of the business.

### **The Scenario-Designed Strategy**

The Scenario-designed strategy represents a strategic methodology for the new knowledge economy, in which various plausible, robust and possible futures or outcomes can be mapped out. In Scenario planning the future is plural, that is,

there are a range of possible futures – two to four – that are encompassed, created and enacted during the strategic design and implementation process.

The approach contrasts sharply with the classical method of forecasting a single possible future or outcome, against which all decisions and actions are measured, to ensure the achievement of the forecasted goal/s; that is, the financial, operational, marketing, production, and human resource quotas required to support this singular so-called linear direction.

The classical approach assumes predictability and stable structures, which focuses more on certainties, thereby concealing risk and fostering inertia. Scenario planning stimulates flexibility and rapid response by providing a rich substantive context that allows for seemingly contradictory events and experiences to occur simultaneously, allowing for paradox, chaos, diversity, complexity and instability to exist in the planning, design and implementation phases.

It assumes unpredictability, focuses on uncertainties and clarifies risks. Risks and possible threats that are incorporated in the planning and design phase, that encourage rapid response, and in so doing reduces the unexpected and prepares one for a range of possible future events.

Scenario planning allows you to postulate a sequence of future events, with relevant and specific details of the various possible scenes and / or scenarios. A scenario is a designed hypothesis about the future that can be enacted, and if necessary, re-directed in the present.

## **Real Value© Summary**

Organisations in the knowledge economy have a need and responsibility to create and measure the 'real value' of their knowledge assets. Knowledge asset management is the basis of competitive advantage and value creation in the knowledge economy.

The Real Value© system is designed to do just that, not as an intangible asset valuation method, but as an intangible asset appraisal methodology, within which different valuation methods can be applied. The three fundamental methods of valuation are the cost method, the market value method, and the income method.

The Real Value© system is presented and proposed as one of 'the most powerful ways to prevail' in global competition. The importance of intangible assets and their role and contribution to innovation is the crux of competitive advantage and value creation in the knowledge economy, as proposed by the researcher's aim and objective of, and purpose for, the dissertation, through the researcher's design and development of the Real Value© methodology.

The Real Value© system is able to apply any of the above valuation methods, but makes special use of the Baruch Lev Knowledge Capital Formula which makes strategic links between knowledge assets and the financial performance of a firm.

## **Chapter 7 Discussion**

The following discussion points serve as four fundamental recommendations for organisations, executives and entrepreneurs, wishing to discover and adopt one of 'the most powerful ways to prevail' in global competition.

### **Recommendation 1 – Knowledge Asset Management**

Knowledge acquisition and access is the foundation of competitive advantage - acquired and applied - through the cycle of the value creation and innovation process in the industrial and knowledge economy. Classically acquired within the process of internal research and development, and more creatively, in the knowledge economy, through external communities of practice, reverse engineering, and networking within the value and supply chain, aimed at the discovery and development of new products and services.

This process is followed by technological feasibility tests, (medical clinical trials, software beta tests, pilot projects etc), culminating in the innovative commercialisation of products and services aimed at, and leading to, the distribution and delivery of products to the market place, within the workings of an effective business model.

"Knowledge management is about appropriating maximal benefits from one's own innovations and exploiting to the fullest the discoveries of others (within legal boundaries)." (Lev, 2001: 181)

Knowledge assets exist in the form of business, financial and / or strategic models, methodology, software and software licence, technology and technology infrastructure, strategy, trade secrets, and business know-how, marketing strategies, and in contracts, business development agreements, and customer and supplier relationships. Other more tangible and legal representations of knowledge assets exist in the form of intellectual property rights such as patents, trademarks, registered designs and copyrights.

In today's knowledge economy intangible assets, intellectual capital and / or knowledge assets represent approximately 85-95 percent of a company's market value. The market-to-book ratio of companies over the past thirty years has shifted from a 1:1 to a 7:1 ratio, predominantly influenced by the impact of knowledge assets on organisational performance and the performance of an organisation as perceived by the market (Lev, 2001).

The importance of knowledge assets in the competitive advantage of an organisation cannot be underestimated for companies wishing to compete and prevail in the knowledge intensive knowledge economy. Microsoft is a prime example of a knowledge intensive company with 75 percent of its value residing in intangible assets, versus physical or tangible assets, in the form of land, buildings, labour, inventory and equipment.

The main obstacle to the valuation of knowledge assets is that the current accounting system does little in terms of generally accepted accounting principles (GAAP) to include intangible assets in the financial reporting system, other than in goodwill, in the sale or purchase of a business. Goodwill however,

is regarded as a vague and very subjective quantity, dependant on the specific conditions and circumstances of the sale, purchase and / or acquisition of a business.

Knowledge assets are more than simply goodwill and include all knowledge that is embedded in the organisation, as organisational capital, human and customer capital, as the three main pillars of knowledge or intangible assets.

The challenge of the knowledge economy is how to measure and define the specific value of knowledge assets, either as individual knowledge assets, or as a group of assets that constitute the intangible value of a firm, and how to record that value, and report on the financial performance of the firm, in terms of the knowledge asset contribution to financial results.

"A new value framework is required to protect investors and companies. Companies that do not manage their intangible value creation processes will not be able to sustain returns over the long term and will engage in management practices that inflate short-term financial performance while destroying organisational stability (e.g. Enron). International Intangible Standards detail a completely new framework through which organisations can identify, classify, record, financially report, and manage intangible value." (Stanfield, 2002: 139)

### **Recommendation 2 – Financial Reporting**

Financial reporting needs to develop in such a way as to include the value of knowledge assets in the financials of the firm, on the balance sheet as a capitalised, amortising or appreciating asset, and on the income statement in

terms of the contribution of knowledge assets and 'innovation revenues' (share of revenues for recently introduced products, within 3-5 years) to the earnings of the firm (Hand and Lev, 2003). There is progress in terms of International Accounting Standards and International Valuation Standards, 7<sup>th</sup> Edition, Guidance Note, No. 4, the valuation and reporting of intangible assets. The problem or challenge lies at the national and local level, which is governed by a specific set of generally accepted accounting principles (GAAP), which by law supersedes the international requirements or guidelines. Until the value of knowledge assets can be accurately recorded, measured and reported on, through the accounting system, they cannot be properly and optimally managed.

"The key to achieving substantial improvement in the disclosure of information about intangibles, both within businesses and to capital markets, is the construction of a comprehensive and coherent information structure that focuses on the essential – the value creation (innovation) process of the enterprise – and places intangible assets in their proper role within this structure." (Lev, 2001: 132)

The three versions of reporting currently proposed are: 1. Knowledge asset value as an addendum to the current financials or in the notes to the financials, 2. To incorporate into and include knowledge asset value in the current financial reporting system as capitalised assets (versus simply as operating expenditure), and 3. As a new system of financial reporting that is designed to include the value and contribution of knowledge assets in the financials of the firm, reflected in a new 'intangible' balance sheet, income and cash flow statement (Hand and Lev, 2003).

### **Recommendation 3 – Extraordinary Leadership**

The leadership of organisations need to adopt and incorporate the practice and principles of extraordinary leadership, which is centred in the idea of economic and social awareness, and the access to information and intelligence, 'to detect issues and information that is ordinarily unnoticed' (Stacey, 2001).

The extraordinary approach to leadership goes beyond the limited strategic choice theory of the 'ordinary approach' to management, and stresses the importance of 'the quality of participation' at all levels of an organisation by its management, 'the quality of diversity, the quality of paradox and unpredictability, the quality of interaction and conversation, and the quality of the holding of anxiety', that are crucial in managing environments of complexity and for those in which creativity can flourish (Stacey, 2002).

Extraordinary leadership is the process of managing human interaction through dialogue and multi-level organisational participation, with the aim of fostering creativity and innovation throughout the organisation versus imposing a set of prescribed performance criteria on individuals, that are rigid and inflexible, and that are implemented through rigid chains of command, systems of control and uniform cultures. Extraordinary leadership is a complex and organic process, which is self-organising, self-referencing; an evolving process characterised by the emergence and discovery of new solutions, opportunities, and ways of doing business.

This process or system is an open one and includes all individuals at any level of the organisation, and conversely is not limited by the closed system and



predictable, linear and mechanical paradigm of the industrial mindset. It has as its aim the ability and possibility to discover new opportunity, to create and enact opportunities within ones environment, and subsequently to continuously innovate in the process of organisational value creation, within emerging cultures of innovation.

Stacey (2000) suggests that, the manager moves from the position of objective observer to that of enquiring participant, attention is focused on the unexpected responses of organisational members to managers' intentions. Intention is understood as emergent and problematic.

According to Stacey (2000), the emphasis shifts from the manager focusing on how to make a choice, to focusing on the quality of participation in self-organising conversations from which such choices and the responses to them emerge. It becomes a matter of reflecting together on the quality of participation.

#### **Recommendation 4 – Cultures of Innovation**

Extraordinary leadership is best applied within cultures of innovation and are, in fact, the means by which innovation is effectively implemented, as an organisational competency and process, to ensure the ongoing future sustainability and profitability of the organisation.

Cultures of innovation are characterised by a demand for creativity and continuous learning, of creating new ways of doing business, discovering new

solutions, and redefining markets, customers and services, in the delivery of value to those markets.

Organisations need to integrate and develop innovation as a core competency by creating cultures of innovation, in which a diverse spectrum of organisational, customer and human capital is incorporated into the innovation process. The result is a mindset or mental model that values innovation, and that value creating high performance cultures of innovation, as a natural process and way of doing things, that becomes embedded in the organisational mindset, focused on creating and delivering immediate and future value.

This would include innovations related to the development of new products and services, accessing new markets, creating ongoing customer value, designing and developing new processes, and acquiring and retaining innovative staff, who are continuously looking for ways to improve business, and for discovering new ways of delivering value to the customer.

A culture of innovation is imperative for companies wishing to 'prevail' in the intensely competitive global economy, as innovation and the speed and quality of innovation, is a key driving force for companies wishing to succeed in the technology driven, knowledge economy.

An effective culture of innovation is one in which the innovation process leads to actionable business propositions; propositions and business cases that can be commercialised, and that can ultimately achieve critical mass, through high

volume sales in collaboration with the supply chain, through joint ventures or through merger and acquisition ventures.

### **A Value-Based Leadership Metrics System**

The application of the Real Value© methodology, in the research process, culminated in the consulting project with RMG, as a value-based business development leadership metrics system.

The Real Value© system aims to measure the contribution and value of knowledge assets, otherwise referred to as intangible assets, intellectual capital and / or intellectual property, in the process of innovation, value creation and competitive advantage in an organisation. These intangible assets would encompass critical assets such as, trade secrets, research and development, business know-how, proprietary systems, business process and software solutions, technology networks, infrastructure and architecture, advertising and marketing collateral and campaigns, brand value, business methodology, and business and financial models.

Other more specific and tangible forms are legally registered intellectual property rights, such as: patents, trademarks, copyright and registered designs, as well as, a measure of the value of relationships within the value and supply chain. These include relationships with complementary assets, in the form of sales contracts with customers, procurement agreements with suppliers, and service level and distribution agreements with distributors, as well as, the relationships and role of partners, alliances and key stakeholders in the business development process.

Value created for the organisation is then viewed as the result of the application of knowledge residing in the people and leadership of the organisation, both internally and externally; between the critical and complementary assets – through the application of tacit and explicit knowledge – in and through the business development process of knowledge and innovation management.

The process of value creation through the creation and application of knowledge assets is virtually invisible to the classically managed organisation, and is largely interpreted by the bottom line results, and the figures represented in the company financials; in the balance sheet, income statement and cash flow statements.

The value gap lies in the fact that the knowledge required by an organisation and the knowledge assets created and applied in the value creation process, to produce the financial results, is largely undefined, and therefore goes unnoticed.

This scenario, or predicament, limits organisational performance in the knowledge economy in that the organisation is unable to make any significant links with its knowledge assets and financial performance, and the specific knowledge assets that have contributed, or not, to the success, or not, of the organisation (Lev, 2001).

The effective and successful management of the organisation is therefore limited by the extent to which it is unable to define and recognise the specific intangible assets responsible for its success or failure, either as a whole, or in some specific area, project or venture.

The Real Value© knowledge and innovation research process, and culminating knowledge report, provides a knowledge platform which defines the relationship between knowledge assets and financial performance, broadly defined as organisational, human and customer capital, and the influence and impact of knowledge assets on the financial performance of the organisation.

The Real Value© system is designed to bridge the knowledge and value gap between the current management and financial reporting system, and the future inclusion of knowledge assets, in that system, or a newly designed system of reporting on the basis of the Extraordinary Management Theory (Stacey, 2000).

Of the change-driver we have focused on, intangible or knowledge assets, we complete the linkage of intangibles with financial performance: Intangibles create business change that causes a loss of relevance of current financial reporting systems, in the knowledge economic context, and specifically in terms of the impact of intangibles on the future financial performance of the firm (Stanfield, 2002).

The Real Value© system is an intangible asset appraisal system, applied to the management of value creation, through the business development process. The aim of which is to unlock the 'real value' of knowledge and innovation assets, for the effective and extraordinary leadership of the organisation, in the knowledge-based global economic context.

This is achieved by bringing the 'real value' of knowledge assets, and the latent intangible power of such assets, to the forefront of strategic and financial management, to achieve maximum returns on knowledge asset investments, in product, as well as, capital markets.

## **Dissertation Conclusion**

The action research process has spanned a period of seven years, beginning with the design of a scenario plan for the advertising agency Evolution®, toward the end of 2002 and early 2003, and culminating in the Real Value© RMG leadership appraisal completed in 2007, and followed by the Lasec SA scientific contract in 2008, and the current Leatt Corporation USA Inc., International Sales and Business Development Executive deal-a global contract-in 2009.

The pilot projects have been an intensive process of knowledge research with regards the application of the (ISIS-7) system, which subsequently evolved into the Real Value© methodology. The methodology still has as its core the system of (ISIS-7), which is in essence the guiding mechanism for the application of the Real Value© leadership and business development process.

The dissertation describes the design of the system from its inception through its development and into its completed application for the Results Media Group (RMG). This was an extensive process of knowledge discovery with the main feedback from clients being the need to measure and demonstrate the results of the application of the system, to quantify the knowledge process, findings and results, in terms of their impact on some measure of financial performance.

This process became the driving force for further consulting assignments in which the researcher was exposed to various commercial challenges relating to the systems contribution to financial performance, either as a cost saving drive

in some instances, as a way to increase revenues and top line performance in others, or simply for raising investment capital.

The dissertation presents a research document that is inductive and exploratory in terms of the research paradigm and process, and explains the academic as well as the real world process that lead to the design and development of the methodology.

The dissertation structure provides the academic content in terms of the research approach, literature review and pilot projects that comprise the dissertation content, concluding with a detailed description of the Real Value® methodology, and how it works in practice, as well as, the concepts, ideas and principles that underlie the system.

The pilot projects and action research results are presented to clients as the outcomes of the commercial process of applying the methodology to the client organisation. They are in chronological order, as they happened in the real world process of consulting projects, with the respective clients and principals, which emerged, sometimes spontaneously and randomly, and in others as a calculated effort, for the application of the system.

The research process has been lengthy, including: the completion of the twelve MSc course work modules, the preparation and writing of the respective papers for the twelve modules, the action research itself, the funding of the research process, and the simultaneous preparation and processing of the dissertation,



and defining the Real Value© system in its current format and stage of development.

## **Appendix 1-1.1**

### **Research Result-RMG Report**

**Phase: 1** RMG Real Value© Proposition - Scenario Plan and Strategic Knowledge Report

**Phase: 2-3** RMG Real Value© Valuation Report

**Results Media Group (Pty) Ltd**

**Knowledge and Innovation Valuation Report**

**Phase: 1**

**'Intangible and Innovation Asset Valuation Proposition'**

**Prepared by:**

**Michael Richard Consulting CC**

**t/a**

**Knowledge-Solutions (K-S)**

**November, December, January 2007**

**Submission: 5<sup>th</sup> February 2007**



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## **Knowledge & Innovation Valuation Proposition (Phase 1)**

**Executed for: 'The Results Media Group' (Pty) Ltd, within the executive context and CEO agenda of Contact Media & Communications (Pty) Ltd**

**Presented By: Knowledge-Solutions CC (MRC CC t/a K-S)**

**Executed in accord with International Valuation Standards 7<sup>th</sup> edition, published January 2005-the Intangible Assets Guideline, Note No. 4**

**Phase1>Part 1: The K-S-RMG Investigation/Reconnoitre (Nov., Dec. 06, Jan. 07)**

**Part 2: The K-S-RMG Valuation Proposition Report (Nov., Dec. 06, Jan. 07)**

**Part 3: The K-S-RMG Proposition Presentation/Discussion (Jan./Feb. 07)**

### **1. Knowledge & Innovation Valuation Proposition: Purpose & Process**

**1.1** The purpose of the K&I investigation process is to access critical information and knowledge about RMG, that is ordinarily not noticed in the day-to-day management and operations of the company, to discover an innovation investment solution, that can assist RMG to pursue the best, most beneficial and profitable path for employees, investor, shareholders and stakeholders.

**1.2** The principal aim being, to *discover* the highest and best possible way forward (a strategic future-scenarios valuation proposition) for the RMG Group, considering all information and knowledge accessed and interpreted during the K&I investigation process.

**1.3** The publishing of the K-S valuation proposition report containing the proposed knowledge and innovation investment solution! (An innovation valuation vs. a financial valuation proposition)

**1.4** The presentation and discussion of the RMG-K-S investment solution and innovation valuation proposition, with RMG, both individually and as an executive group.

**1.5** The innovation investment and valuation purpose and process is executed to form and forge a powerful and pragmatic Knowledge & Innovation Platform of the RMG Group:





## **2. RMG K-S Investigation Process and Sources**

### **2.1 K-S Internal Investigation:**

- Interviews with RMG Executive Management
- Interviews with General Management
- Interviews with RMG/Group Sales Director
- Interviews with New Business Management
- Interviews with Production & Design
- Interviews and Publishing & Printing
- Interviews with Credit Control Management
- Specialist future-based Strategic Scenario Sessions with RMG Executive
- The Executive: Innovation Valuation Audit Questionnaire
- Group Open Information Forum: Project Managers
- Interviews with RMG/Group Sales Coordinator
- Impromptu discussions with sales executives, office staff etc.
- Meetings with auditors/review historical valuation method/approach
- Review financial records/statements and existing RMG audit
- Review company's memorandum and Articles of Association
- Presentation and review of current to-date 2006/7 financials

The interviews covered a broad range of subjects, including, but not limited to: RMG leadership and sales, the CEO agenda, current strategic intent, management capability, operations management, company culture, core competencies, critical and complementary assets, RMG opportunities and strategic priorities, and personal and professional aspirations and goals.

The strategic scenario sessions incorporated a focused and extensive session on the future of RMG and the future aspirations of the individual participants, both personally and professionally. These are communicated generally in the report, and specifically on a one-on-one basis.

### **2.2 K-S External Investigation: (names excluded for privacy)**

#### **2.2.1 Value Network Meetings: IP Partners, Auditors and, The Stokvel Company**

- Innovate Magazine (Pretoria University)
- Wits Business Journal (Wits Business School)
- Pearl Valley-Conference Call
- Gary Player Guide
- Strokesaver (call)
- The Design Centre
- The Stokvel Company
- Van Wyk Compton
- Distributors (call)
- Printers (call)
- Other (Internet, Editorial, Journals, Websites, Literature, Expert Opinion)





The primary aim of the internal and external meetings is to obtain first-hand knowledge about RMG, and the IP partner's predominant attitude and prevailing perception of RMG, the RMG service and service delivery, and to better understand the company, client and partners experience with RMG. The focus is on both good and problem points, with a view to the prospective and on going relationship with RMG, i.e. the IP contracts, associated brands and partner relationships serve as the basis to the revenues, cash flows and ultimately profits generated by the business.

The auditor meetings have been extremely valuable in understanding the approach to the financial audits and accounting policies of RMG, in terms of the valuation methods, that have been applied historically to financially audit and value the RMG business.

### 3. The RMG K-S Facts & Findings

The key finding of the K-S investigation is the need to invest in the transfer of knowledge and skills, that is, to bridge the knowledge gap between RMG leadership, and the current and future directors, managers and sales staff, to ensure RMG longevity and the sustainable, future success of RMG.

The purpose is twofold, firstly, to create a company in which each individual acquires the knowledge, skills, and competencies to be a leader for RMG, a leader defined by their unique role and contribution to RMG, and in terms of their overall contribution to the company as and ongoing trading entity.

Secondly, the urgent need to empower and develop the RMG team and human capital as '*X-traordinary Leaders*' © (a K-S leadership model adapted from *Extraordinary Management Theory*), to realise the RMG strategic intent, while actualizing the unique, personal and professional dreams and visions of each individual.

This individual, team and company development process must unfold within the wider context of the emerging recognition and realization of the intangible and innovation asset value of RMG, and as a result of the strategic priority of defining the *Real Value*© of RMG and the emerging RMG Group.

#### 3.1 Current Intangible and Innovation Asset Value

Paradoxically, the entire RMG commercial and operating entity is driven by intangible assets and intellectual property, yet none of the historical or current accounting and valuation methods reflect this intangible value, either as an amortized, depreciating asset or preferably and ideally, as a capitalized asset. Goodwill isn't reflected in the current audit, in fact, the intellectual and innovation assets have been completely disregarded and explicitly excluded from the financial, accounting and auditing processes.

This approach is unacceptable, inadequate and defective, especially for the IP intensive media entity RMG, and subsequently and definitely does not reflect the true or *Real Value* © of RMG, and in no uncertain terms, is falling far short of disclosing *Real Value*© to prospective investors and/or empowerment partners, or for establishing private equity and shareholder value, or for general financial, accounting and secondary tax purposes.

The current accounting, auditing approach is limited in its one dimensional focus on cost, cash flow and physical assets (obvious value in their own right), but is defective because it disregards the very assets that are creating and driving that value-the critical intangible and intellectual property assets-and as a result encumbers any effective communication of *Real Value*© to internal and external stakeholders, and specifically obstructs how RMG's value is created, defined, measured, recorded and communicated.





The intangible value and intellectual property assets of RMG represent and reflect the actual and 'exact nature' of the business, and yet, have been disregarded and excluded from the financial auditing process. It is therefore essential, really imperative, to create and capture the intangible value residing in RMG, in a reliable and robust, intangible and innovation asset valuation, and strategic innovation system.

The purpose being to identify and define, recognizable and accurately defined RMG intangible and innovation assets, to effectively drive and leverage RMG value creation, and ultimately to ensure and positively impact future value management, and the sustainable success of RMG.

Fundamental to the fact finding process is the synergistic relationship with the RMG auditors, and the agreed systemic approach to the current and future value of RMG's intangible and innovation assets, that can be incorporated into the RMG financial, accounting, and most importantly, valuation and operating process.

### **3.2 RMG Risk and Longevity**

RMG is on the verge of a great leap in sales performance and value creation. The executives, interviewees and individuals that participated in or have contributed to the knowledge generation process, all agree and sense the possibility of fantastic future success for RMG and the group as a whole.

There is however, an underlying attitude of ambivalence regarding the future of RMG, a feeling of uncertainty, a level of insecurity and unpredictability about the future, and how RMG success can or will be structured and sustained in the longer term.

This is especially evident in the month-to-month income and cash flow tensions and challenges, indicative in a very high gearing ratio, debt/equity ratio of 1:0.1 for RMG. Low levels of share capital, retained income, and equity in relation to, shareholder loans and current liabilities influence the high RMG ratio. RMG secures future incomes, and funds or secures client orders, with RMG investments and assets, i.e. full risk trading.

The deferred debtors account, with full risk incurred by RMG, to carry the debt for the deferred period-a 7.3 million order book, on current and future orders-including simultaneous payouts of sales commissions earned on those future revenues, contributes to the high gearing ratio. The model is such that sales are secured on future publications, with the client paying 50% up front, usually, and the balance on publication.

The cost of sale input is slightly reduced by the 'dual-invoice' system in which the customer, in real terms, is invoiced on payment, i.e. the second invoice is issued on payment, thereby delaying the actual recorded sales-cost cycle, with the additional benefit of extending the Vat/TAX payment cycle for the same period. This is somewhat misleading in that, as a result of the deferred sale, a 'double cost' is occurred on that sale.

The leadership of the firm is largely in the individual and capable hands and know-how of the CE Mr. Cameron Bramley, for which RMG greatly benefits due to his extraordinary media experience, competencies and leadership ability, but which, simultaneously, poses a real threat and 'unsystematic' (a financial term depicting the unpredictable, uncertain nature of a risk) risk for the longevity of the company.

Due to the fact that the skills and competencies required to effectively lead and manage the company, reside largely, with a single individual, the CEO, the legal and economic life of RMG, and the sustainable management of the operating entity, is subject to 'unsystematic risk', for should Cameron (as the exclusive knowledge holder) not be able to further manage and direct the company, the future will be as consequence, uncertain, unpredictable and subject to high risk.







### 3.2.1 RMG IP Partner Feedback

In addition, there has been conflicting and contradicting views expressed and emerging from the value network with IP partners, about the service and service delivery of RMG. On the one hand there is really positive and fantastic feedback about the quality of work and entrepreneurial approach of RMG, and specifically the innovative and proactive approach of Cameron in the expression of high quality work, e.g. 'Pearl Valley' and 'Design in Business', and in general, the excellent execution of sales operations.

On the other hand, there is fair comment about, quote, 'the unreliability' and a sense of being, 'taken for a ride', in terms of perceived 'false promises', ranging from inadequate distribution, to not meeting agreed project deadlines, e.g. the expectation of distribution into the CNA's and Exclusive Books for 'Innovative', together with the publication in the 'outsized' page format, and the delayed deadlines of 'Innovative' and 'Design in Business', in which, the former delay affected a presentation and cocktail party of the University of Pretoria at the CSIR, in which the University planned to showcase the original RMG publication of 'Innovate'.

This includes direct or straight talk about 'professionalism' or a perceived lack of 'professionalism' within RMG. The predominant view and perception or attitude being, that Cameron is an entrepreneur who is in business to make money, which in and of itself is obvious, acceptable and desirable; the principal aim of any profit driven entity. The underlying feeling and assumption though is that of the classical and controversial capitalist view of profit before people, in which, there is an apparent or perceived compromise on professional and people (customer-centric) ethics by RMG, in pursuit of profit.

Together, with this perhaps biased viewpoint, although significant considering from whence it comes-the external RMG IP partner network-is the idea of 'reputation and relationship' (a critical intangible asset, especially from the viewpoint of the emergent intangible value-driven nature of RMG) and the need for the urgent and additional focus and nurturing of the external contractual relationships with IP partners, and the need to clarify, discuss and meet the contractual terms and agreements with IP partners (unless otherwise in review or re-negotiation) for the sustainable, ongoing future value management of RMG.

## 4. RMG Ownership, Structure and Profile

The Results Media Group (Pty) Ltd, (RMG) is a niche media publishing and advertising sales company, trading in high value, executive and broad spectrum target markets, focused on full risk, top level sales performance and results, achieved through direct, premium brand advertising sales ventures.

An objective of the company is to incorporate a select custom, contract media portfolio, in addition to the full risk, media publishing and advertising ventures, to strategically augment the RMG brand and to enhance current operations, future performance and future value management.

The human capital (HC) structure comprises the CEO, General Manager, Group Sales Director, Project Managers, New Business Management, Sale Executives and the Publishing, Design and Production Management Team, and Credit Controller. The HC balance of the company consists of accounting, administrative and office staff.

Management of the company is currently responsible for marketing, contract and supplier negotiations, as well as, the overall operational and financial performance of the company. The company personnel are mainly sales, marketing, publishing and design personnel. The employees are responsible for the marketing, design and publishing of various niche media publications.





The RMG portfolio comprises nine premium, niche media publication brands, together with, the PGA Club (Professional Golfer's Association), and other emerging, high value innovative businesses, including, but not limited to: Website Enterprises, Living on Course, Rampage, Techno Spaza and Stokvel Media.

The nine niche, premium brand media publications, are as follows:

- Stokvel
- Strokesaver
- Design in Business
- Wits Business Journal
- The Gary Player Golfers' Guide
- Pearl Valley Golf Estate
- Crawford Times
- Innovate
- Living in...

#### 4.1 Ownership Rights and Privileges

The intangible and intellectual property (IP) available to and accessible by RMG: the contractual rights, the partner, supplier and distribution relationships, the trademark, copyright, registered designs, and any patents, including RMG Goodwill, are held as the exclusive, intangible and intellectual property of the executive entity, Contact Media and Communications (Pty) Ltd.

Any, and all rights and privileges, pertaining to the trade, sale and exchange of value through the aforementioned intangible properties, reside within the executive entity: Contact Media and Communications (Pty) Ltd. Contact Media represents the executive ownership entity, and RMG the management trading entity of the rights and privileges-bestowed by such intangible property.

A principal function and priority of the Knowledge and Innovation Valuation (K-S, Phase 2-3) is to structure and legitimize the reciprocal relationship between RMG and Contact Media, for future value created by RMG, and invested and captured in Contact Media, through the fusion of intangible and intellectual property contained within both: Contact Media and The Results Media Group.

#### 5. RMG K-S Innovation Investment Solution

A key consideration in the design of the innovation investment solution is the existing RMG culture, structure and business model, to advance the already successful management and operating system of RMG.

The K-S RMG investment solution emerged through the K-S investigation process, the intent of which is to realise the full value residing in Contact Media-RMG, both currently, and moving into the future.

The K-S innovation investment solution is designed to assist RMG to realise the full future value of the company, by focusing predominantly, on leveraging the intangible and innovation assets of the group.

The principal objective of the innovation investment solution is to create a solid knowledge construct for RMG that recognizes the value of its intangible and innovation assets, and is able to bridge the knowledge gap between staff members and the CEO, Cameron.





This is achieved by providing a leadership development model and succession path for each individual, in line with his or her professional performance and unique value contribution to the company, which dynamically impacts the overall value of RMG.

This system exists within the broader objective of identifying, defining, disclosing and realizing the *Real Value*® of Contact Media-RMG, i.e. the true value residing in intangible and intellectual property, and innately supports the new intangible focus in the financial, auditing and valuation objectives and priorities of RMG.

### **5.1 The Key Focusing Question for Contact Media-RMG**

The Key Focusing Question (KFQ) poses a problem or challenge to RMG, the answer to which is the solution, which resides in the proposed 'Xtraordinary leadership' and media investment model.

#### **The RMG Key Focusing Question (RMG-KFQ)**

***How can Contact Media-RMG minimize risk and maximize value and real returns, to shareholders, investors, and key stakeholders, during its operating lifespan?***

#### **5.1.1 The Key Driving Forces (of RMG Scenarios and Knowledge Domains)**

The Key Driving Forces represent the real forces and factors, within the context of the following scenario construct, which will drive future value and real returns on media investment opportunity for RMG.

The key driving forces infuse the development process with energy and inspiration, and powerfully leverage and lead to the desired RMG performance and investment objectives, in terms of the proposed model. The principal knowledge forces and factors driving RMG are:

- |                                    |                                 |
|------------------------------------|---------------------------------|
| 1. Realizing Individual Dreams     | 6. Actualizing Strategic Intent |
| 2. Building Future Leaders         | 7. Fast Entrepreneurial Action  |
| 3. Achieving Extraordinary Results | 8. Passion for Uplifting People |
| 4. Make Things Happen Mindset      | 9. Making Loads of Money        |
| 5. Creative Thought Leadership     | 10. Creating Phenomenal Futures |

The key driving forces (KDF) turn attention to the *critical areas of business focus* that must be leveraged, to a greater or lesser degree, to lead to the fulfillment of the proposed investment model, within the context of the following scenario and leadership knowledge construct.





### 5.1.2 Critical Areas of Business Focus

- |                                    |  |
|------------------------------------|--|
| 1. The Value of Contact Media, RMG | 6. Human Capital Leadership Development      |
| 2. Knowledge and Skills Transfer   | 7. Intangible and Innovation Asset Valuation |
| 3. Mindset of Media Accountability | 8. Mindset of Media Ownership                |
| 4. Extraordinary Sales Leadership  | 9. RMG Risk: Profitability and Liquidity     |
| 5. Entrepreneurial Innovation      | 10. Entrepreneurial Investment               |

### 5.1.3 The K-S RMG innovation investment solution proposition comprises of:

1. strategic future-scenarios proposition, the knowledge capital and content per scenario, with the respective scenario income propositions for Contact Media-RMG,
2. human capital and leadership development model, with a systemic intervention formula, for the implementation of the innovation investment solution for RMG, and
3. the relevance and links with the overall intangible and innovation asset valuation objectives and priorities of Contact Media-RMG, in terms of defining and realizing the *Real Value*© of the company.

### 5.2 The Four Strategic Scenarios are: (an 'Xtraordinary Leadership'© Model)

**Scenario-1 >>Ad-venture.m>trade.co.za - the 'Domain of The Doer': 'the media-trader'>>**

**Scenario-2 >>Ad-venture.m>innovate.com - the 'Domain of The Designer': 'the media-innovator'>>**

**Scenario-4 >>Ad-venture.m>lead.net - the 'Domain of The Dreamer': 'the media-leader'>>**

**Scenario-3 >>Ad-venture.m>invest.com - the 'Domain of The Dealmaker': 'the media-investor'>>**

The strategic scenarios represent the macro knowledge context within which the existing or future RMG structure and business model fits, that is, the existing or future RMG structure and system can be applied and fit into each scenario individually and independently. i.e. into the individual strategic scenarios 1-2-3-4

Each scenario represents a strategic knowledge domain containing its own unique information, intelligence and energy dynamic-the knowledge content, capital and construct of each scenario-that uniquely interacts, impacts and influences the current RMG structure, system and business model in a specific, pragmatic way, expressed through and by the dominating ideas or imperatives of that scenario.

In addition, the scenario construct represents an exponential system of human capital progress and development ranging from: **Domain-1; 'the Doer, m-trader', through Domain-2; 'the Designer, m-innovator', to Domain-3; 'the Dreamer, m-leader', culminating in 4, 'the Dealmaker, m-investor',**





## Scenario-1>Current-Solution 1

### Ad-venture.m>trade.co.za

#### The Domain of: 'The Doer, m-Trader'

##### **Knowledge Capital and Content (the essential creative urge and principle)**

This is the current knowledge domain of the media-trader, 'the Doer'. This domain encompasses the basic business discipline, the bottom line skill and competency of the RMG business model: fast, action-based media sales trading, in niche target markets, through direct customer calls, contact and telephonic communication.

This domain is synonymous with specific sales-driven action, focused on achieving monthly sales targets, through direct customer contact and telephonic sales interaction, aimed at high performance placing and positioning of professional advertisements in niche media publications.

Further action is required in generating leads, prospecting and building a pipeline of prospective clients, while taking the initiative and action to work with and seeking assistance from the sales director and respective brand project managers to maximize the impact and outcome of customer contact to achieve the desired RMG results.

The sales trade (exchange of money for a position in a niche media asset) is executed through the application of a prescribed 'sales pitch' that assists the sales trader in leading the prospective advertiser or buyer to see the value of advertising in the publication. Together with a media pack, the trader or sales executive, is able to conceptualize the essential media elements of the assigned publication, in terms of the media assets targeted market, and communicate the benefits and features to the buyer, of placing an advertisement in the publication.

The current full risk, IP publication contracts: the exclusive brand titles and media asset acquisitions are sourced and secured through the visionary foresight, exceptional media trading ability and entrepreneurial competence and character of Mr. Cameron Bramley, the Chief Executive Officer. The management, production and administrative staff ensure the efficient operations of the company, the printing, publishing and media asset production to ensure that the media assets are produced to project specifications, to client expectations and to agreed project deadlines.

Domain-1 is centered in the instinctive urge and drive of each human being to create, to interact and relate. At the heart of all human interaction is the innate need to relate and communicate, to create positive experiences with people we enjoy, are intrigued by, attracted to, and with colleagues and customers, aimed at creating successful enterprise.

Integral to achieving outstanding results and sales performance in this trading domain is an awareness of, being conscious of, this fundamental human urge to create and connect with fellow human beings. Great performance in Domain-1 is to capture the attention and interest of the prospect or buyer and to hold his or her attention for the duration of the sales pitch and cycle, then to close the deal. This can be consistently achieved, with a shift in mindset, to knowing and living, with focused intent, this essential creative urge, within the current sales system and operating context.

The skills and competencies required in Domain-1 are: initiative and action, excellent sales skills, negotiation and leadership ability, creative communication skills, personal confidence and creative power, good people skills, and a desire for high achievement. A results-driven attitude can be a valuable asset to achieving the desired results.

The income potential of Scenario-1 is basically in line with the current targets and performance objectives of RMG for the new trading year, which include, the new business opportunities in Websites, Rampage and Stokvel Media. There can be a real impact and increase in sales, and in the general performance of the company, in Domain-1, by a focused intent on the intangible and innovation assets, which includes, a dynamic, powerful shift to creative interaction and communication, in terms of the creative principle referred to above, driving all human endeavour and achievement!

"It is my belief that our purpose here is to develop our gifts of intentionality and to learn how to be effective creators." (Tiller, 2005)





## Scenario-2>Future-Solution 2

Ad-venture.m>innovate.com

### The Domain of: 'The Designer, m-Innovator'

#### Knowledge Content and Capital (the essential intangible and innovation asset value)

The creative, innovative media-innovator, 'the Designer'. This domain encompasses the need to access and extract the full intangible and innovation asset value residing in Contact Media-RMG.

Intangible and innovation assets are classified under the following K-S taxonomy: (IVS, Guidance Note. 4)

Contractual Rights, Relationships & Reputation (IP Partners, Suppliers, Distributors, Partners & Clients etc.), Intellectual Property (Trademarks, Copyright, Patents, Registered Design etc), Grouped Intangibles (Brand, Business Model Leadership, Human Capital, Technology, Strategy) and Goodwill.

The first of three future knowledge domains, 'the 'm-innovator' is essentially the first critical step to addressing the Key Focusing Question, i.e. how to minimize RMG risk and maximize value and real returns to shareholders, investors and key stakeholders during the RMG operating lifespan!

The scenarios are synergistic and sequential, and follow and lead into each other, creating a system of knowledge and innovation, by which the solutions to the RMG full risk, and value creation dilemma are found, i.e. a management approach that tends to neglect the intangible value, reflected in the exceptionally high RMG debt/equity ratio: 1:0.1

The aim of the 'The 'Designer', media-innovator process is systemic; an intangible, innovation-driven design to the financial, valuation, sales and operations management, and includes human capital, leadership, and strategic innovation to meet the RMG challenges and problems, in terms of the key focusing question, and the challenge posed by such.

The new knowledge and innovation design and approach is focused, as a strategic priority and imperative, on the intangible and innovation assets of RMG, as a means to minimize cost and risk, to leverage maximum value, and to create real returns for the RMG business model and for the Contact Media, RMG Company.

Domain-2, 'the Designer', suggests that each individual of the RMG company must be an innovator, a media-innovator, a designer of their own RMG success, aware of the intangible and innovation value residing in RMG, and thereby to learn and apply innovative approaches to reducing RMG costs, and to increasing revenues and returns, specifically looking for ways to increase and enhance RMG value, within the unique and professional roles and approach of each individual.

The key competence to be developed is innovation! In developing the innovation competence-within the proposed leadership investment model-of each individual, the company is catapulted into new dimensions of achievement and of achieving the desired performance and expected profitable results of the company.

It is a strategic imperative and priority, to access and extract the intangible and innovation asset value residing in RMG, to create and develop innovation and investment competence across the company, in terms of the proposed media innovation and leadership investment model.

The process unfolds within the intangible and innovation asset valuation, with the simultaneous introduction, of the whole company, to the media leadership investment model. The income proposition is dramatically affected in this knowledge domain, leading to the following leadership domain, to make happen, the above proposal of extraordinary sales and performance leadership, on the back of the emerging giant, of RMG's intangible and innovation assets!

Each individual is and becomes an RMG brand, a carrier of the RMG entrepreneurial vision and values: a brand creator, a value innovator, a media-innovator, focused intently, on minimizing risk and maximizing value for the RMG Company.





### Scenario-3>Future-Solution 3

#### Ad-venture.m>lead.com

#### The Domain of: 'The Dreamer, m-leader'

##### **Knowledge Capital and Content (the essential X-traordinary© leadership model)**

The 3<sup>rd</sup> knowledge domain is the domain of the X-traordinary© leader, 'The Dreamer, m-leader'. The X-traordinary© leader makes things happen. The media-leader envisages and achieves brilliant outcomes and futures, with the incredible capacity to dream, to imagine real opportunity, and to translate those dreams and visions into reality.

The leaders dreams are founded in an incredible sense of inspiration and imagination, while being grounded in real opportunity, having acquired and integrated the knowledge, skill and understanding, of the full spectrum of practical demands and challenges, required to convert ideas and opportunity into commercial reality and profitable results.

The m-leader has acquired the competence of the m-innovator, encompassing the doer and creator, with the business discipline, dedication, savvy and fortitude to achieve consistent results and extraordinary levels of performance. The m-leader has achieved an increasing level of momentum in achievement and performance, evidenced in producing consistently high levels of value, while reaching, and usually exceeding, expected individual and team results.

The X-traordinary© media-leader knows that real success, achievement and any significant contribution in any field of endeavour, means working with others, and that, to the extent that he or she can fulfill the desires and dreams of others, is a measure of their own success, and dreams being fulfilled.

The knowledge domain of 'The Dreamer media-leader' recognizes the essential prerogative and practical priority of responsibility, a responsibility to the individual self, and to the community to which one is committed, for whatever purpose or period, to deliver and do ones best! This is not the same and is not to be confused with doing, 'the best one can'! This phenomenal state of mind, or state of being, is centered in an innate, conscious, and even unconscious sense of inner knowledge, of being truly valued and acknowledged for ones efforts and contribution.

They know and appreciate that they are a significant part of a whole, a whole to which they are consciously and innately connected-through relationship in thought, action, perception and intent-and to a greater or lesser degree, are responsible for the qualities, conditions and tensions that pervade and prevail, within the workings of the whole.

They are absolutely committed traders, doers, designers and creators; media-leaders, filled with a sense of real inspiration and imagination, possessing a passion for their work, a passion for people and a passion for the prospect of doing and making more success, and doing and achieving greater things, for themselves and others.

In reaching the level of X-traordinary© leadership the RMG group can be catapulted into extraordinary levels of success, fully assured, that each individual is doing their best, that is, they are consciously creating the best possible outcomes and results, for themselves and the RMG team, in terms of their unique, individually-driven designated roles, and responsibility to the group.

The X-traordinary© m-leader appreciates that real success takes enormous effort, energy, time, and vested resources and risk, with no guarantee of future success, but, when sufficiently accumulated and applied in a definite and clearly articulated direction perpetually, creates an unstoppable momentum, that expresses itself elegantly and in extraordinary levels of incredible success and performance.

RGM is on the brink of a great leap into extraordinary levels of value creation, and powerful and profitable results. The successful outcome of this giant-quantum leap resides in the strategic and pragmatic application of the following media innovation investment model, that nurtures, cultivates and inspires the future leaders of RMG into extraordinary levels of performance and profitable results, culminating, in a practical construct and spirit of real ownership and accountability!





## Scenario-4>Future-Solution 4

### Ad-venture.m>invest.com

#### The Domain of: 'The Dealmaker, m-Investor'

##### **Knowledge Capital and Content (the essential media innovation investment model)**

The knowledge domain of the 'Dealmaker, m-Investor'. Having progressed through the previous knowledge domains, 'the Doer m-Trader', the 'Designer m-innovator', and 'the Dreamer m-leader', the company and the individuals who comprise the company, have reached a point of outstanding sales and extraordinary performance that is expressing itself in real, increasing revenues, and sustainable returns, for the Contact Media, RMG group.

Scenario-4 is the knowledge domain of media investment, through ownership and accountability. The human capital has reached advanced levels of competency and application, to the level of 'the Dealmaker, the media-investor.

The leading individuals and project teams are creatively and proactively, designing their unique, individual success, and RMG futures, creating media fortunes with and for RMG and themselves. This is made possible through the mechanism of a media innovation investment model.

An innovation investment fund is created by Contact Media, in which, a percentage of excess sales revenues, recorded as individual and project team contributions, are deposited and saved in the investment fund. Contact Media acts as a 'media investment bank', holding the individual and project deposits and savings, in the Contact Media investment fund.

Following a successful period as a m-leader, and a prescribed period as a 'Dealmaker', media-investor, measured as an agreed value or volume of investment, the individual trader can choose to convert the dividend gain to cash, or to re-invest his or her share capital back into the company or project.

The invested funds and share capital is utilized to purchase shares in the media project. An agreed percentage of the project is allocated to project ownership. The individuals can utilize the share capital, individually or as a project team, to purchase private equity shares in the particular media project.

The projects are self-funding and self-managed, to the level of managing and reporting on sales, income, costs, profitability, and liquidity, as well as, on the investment performance of the project and the status of shares invested, funds available, dividends, and any other project investments in the pipeline.

Management of the project is left in the now capable hands of the m-traders and m-leaders, voting and deciding on who will head up the project. In this scenario structure, there will be a trading project manager, focused on sales, and top-line revenues, as well as, and innovation investment performance manager, managing the investment decisions and funds of the project group. The two roles are interrelated, and the individual and project groups are limited to investing a percentage of sales and revenues, over and above an agreed threshold of sales achievements.

One individual will fill the role initially, and as the scope and scale of the projects grow, it can be left to the discretion and judgment of the group to change the structure. These are self-managed, self funded media projects groups, with the capacity to make a bid for the entire project, as private equity and prospective owners of the project.

The approach to the media innovation investment fund, within the context of the leadership investment model, creates a sales and operating environment of ownership and accountability, and a vested interest in the performance and sustainable success of RMG. It is important to see the 'Dealmaker' model within the overall context of the four knowledge domains and within the progressive workings and application of the X-traordinary© leadership investment model.

The strategic intent of the model is to realise individual, and company dreams, by building the media innovation and leadership capacity and competence, of future entrepreneurial business leaders, the Contact Media, RMG way!







Four different, individual knowledge domains, each containing specific, unique energy and information, hidden value, which is accessed and extracted to realise the full Contact Media-RMG value potential.

The unique qualities and attributes of each domain, merge or blend with each other, one with two, and two with three, and three with four, and round again, 4-3-2-1, in a continuous creative cycle and synergistic spiral: (Synergy-'the whole is greater than the sum of its parts')

The system begins with the 'Doer'-trader, and ends with the 'Dealmaker'-investor. Therefore, both contain the 'Designer'-innovator and 'Dreamer'-leader. In terms of the system, the 'Doer'-trader becomes and is the 'Dealmaker'-investor, and the 'Dealmaker'-investor is the 'Doer'-trader (a leading trader and a trading leader), both being, as a result of the system, the 'Designer-innovator & 'Dreamer-Leader'.

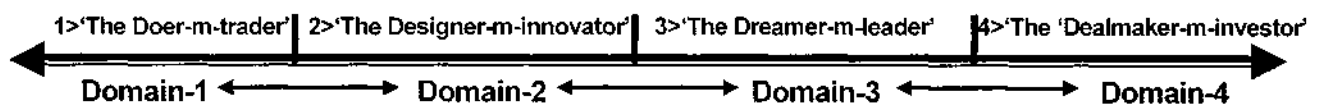
### 5.2.1 An Internal, Organic Xtraordinary© Leadership Model

The unique attributes and qualities of each knowledge domain and scenario interact, to create an 'Xtraordinary'© leadership' development model, designed to access and extract maximum value from the Contact Media-RMG structure, system, culture, human capital and business model.

The proposed media innovation, leadership investment model is focused on internal, organic growth and investment (vs. an external investment or acquisition focus), and relies on extraordinary sales and revenues, as the primary driver of sustainable growth and investment.

The model is contingent on, not only achieving sales targets, but consistently exceeding set targets, with an agreed percentage of the excess sales revenues, being directed back into the company, for individual, team and managerial media investment and project ownership.

'The steps to get anywhere are the same as the qualities of being there, and the qualities of being there are the same as the steps to get their! (Lazarus, 2002)



- Domain-2 contains the knowledge attributes and qualities of Domains 1&2, Domain-3 contains the knowledge attributes and qualities of Domains 1, 2 &3, and Domain-4 contains the knowledge attributes and qualities of Domains 1,2,3 &4.
- The cycle and spiral continues in reverse and Domain-3 contains the knowledge attributes and qualities of Domains 4&3, Domain-2 contains the knowledge attributes and qualities of Domains, 4,3 &2, and Domain-1 contains the knowledge attributes and qualities of Domains 4,3,2 &1.
- The 'Doer' exists in the Designer, the 'Designer' in the Dreamer, and the 'Dreamer' in the Dealmaker, and vice versa, the 'Dealmaker' in the Dreamer, the 'Dreamer' in the Designer, and the 'Designer' in the Doer, each in all and all in each!

A synergistic whole, that is much more than the some of the individual interacting parts, realized in exponential RMG value creation, media innovation and individual investment opportunity.





### 5.2.2 The Xtraordinary© Human Capital Succession Plan Process

**Phase>1 RMG Apprentice** for 3months, then operates as an **RMG Trader** for a period of at least 12 months. Must achieve a minimum of 9+months consecutive on target earnings, within 12-month period, and complete the K-S Xtraordinary© innovation programme, to qualify for Phase 2:

**Phase>2 The RMG Innovator.** Must operate as an **RMG Innovator** for a period not less than 9-months. Must achieve a minimum of 6+months consecutive on target earnings, within the 9-month Innovator period, and complete the K-S Xtraordinary© leadership programme, for Phase 3.

**Phase>3 The RMG Leader.** Must operate as an **RMG Leader** for a period of not less than 6-months. Must achieve a minimum of 6 months consecutive on target earnings, within the 6-month Leader period, and complete the K-S Xtraordinary© investment programme, to qualify for Phase 3.

**Phase>3 The RMG Investor.** Must operate as an **RMG Investor** for a period of not less than 6-months, and have achieved 6-months consecutive, excess target earnings, to qualify as an RMG Investor.

## 6. Business Model Recommendations: Intangible and Innovation Asset Valuation

1. Current Business Model is Driving RMG Value
2. Capture Intangible Value Driving the Current Business Model
3. Change Valuation and Auditing Policy to Include Intangible and Innovation Asset Value (VBM)
4. Develop Leadership and Human Capital to Leverage and Maximize Intellectual Property Value
5. Define Intangible and Innovation Asset Value and Align/Integrate Value in RMG Business Model
6. Create Investment Fund in Contact Media and Capture Investments as RMG Innovation Equity Fund
7. Record Intangible and Innovation Asset Value as: Capitalized Asset on Financials
8. Capture Intangible Value as Equity and Reverse the Debt/Equity RMG gearing Ratio
9. Disclose the Real Value© of Contact Media-RMG
10. Realise the Future Profitability and Liquidity of the RMG Business Model

***The RMG K-S platform is the foundation and robust launch-pad for:***

**Phase 2>**Defining the details, the 'how it works' of the RMG K-S Investment Solution, (Feb., 07)

**Disclosed as:**

**Phase 3>**The Intangible and Innovation Asset Valuation and Report. (March/April, 07)





## 7. Scenario Income Propositions

**Scenario>1-Solution 1>>**                      **Ad-venture.m>trade.co.za**                      **1 Year Trading Period: 07/08**

**Proposition 1**

Sales Revenues:	36 Million	(Target 32.5 Million 07/08-RMG Brands, incl. Kaya, Stokvel Media, Websites)
Cost of sales:	10 Million	
Gross Profit/(Loss):	26 Million	
Operating Expenses:	10 Million	
Net Profits/(Loss) PBIT:	16 Million	

**Scenario>2-Solution 2>>**                      **Ad-venture.m>innovate.com**                      **2 Year Trading Period: 07/09**

**Proposition 2**

Sales Revenues:	61Million	(Contact Media-RMG, incl. Kaya, Stokvel Media, Websites)
Cost of Sales:	15Million	
Gross Profit/(Loss):	46Million	
Operating Expenses	15 Million	
Net Profits/(Loss) PBIT:	31 Million	

**Scenario>3-Solution 3>>**                      **Ad-venture.m>lead.com**                      **3 Year Trading Period: 07/10**

**Proposition 3**

Sales Revenues:	120 Million	(Contact Media-RMG, incl. Kaya, Stokvel Media, Websites)
Cost of Sales:	25 Million	
Gross Profit/(Loss):	95 Million	
Operating Expenses:	25 Million	
Net Profits/(Loss) PBIT:	70 Million	

**Scenario>4-Solution 4>>**                      **Ad-venture.m>invest.com**                      **4 Year Trading Period: 07/11**

**Proposition 4**

Sales Revenues:	250 Million	(Contact Media-RMG Brands, incl. Kaya, Stokvel Media, Websites)
Cost of Sales:	50 Million	
Gross Profit/(Loss):	150 Million	
Operating Expenses:	50 Million	
Net Profits/(Loss) PBIT:	100 Million	



**Results Media Group (Pty) Ltd**  
**Knowledge and Innovation Valuation Report**

**Phase: 2-3**

**'Knowledge and Innovation Asset Valuation'**

**Prepared by:**

**Michael Richard Consulting CC**

**t/a**

**Knowledge-Solutions (K-S)**

**Valuation Date: 30<sup>th</sup> April 2007**

**Submission Date: 15<sup>th</sup> May 2007**



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## **Knowledge & Innovation Valuation Report**

**For**

**The Results Media Group (Pty) Ltd**

### **Knowledge and Innovation Asset Valuation**

**Executed in accord with International Valuation Standards, 7<sup>th</sup> Edition, January 2005-Intangible Asset Guidance Note: No. 4, International Accounting Standard-38**

#### **1. Knowledge and Innovation Asset Valuation Purpose & Process**

**1.1** The purpose of the innovation valuation is to define the Real Value© of RMG. To identify, define and disclose the innovation and intangible assets that are the basis of Real Value© generated by RMG.

**1.2** To define the Real Value© of the RMG Group, considering all information and knowledge accessed and interpreted during the valuation process, so as to identify and define the Real Value© components and taxonomy of RMG, as a going concern.

**1.3** To publish and present the RMG innovation valuation report, containing the innovation and intangible asset valuation conclusion.

**1.4** The innovation valuation is executed to form a powerful and pragmatic platform, for the effective measurement and management, of the RMG intangible and innovation assets.

#### **2. Reasons for the Knowledge and Innovation Asset Valuation**

**The RMG valuation is performed for the following reasons:**

**2.2** to identify and define the Real Value© of RMG as a going concern,

**2.1** for management planning, re-structuring and strategic purposes,

**2.3** establishment of a fair intercompany IP transfer price,

**2.4** establishment of appropriate royalty rates for intangible/IP asset licenses.





### **3. RMG Structure and Profile**

The Results Media Group (Pty) Ltd, (RMG) is a geocentric, niche media publishing and advertising sales company, trading in high value, executive and broad spectrum target markets, focused on full risk, top level sales performance and results, achieved through direct, premium brand advertising sales ventures.

The management and human capital (HC) structure comprises the CEO, General Manager, Group Sales Director, Project Managers, New Business Management, Sale Executives and the Publishing, Design and Production Management Team, and Credit Controller. The HC balance of the company consists of accounting, administrative and office staff.

Management is currently responsible for marketing, contract and supplier negotiations, as well as, the overall operational and financial performance of the company. The company personnel are mainly sales, marketing, publishing and design personnel. The employees are responsible for the marketing, design and publishing of various niche media publications.

The RMG portfolio comprises nine premium, niche media publication brands, together with, the PGA Club (Professional Golfer's Association), and other emerging, high value innovative businesses, including, but not limited to: The Website Enterprise, Vortex Publishing, Rampage and Stokvel Media.

#### **3.1 Ownership Rights and Privileges**

The intangible assets and intellectual property (IP) available to and accessible by RMG: the contractual rights, the partner, supplier and distribution relationships, the trademark, copyright, registered designs, and any patents, including RMG Goodwill, are held as the exclusive, intangible and intellectual property of the executive entity, The Results Media Group (Pty) Ltd.

RMG (Pty) Ltd has four shareholders: the CEO, Mr Cameron Bramley, 85% majority share, the Group Sales Director, Mr Sean Press and the General Manager, Mrs. Lesley Corns, 5% each, and Mr. Douglas Morgan a minority, non-participatory 5% shareholder.

A principal function and priority of the K-S Knowledge and Innovation Valuation is to identify, define and disclose the Real Value© that is created, managed and owned by RMG (Pty) Ltd.

### **4. Valuation Interview Process and Information Sources**

#### **4.1 Internal Interviews:**

- Interviews with RMG Executive Management
- Interviews with General Management
- Interviews with RMG/Group Sales Director
- Interviews with New Business Management
- Interviews with Production & Design
- Interviews and Publishing & Printing
- Interviews with Credit Control Management
- Specialist future-based Strategic Scenario Sessions with RMG Executive
- The Executive: Innovation Valuation Audit Questionnaire
- Group Open Information Forum: Project Managers





- Interviews with RMG/Group Sales Coordinator
- Impromptu discussions with sales executives, office staff etc.
- Meetings with auditors/review historical valuation method/approach
- Review financial records/statements and existing RMG audit
- Review company's memorandum and Articles of Association
- Presentation and review of current to-date 2006/7 financials

The interviews covered a broad range of subjects, including, but not limited to: RMG leadership and sales, the CEO agenda, current strategic intent, management capability, operations management, company culture, core competencies, critical and complementary assets, financial status and position, and the RMG opportunities and strategic priorities, aspirations and goals.

The strategic scenario sessions incorporated a focused and extensive session on the future of RMG and the future aspirations of the individual participants, both personally and professionally.

#### **4.2 External Interviews:**

##### **4.2.1 Value Network Meetings: IP Partners, Auditors and, The Stokvel Company**

- Innovate Magazine (Pretoria University)
- Wits Business Journal (Wits Business School)
- Pearl Valley-Conference Call
- Gary Player Guide
- Strokesaver (call)
- The Design Centre
- The Stokvel Company
- Van Wyk Compton (Auditors)
- Distributors (call)
- Printers (call)
- Other (Internet, Editorial, Journals, Websites, Literature, Expert Opinion)

The primary aim of the internal and external meetings is to obtain first-hand knowledge about RMG, and the IP partner's predominant attitude and prevailing perception of RMG, the RMG service and service delivery, and to better understand the company, client and partners experience with RMG. The focus is on both good and problem points, with a view to the prospective and on going relationship with RMG, i.e. the IP contracts, associated brands and partner relationships serve as the basis to the revenues, cash flows, profits and ultimately the current value and future value to be created by RMG. (See Innovation Valuation Proposition)

The auditor meetings have been extremely valuable in understanding the approach to the financial audits and accounting policies of RMG, in terms of the valuation methods, that have been applied historically to financial audit and value the RMG business. (See Innovation Valuation Proposition)

## **5. The Knowledge and Innovation Asset Valuation Method**

### **5.1 The Knowledge Capital Formulae (Baruch Lev) & Direct Income Capitalization Method**

The formula being applied to determine the Real Value© of RMG is the Knowledge Capital Formulae (of Baruch Lev) and the Direct Income Capitalization Method, which are applied within the framework and







workings of the K-S Real Value© methodology. Intellectual capital is the basis of value creation for RMG while advertising sales and sales revenues, and the income derived from such sales, drives and to a large extent determines RMG value. It is therefore essential to simultaneously capture the knowledge value of RMG and to discount the knowledge capital value to a net present value via an income capitalization rate.

RMG value is accessed and extracted via the management of innovation and intangible assets; the trading rights, privileges and contractual relationships bestowed on RMG by the IP contracts. These intangible assets, the intellectual property rights and contractual relationships are the bedrock of RMG value creation, and exclusive to RMG, and as such are not directly affected by competition or competitive activity.

RMG acts, to a large degree, independent of competition or competitive market activity. This position is possible due to the fact that the contractual rights and privileges (the contracted media titles) are exclusive to RMG, and are in no way imitated or replicated by the market. There is no generic version or copy or direct competition to the individual titles, other than general media industry activity as a whole.

In light of the above context, and through the application of the above knowledge valuation methods, we are able to capture the Real Value© of RMG. The Real Value© resides in the relationship of the future-current knowledge capital value with the historic-current knowledge capital value of RMG.

The intangible value and innovation assets of RMG represent and reflect the actual and 'exact nature' of the business. The purpose being to identify and define, recognizable and accurately identifiable, RMG intangible and innovation assets, to effectively drive and leverage RMG value creation, and ultimately to ensure and positively impact future value management, and the sustainable success of RMG.

## 5.2 The RMG Knowledge and Innovation Valuation Definition

The Baruch Lev formula (Professor Burach Lev, the Phillip Bardes Professor of Accounting and Finance at the Stern School of Business, New York University, NYU) determines the contribution of intangible assets to the financial performance of a firm.

It is this financial measure of value, i.e. the contribution of innovation and intangible assets to RMG's financial performance that we define as: the 'future-current knowledge asset value', and the 'historic-current knowledge asset value captured' by RMG as a going concern, that is the Real Value© of RMG.

## 5.3 The Basis of the RMG Valuation is the K-S Real Value© Knowledge and Innovation Asset Valuation Methodology: (in conjunction with the Baruch Lev Knowledge Capital Formula)

- ✓ **Historic-Current Value = Knowledge Asset Value of Historic-Current RMG Net Earnings Calculated as a Return on Knowledge and Innovation Assets.**
- ✓ **Future-Current Value = Knowledge Asset Value of Future Projected RMG Net Earnings Discounted to a Knowledge and Innovation Asset Net Present Value.**
- ✓ **RMG Real Value© = The RMG Future-Current Discounted Knowledge Asset Value Less the RMG Historic-Current Knowledge Asset Value.**





## 6. The RMG Knowledge and Innovation Asset Taxonomy

### 6.1 The RMG Knowledge Formula and Trade Secret (indefinite economic and legal Life)

The RMG knowledge formula is a future oriented system of full risk media and advertising sales production. RMG sales are future-based, with a concomitant future-based debtor's and order book, and invoicing system, in which the prospective customer is invoiced at a future date of payment, at which time the sales transactions are recorded as a sale by RMG.

Sales are also measured as forward sales on media titles whose publication is based in the future; therefore the sales and revenues of RMG are dependent on the successful future publication and distribution of the media title, at a scheduled delivery date in the future.

The success of RMG to date has also been reliant on new acquisitions versus the growth of existing media brands. This is due to a future focus on prospective media brands that can leverage additional value. **The RMG model is acquisitive and income based versus a cost or market based model, where the value created by RMG is centered in future sales transactions, and the future advertising sales potential of existing and new media brands.**

This is also evidenced by the fact that customers are targeted, acquired and booked on a once-off, short-term basis (unless booked for multiple editions or publications), with little consistent or immediate repeat business. The focus therefore is on the continuous future acquisition of new clients versus being reliant on steady, repeat and past client business.

The RMG business model of geocentric, niche media-advertising sales is focused on future performance, inspired and engineered by the forward looking, innovative and entrepreneurial foresight and vision of the CEO, Mr. Cameron Bramley.

#### 6.1.1 RMG Trade Secret-A Financial Perspective

The RMG knowledge formula has significant implications in terms of the ten classical accounting assumptions, upon which the general accounting system is based, and herein is found the trade secret of RMG, specifically in terms of the following three accounting assumptions:

**1. Accounting Assumption 5-Historical Cost:** Only historical, or past, financial events are recognized. This makes managers look toward the past in order to manage the future. Because revenue occurs in the future and is largely outside the control of managers, managers seek to manage expenses over which they have direct control. This core accounting assumption forces managers to manage expenses, not revenues.

**RMG Trade Secret Part 1** - RMG by virtue of its business model and the future focus of the CEO and the business in general, manages future revenues and the performance of the enterprise in terms of future advertising sales, and the future production, design and delivery of media brands.

It is on the basis of future sales and revenues, and future-based production, that RMG looks toward the future to manage the future, rather than the past.





**2. Accounting Assumption 6-Conservatism:** Expenses must be recognized immediately. This creates a biased focus on expenses rather than revenue.

**RMG Trade Secret Part 2** - RMG recognizes expenses immediately, but focuses on future-based advertising sales and future earnings. RMG, by definition, concentrates on future media production and achieving the desired revenues and results, before expenses.

**3. Accounting Assumption 9-Realization:** Revenue is only recorded when generated or realized. This creates an understanding in a manager's mind that revenue cannot and should not be predicted because accounting reports will not pay any merit to such projections.

**RMG Trade Secret Part 3** - RMG revenue is predicted in terms of future sales projections by the CEO, group sales director, project managers and sales executives.

RMG managers understand the significance of future forecasts because it is the basis of their sales performance. Sales revenues are realized at 50% on order, and recorded at 100% at a future date of payment, on the future production, design and delivery of the publication.

### 6.1.2 The Knowledge Formula/Trade Secret Compilation

**The RMG knowledge formula and trade secret is assembled on the following prerequisites and essential elements:**

- RMG employs a broad base of sales executives across a variety of media titles to ensure extensive coverage of the market, and to capture the advertising sales potential of the market.
- An astute selection and recruitment of high performance, top quality sales executives. (Poor performance is easily recognized and is not tolerated in the high performance, results driven culture of RMG).
- A low cost basic salary structure and attractive high commission structure, that affords an adequate number of quality, professional sales executives, per media title.
- Excellent sales and leadership skills are nurtured and developed through the **internal training and Xtraordinary leadership programme respectively**, comprising creative, results driven individuals motivated by high future earnings potential.
- A high level commitment to the RMG sales objectives evidenced by a disciplined leadership and top performing individuals intent on achieving outstanding results.
- An efficient administration process in the management and production of advertising material, and the management of money through a 7.9million Rand order book.
- The effective and profitable management of IP partner and stakeholder relationships.
- The entrepreneurial, visionary and innovative competence of the CEO.





### **6.1.3 Contractual Rights and Relationships (indefinite economic and legal life)**

The contractual rights refer to the rights and privileges imparted to RMG for the sale, production and design of the respective media titles, in terms of the contractual relationships with the respective IP partners or owners of the so-called media brands.

These contractual rights, defined as intangible assets in terms of IVS, 7<sup>th</sup> edition, guidance note no. 4, have certain claims to future benefits in terms of future advertising sales, revenues and production and distribution capacity, as per the specifications defined in the agreements.

The Real Value© of the intangible assets in terms of the above definition is the ability of RMG and specifically the CEO to create, design, attract, secure and manage, on a full risk basis, new high quality media brands or titles, and thereby to add value to the entire RMG portfolio. E.g. Stokvel, Afropolitan, Strokesaver and Design In Business.

### **6.1.4 IP Brand/ Media Title Advertising Sales (indefinite economic and legal Life)**

RMG is a sales and results driven organization with the lion's share of revenues being generated through media advertising sales, and some through retail sales, and production and design.

The value of sales lies in the knowledge of the leadership and human capital that have the extraordinary ability and competence to achieve the desired results of the company. The organizational sales capability is based on extensive and innovative sales training and development. It is this ability to train and develop the human capital and leadership that is at the heart of RMG performance and future sales success.

### **6.1.5 Media Publishing, Production and Design (indefinite economic and legal Life)**

RMG is able to effectively coordinate and manage the production and design of high quality niche media publications. This ability to produce highly proficient publishing is essential to the high caliber of magazines that are included in the stable of media titles offered to the market by RMG.

This includes but is not limited to, the Gary Player's Golfers Guide, Strokesaver, Living On Course, Design in Business (an in-house proprietary brand designed by the CEO), Stokvel, the Afropolitan and Crawford Times. The high value portfolio of publications contributes to the high level of credibility afforded to the Results Media Group and to its CEO.

### **6.1.6 Creating and Commercializing Proprietary and Empowerment Media Brands**

Through extensive media experience and an extraordinary level of creative and innovative competence on the part of the CEO, Mr. Cameron Bramley, RMG is able to create and commercialize new, innovative and leading edge media and empowerment brands.

This capacity to create and commercialize new brands for the RMG portfolio is evidenced by brands such as: Design in Business, Stokvel Times and the Afropolitan; a Kaya FM publication.

The high level performance and competence of RMG is achieved through the exceptional leadership of the CEO, and the intelligent guidance and support he provides for his group sales





director and general manager, who in turn transfer the RMG thought leadership to their respective project teams and subordinates.

#### **6.1.7 Management and Human Capital Competence (indefinite economic and legal Life)**

The responsibility for RMG management lies with the CEO, his general manager and group sales director, with additional creative and administrative support from the design and credit manager respectively, and the project managers for the sales teams and media brand portfolios.

The successful management philosophy of RMG is defined as a top quality performance standard with the intent to achieve outstanding results, based on the dedication of the organization, and the sales and production and design teams specifically, to exceptional standards of delivery.

The human capital is driven by the results culture of RMG, and the rigorous sales and production schedules of both the project teams and production staff respectively, to ensure the proficient production and delivery of the publications to the market, on time and to specification.

#### **6.1.8 RMG Culture, Structure and Systems (indefinite economic and legal Life)**

RMG is a creative, innovative, fast paced culture. The culture is creative and performance driven, with the real measure of performance being the results achieved in sales and in the production of high quality magazine titles in terms of design and content.

The structure is relatively flat with the CEO being at the head of the company, and the general manager and group sales director reporting to the CEO. The project managers and design and credit managers report to the sales director and GM respectively.

The policy is an open door policy with extensive contact with the project teams and project managers in terms of training and development by the CEO and group sales director. The system is very efficient in terms of meeting deadlines and supplying high quality product to the market according to the agreed specifications of the respective publications.

The working environment and infrastructure is divided between two buildings, one being the management, production and design office, and the other being the sales and marketing office. The business is interconnected through the RMG intranet and email.

The work processes are however submitted manually and captured in the companies proprietary information system. There is however no internal information or management system integrating the business and linking the different departments and workflow processes.

#### **6.1.9 Customer and Relationship Capital**

Customer and relationship capital refers to the quality and profitability of both internal employee and partner relationships as well as the external customer and stakeholder relationships. RMG's real success rests on the quality of these relationships and the value that can be extracted from such internal and external relationships. The keys relationships are with the different projects and business units, internally, which are managed effectively and profitably by the CEO, together with external IP partners and suppliers, and the empowerment partner, the Stokvel Company.





## **7. RMG Risk and Longevity**

The leadership of the firm is largely in the individual and very capable hands and know-how of the CE Mr. Cameron Bramley, for which RMG greatly benefits due to his extraordinary media experience, competencies and leadership ability, but which, simultaneously, poses a real threat and 'unsystematic' (a financial term depicting the unpredictable, uncertain nature of risk) risk for the longevity of the company.

Due to the fact that the skills and competencies required to effectively lead and manage the company, reside largely, with the CEO, the legal and economic life of RMG, and the sustainable management of the operating entity, is subject to 'unsystematic risk', for should Cameron (as the majority shareholder and knowledge holder of RMG) not be able to further manage and direct the company, the future will be as consequence, uncertain, unpredictable and subject to high risk.

Our view is that the unsystematic risk premium for a majority holding is 19%. This view is based on the following evidence which are the primary reasons associated with the high unsystematic risk of RMG:

1. RMG is a private company and therefore the shares are not freely tradable, but are held by the company shareholding structure.
2. The knowledge and expertise resides with the CEO and majority shareholder Mr. Cameron Bramley.
3. Currently there is no substitute for the CEO in terms of knowledge and skills level, who could reliably, and responsibly take over the effective management of RMG.
4. Financing and cash flows are used up by the company, which adversely affects the financial and economic development of RMG.
5. The high budgeted and projected revenues and earnings, including the new business units, must still be realized.
6. RMG will need to ensure the effective management of their empowerment partner, which is in a development phase.
7. RMG is a relatively new enterprise, having been trading now for just over three years.

## **8. Valuation Limitations and Assumptions**

1. K-S performed the valuation on the assumption that all information, sales records, financial statements and budgeted figures are accurate and reflect the real operating position of RMG.
2. We also assume that the new business units and projects, Vortex Publishing, Scarlet Winter and the Website division, will be effective and successful in achieving their sales objectives and budgeted revenues and earnings.
3. We assume that the new structure of RMG will be profitable and support the company to achieve its strategic and financial aims and objectives.
4. The late preparation, in terms of K-S valuation, and submission of the audited 2007 financials, and therefore delaying the valuation, and having to rely on advised estimates by the auditors.





## **9. The Knowledge and Innovation Asset Valuation Explanation**

1. The knowledge and innovation asset valuation is a total aggregate valuation of the cumulative sum of knowledge and innovation assets of RMG, as defined in the K-S valuation report.
2. The valuation calculations and formula used to arrive at the valuation conclusion and figures is the Baruch Lev formula and method, within the strategic workings and model of the K-S Real Value© methodology.
3. A total aggregate valuation methodology is applied rather than the valuation of specific and individual knowledge assets.
4. RMG is based on the cumulative sum of a diverse range of intangible assets, which form the knowledge composition and structure of the RMG Group as a whole.
5. The RMG knowledge formula, trade secret and knowledge formula prerequisites and essential elements, are the foundation of RMG value creation.

## **10. Critical Factors Impacting the RMG Knowledge Asset Valuation**

1. A legitimate RMG pre-tax distribution of profits has reduced the net earnings of RMG.
2. The Baruch Lev formula applied in the knowledge capital valuation matches assets to earnings.
3. Financial and physical assets are fully captured in the audited RMG financial statements.
4. The RMG rates of return on physical and financial assets have been charged against net earnings.
5. The RMG knowledge asset value and rate of return is calculated on the remainder of net earnings.
6. Generally accepted accounting principles demands that valuations be prudent.
7. There is a compelling argument that this valuation of the knowledge assets of RMG is not just prudent, but overly so.
8. K-S was engaged to provide the valuation on the basis of the financial statements and executive budgets supplied by RMG and the auditors, and acted strictly in accord with ethical international valuation standards required by such valuation.
9. K-S has absolutely no hesitation whatsoever in warranting that a fair, professional and independent valuation of the knowledge capital of RMG would deliver a value that is at least equal to and probably well in excess of the valuation performed by Knowledge-Solutions CC.





**10.1 Comparison Calculations of Rates of Return on Assets**

	USA Rate of Return on Assets	RSA Equivalent as Per PPI Ratios
<b>Class of assets</b>		
<b>Financial Assets</b>	4.5%	8.45%
<b>Physical Assets</b>	7%	13.15%
<b>Knowledge Assets</b>	10.5%	19.72%

Source: The Baruch Lev Formula and USA versus RSA Producer Price Index (PPI)

**11. The Knowledge and Innovation Asset Valuation Conclusion:**

The knowledge and innovation asset valuation of RMG: The current RMG Real Value© as per K-S calculations and the applied formula of Baruch Lev is R39, 676, 770

VALUATION CONCLUSION: REAL VALUE© IS THE CURRENT KNOWLEDGE AND INNOVATION ASSET VALUE

FUTURE/CURRENT VALUE LESS HISTORIC/CURRENT VALUE = KNOWLEDGE & INNOVATION ASSET VALUE

FUTURE/CURRENT VALUE - 58,450,016 LESS HISTORIC/CURRENT VALUE - 18,773,246 = 39,676,770

**CURRENT RMG REAL VALUE© = R39, 676,770 (ROUNDED TO R40 000 000)**

PERFORMED IN PARTICIPATION AND COOPERATION WITH RMG (PTY) LTD AND VAN WYK COMPTON Inc.

HISTORIC/CURRENT VALUE CAPTURED = R18, 773,246

FUTURE/CURRENT VALUE CAPTURED = R58, 450,016

**CURRENT REAL VALUE© CAPTURED = R39, 676,770**

VALUATION IS BASED ON THE AVERAGE OF HISTORICAL EARNINGS AND FUTURE EARNINGS PROJECTIONS AS PER ACTUAL RMG AUDITED FINANCIAL STATEMENTS AND CURRENT RMG EXECUTIVE GROUP BUDGETS (07-08)

INCLUDING RMG MANAGEMENT ACCOUNTS

**12. Knowledge and Innovation Asset Investment Summary**

The Real Value© methodology suggests that to ensure the future earnings of RMG as per the historical and current RMG budgets and projections, would mean RMG retain its current knowledge capital base, and invest further in its intellectual and human capital to attract and nurture the innovation and leadership skills necessary to leverage the future value of RMG.

That the lion's share of earnings are generated by knowledge and innovation assets, and that the future earnings and successful performance of RMG will be as a direct result of the quality and competence of its knowledge leadership, and that the continuous transfer of skills, and attraction of high level leadership ability, will ensure the desired returns on assets, including financial, physical and knowledge asset investments.







**12.1 Future focus on the critical Knowledge and Innovation Assets that constitute the Real Value© of R39, 676,770 of RMG:**

1. The RMG knowledge formula trade secret and it's Implications for ongoing and sustainable profitable trading,
2. High Level client relationship management of the contractual rights and relationships with IP/brand partners and internal and external stakeholders,
3. Creating and commercializing proprietary and empowerment media brands to capture the spectrum of the market through innovative media offerings,
4. IP/Brand advertising sales and opening new channels for marketing the brands, e.g. Website Internet marketing,
5. Extending and establishing the media production and design business as a lucrative profit center within RMG,
6. Attracting, developing and nurturing high level leadership, management and human capital competence, together with the high level transfer of skills and knowledge, is critical to realizing the future value of the company,
7. Develop the RMG organizational infrastructure to achieve a more integrated and seamless workflow process and enterprise,
8. Manage key account customer relationships for longer term commitments to the RMG advertising brands and channels, and the associated sustainable benefits to the client and company,
9. To develop and incorporate a robust knowledge and innovation strategy for managing the Real Value© of the company in collaboration with the internal and external shareholders and stakeholders of RMG, and
10. Invest in tangible property assets, i.e. land and buildings that are reflective of the innovative RMG culture and brand, and that can deliver optimum return on investment, and ideally contain, nurture and deliver the high value knowledge assets of RMG to the market.



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