

CURRENT METHOD OBSOLETE, MISLEADING

"The single-minded focus on hard assets in accounting is becoming obsolete at a time when many companies contract their entire production to outside companies. There is no Dell computer plant, Nike shoe factory, Smirnoff distillery or Snapple bottling plant, for instance. Dell has almost \$50 in sales for every dollar of physical asset, compared to \$3.50 for the vertically integrated IBM. Snapple, the American beverage maker, has \$100 in sales for every dollar of fixed asset. The Dells & Snapples of the business world have replaced physical assets with relationship assets," writes Johnsson.

COULD FINALLY GAIN ACCEPTANCE FOR PR AS A VITAL FORCE

Major global companies were studied, like Ericsson & Electrolux. Advisors included reps from GE, Xerox, Fortune mag, Ernst & Young, Coopers & Lybrand, Yankelovich Partners, Pitney Bowes -- important influencers.

The issue has been emerging for some time. It's actively debated in Europe. The Conference Board published a report in '95 on "New Corporate Performance Measures". Media have begun writing about it, including this from Forbes last April:

"Information age accountants are faced with a difficult challenge: live with the old systems & distort the truth, or develop a new system fraught with the dangers of measuring intangibles."

PUTS FUNCTION INTO WHOLE NEW PERSPECTIVE

Johnsson told prr he & his colleagues are now "trying to encourage corporate communicators in Sweden, US & other countries to see this as an opportunity to reposition pr in an entirely new situation. As we see it, this puts the function into another perspective -- building shareholder value.

"Rather than being a cost item, we are now, we feel, contributing to the core assets of the company." Of course, the same holds for any org'n.

"Even for a company like GE, a heavy industrial manufacturer, about 4/5ths of its value is not accounted for -- values like knowledge, intellectual property, the position of the GE brand, relationships with its customers. All these are traditionally in the public relations arena.

"So we have an entirely new situation. If communicators can grasp it & see their work in this new light, it's going to mean a dramatic change for the profession -- including investor relations, human resources, community relations, public affairs & marketing com'ns."

¶ For PRSA, CPRS, IABC, IPRA, The Page Society, The Institute & all other professional groups, the challenge has been issued. Bravo SPRA!

BLOCKBUSTER SWEDISH PROJECT: GETTING RELATIONSHIPS & OTHER NON-FINANCIAL INDICATORS INCLUDED IN ACCOUNTING

How can accounting be changed to also recognize the non-material value of organizations (awareness, communication, relationships, reputation, loyalty, brand value etc) -- what US analysts call non-financial indicators (pr 4/15/96 & 6/26/95)? To deepen this discussion & contribute to "know-how development," Swedish Public Relations Ass'n (SPRA) invited 11 major companies to participate in its project "Return On Communications."

"Economic realities have changed, but so far we use the same 'map,' the same accounting system, to describe it," explains SPRA's must-read report on the project. Problem is further explicated by the CEO of The Stockholm Stock Exchange in report's preface:

RATIONALE

"Increasingly, the stock market bases its valuation of listed companies on expectations of future profits, often in a 5 to 10 years perspective. Traditional accounting is based on past performance. It is, consequently, often criticized & seen as providing a poor platform for prognoses. This applies especially since companies increasingly invest in product & systems development, in brand building & in similar 'soft investments' which are traditionally not included as assets on the balance sheet, but charged against current results."

A "natural solution," he suggests, "would be to complement the financial reports with additional information to support the forecasting the stock market needs. It is important that a discussion is initiated on what should be included in such additional information, what can be published considering the competition, & how the information should be made relevant & valid."

FINDINGS OF SPRA'S PROJECT

- A new way to concretize & describe the the non-material assets of an org'n.

The assets, all largely influenced by pr, are identified in 5 segments:

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| 1) market, customers, suppliers; | 4) community; |
| 2) investors & financial categories; | 5) leadership, strategies, visions. |
| 3) employees; | |

In each segment, assets can be built up such as awareness, confidence, preference, relationships & loyalties among designated groups of people, which influence a company's success, progress & profits. The 5 segments can be seen as "main accounts" in a potential new "balance sheet." This perspective defines company relationships as "potential assets with the power to materially influence profits" (or surplus in a non-profit).



- **Illustrations of how communication (read pr in the broad sense) contributes to the creation & development of these assets.** Positive case studies from each of the 5 segments were found & included in the report.
- **4 practical tools to use in applying the process:**
 - 1) A *structure*: utilizing a classical communications model, with leadership, visions, strategies & goals at the center &, around the center, the four key audiences -- investors, markets, employees & community.
 - 2) A *check list* which can be used in a benchmarking process or in other analyses of company strengths & weaknesses.
 - 3) A *range* of selected Performance Measurements, expressing the assets in measurable terms.
 - 4) "*Value Links*" -- a goal-oriented, step-by-step process, where the Performance Measurements are linked in a way that features the connection between non-material assets & company profit factors. The steps are, within each of the 5 segments:
 - a) Reach potential partners & create awareness of the org'n among them;
 - b) Get the right people to take a step into a relationship;
 - c) Keep & motivate these people;
 - d) Develop the relationships into a positive contribution to goals & results.

This puts the theory into at least a tentative workable form. Any org'n, profit or nonprofit, can start using the method. **The importance of pr's deliverables & value adding activities will immediately become clear.**

10 SPECIFIC APPLICATIONS THAT AID ORG'NS, FOSTER SOUND PR

1. **A board & mgmt tool** -- a balanced score card or "top sheet." Provides a more complete set of guidelines, including future-oriented variables.
2. **An instrument for competitor analyses** & other comparisons between relevant companies ("benchmarking").
3. **To facilitate comparison between divisions** within an organization.
4. **To improve info to investors.**
5. **A supporting instrument for IPOs** or stock exchange introductions.
6. **An analytical tool in mergers & acquisitions.** a) It establishes a more complete view. b) During negotiations, it suggests relevant questions & helps check true value. c) After the M&A, it helps assure proper attention is given to maintaining & developing these non-material assets -- people, mgmt, market position, loyalties etc -- that are included in the price paid.

7. **To create internal support for changes** in strategies & operations.
8. **To facilitate professional auditing of the new values** -- when auditors & controllers want to expand their role beyond traditional accounting.
9. **A guideline to relate pr activities to strategic & financial goals.** A planning process of this kind creates a basis for common goals, understood & shared by top mgmt.
10. **A means to balance & prioritize communication resources.**

WHY ACCOUNT FOR NON-MATERIAL ASSETS? PR'S HUGE OPPORTUNITY

1. **Gives more accurate & complete info for investors.** "This is particularly important at a time when so many new entrepreneurs are seeking financing not for traditional hardware manufacturing, but to develop & commercialize 'brainware'" writes Hans Johnsson, svp, Kreab (Swedish strategic com'ns firm), in *Total Accounting -- A Road to Total Accountability*. Johnsson is also the author of SPRA's report.
2. **Makes firms more internationally comparable.** British, Australian & French are experimenting with adding brand names, pub'n rights to book manuscripts, and radio & tv licenses to their balance sheets. British marketing & financial experts have been heatedly debating formal procedures to place a cash value on brand equity.
3. **Provides more accurate risk ratios** (debt-to-equity) & performance ratios (return-on-investment), thus making companies less vulnerable to corporate raiders. Also improves credit rating & borrowing capacity.
4. **Encourages mgmt discussion**, cross-functional collaboration among mgrs, & helps build a higher level of mutual understanding of each area's contribution to the whole.
5. **To create comparability** between traditional investments in physical assets & investments in such things as training, r&d, info systems, customer databases, building reputation & awareness. These fit the definition of investments -- expenses made to achieve benefits in the future. But **current accounting rules penalize, rather than encourage, such investments** by treating them as costs.

(Info or copies of both *Total Accounting* & *Return on Communication* from Johnsson at KREAB, Old Greenwich Gables, 51 Forest Ave, #63, Old Greenwich, Ct. 06870; 203/698-2270. Copy of *Return On Communications* from SPRA, P.O. Box 12 230, S-102 26 Stockholm, Sweden; phone, +46 8 653 10 00; fax, +46 8 651 10 88; e-mail, info@sverigesinformationsforening.se.)

ONE FALLOUT: PR MUST NOW DEVELOP EVALUATION METHODS

The time for asking "if" such measurement is necessary is over. This emerging system of accounting means either that practitioners prepare acceptable methods -- or the auditors will do it for them. (See pr 1/27/97 & 10/2/95)