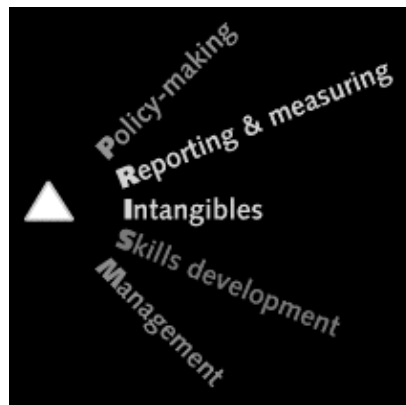


# THE SHIFTING CORPORATE ASSET BASE

**Clark Eustace and Richard Youngman**

[Clark.eustace@lineone.net](mailto:Clark.eustace@lineone.net)  
[Richard@perleconsulting.fsnet.co.uk](mailto:Richard@perleconsulting.fsnet.co.uk)



This project is part of a wider initiative named PRISM. PRISM is a multi-disciplinary European initiative aimed at gaining a deeper understanding of the issues surrounding the management and measurement of intangibles in the modern economy. The PRISM group believes that intangible investments are *the* drivers of both competitive advantage and economic value creation, and that they are inadequately evaluated by current measurement and management tools which were devised for an economic context that no longer exists.

PRISM is funded by the European Commission's IST programme. Its findings will be published in the course of 2003, and a special conference will be held in London in July 2003. For more information, visit [www.euintangibles.net](http://www.euintangibles.net).

In all fields of empirical investigation a working model is useful as an aid to understanding and to provide a common reference point, taxonomy and language. Any such model is especially useful if it takes us beyond a mere classification of past events and into the realms of prediction and speculative reasoning. This paper describes a *provisional* schema of the asset base of a modern organisation that attempts to integrate the perspectives of the various interest groups, adapting pre-existing models.<sup>1</sup>

Our starting point is that successful players in competitive markets must have access to a corpus of unique, or at least difficult-to-replicate, capabilities and competences. It is these that form the mainspring of competitive advantage. They are systematically exploited, first internally (via monopoly rent and scale effects) and then externally through licensing arrangements (scope effects), until eventually they end up as a pool of commodity assets - open to easy replication by competitors and new low-cost entrants.

Underpinning the diagnostic are a number of hypotheses that contribute to our understanding of the new theory of the firm:

1. *We are in economies of surplus (characterised by mature markets for goods and services but also the non-exhaustion/ non-rivalry characteristics of intangibles).*
2. *Concurrently, the business services sector is maturing (commoditising) rapidly and we are seeing a marked shift from selling time to selling assets (institutionalised & codified know-how).*
3. *As markets have become increasingly mature (commoditised), so firms are having to compete harder for (monopoly) profits or comparative advantage.*
4. *This has forced firms to intensify their relentless search for new factors of differentiation and market leverage. As a result, they are increasingly competing using non-price factors of competition.*
5. *They are therefore trying to create, maintain or invade monopolies founded on intangibles.*
6. *Intangibles typically have low barriers to entry – hence the growing critical importance of IPR to provide an exclusive window of market opportunity (monopoly rent).*

---

<sup>1</sup> Vollmann (1996) and Eustace (2000).



Competences, on the other hand, are more-or-less codified (but still proprietary) capabilities. They often rely heavily on the organisation's ICT infrastructure and, as such, can be migrated rapidly around the world via digitally-enabled networks. Following Vollmann, we divide these into distinctive, core and routine competences, which he defines as follows:

- *Distinctive competences:* *Key factors of differentiation that are difficult or costly to replicate*
- *Core competences:* *Competitive necessities – what you must have to compete*
- *Routine competences:* *Routine activities you must do, or outsource, in order to stay in the game.*

In the two right-hand segments we group those assets over which ownership rights can be more or less appropriated and values assigned by reference to open market transactions or the NPV of future cash flows. For the purpose of the schema, the asset class 'intangible goods' covers both originals and legally-protected exploitation rights, such as annuity contracts, trademarks, licenses, franchises and other exploitation rights – e.g. over scientific discoveries. These can be bought, sold, stocked, licensed and otherwise traded in the same manner as physical goods, and in certain circumstances may also be used as security.

The category 'tangible assets' embraces both physical assets (such as land and buildings, plant, machinery and equipment) and financial assets (mainly cash, receivables and securities). These represent the main components of the financial reporting model in most countries today and provide the essential material basis for allocating capital and credit, and collateral for a range of conventional debt security instruments.

Note that the essential market dynamics are reflected in the schema. The direction of flow is always from left to right - towards commoditisation, disclosure and diffusion, viz:

