



# Intellectual Capital for Communities in the Knowledge Economy

## Nations, Regions, Cities and Emerging Communities



WORLD BANK INSTITUTE  
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World Conference on Intellectual Capital for Communities  
- Fourth Edition -



# **Management Dark Matter: Measuring the Value Added by Management**

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# The Need for Transparency in Management Valuation

- **Firms operating in an emerging, increasingly complex, and open business environment increasingly rely on management activities that attempt to manage risks and produce accurate predictions.**
- **Critical for investors who are seeking to:**
  - **Make informed decisions about future cash flows.**
  - **Understand rationale for corporate executive compensation packages.**
- **Important for businesses worldwide, especially in:**
  - **Capital starved markets**
  - **Developing countries**

# Challenges in Valuing Management

- **The impact of management activities on market outcomes is difficult to measure in objective terms.**
- **Valuation has largely been relegated to anecdotal descriptions of success and failures.**
- **Subjective approaches and approaches based on corporate residuals do not provide the precision and transparency necessary to determine how much value is added by individual managers.**

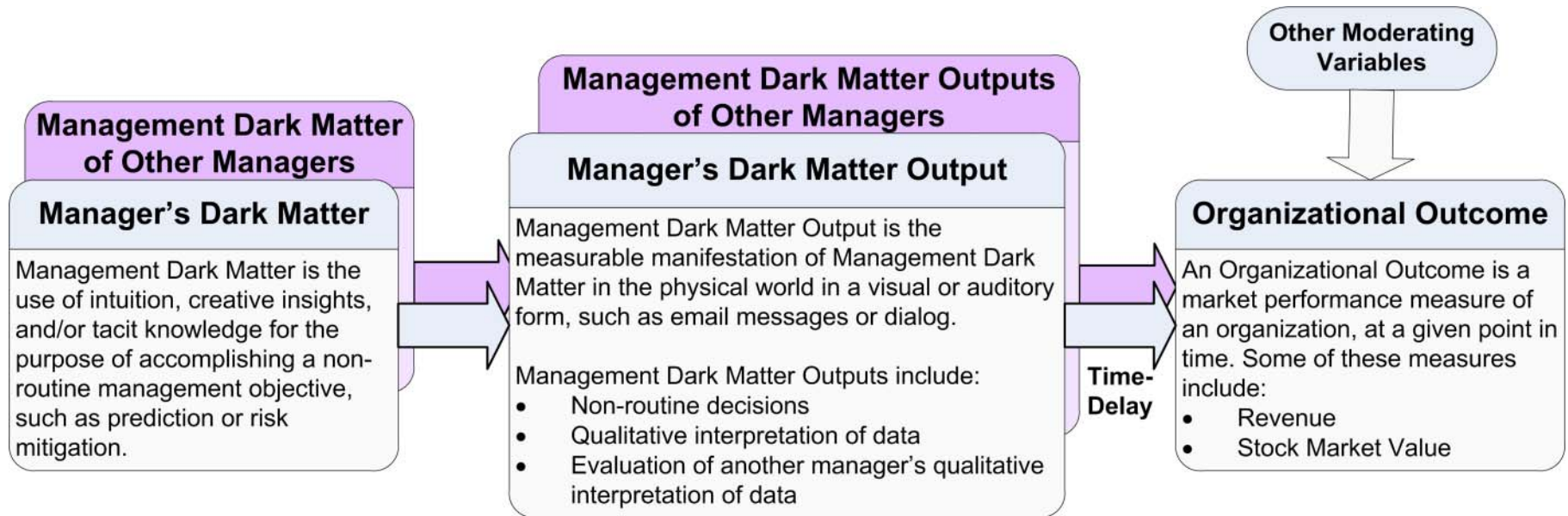
# Previous Approaches to Valuing Management

Valuation Approach	Focus	Limitations
<b>Corporate Governance</b>	Demonstrates relationship between corporate governance and firm value.	<ul style="list-style-type: none"> <li>Does not provide a means to quantify the precise value of management.</li> <li>Does not allow for direct valuation of individual managers.</li> </ul>
<b>Management Characteristics</b>	Provides techniques and characteristics to improve the effectiveness of management.	<ul style="list-style-type: none"> <li>Does not provide a method to objectively measure the value such techniques and characteristics can add in specific instances with specific managers.</li> </ul>
<b>Fund Management</b>	Asses the value of management using an “alpha” measure.	<ul style="list-style-type: none"> <li>Does not provide a means to quantify the value added by individual managers.</li> <li>A negative alpha may lead to a false interpretation of the value added by management.</li> <li>Alpha is dependent on the accuracy of beta.</li> </ul>
<b>Knowledge-Based</b>	Attempts to quantify the contributions of management in aggregate, using a knowledge-based framework.	<ul style="list-style-type: none"> <li>Does not provide a means to quantify the value added by individual managers.</li> <li>Does not address the value added by creative managing activities.</li> </ul>

# Management Value Added (MVA): An Objective Approach

- Objectively values individual managers' contributions to organizational outcomes.
- Values the complexity of managers' contributions in common units, such as Learning Time, per Knowledge Value Added theory.
- Avoids semantic interpretations.

# Operationalizing MVA



## Management Value Added Flow Model

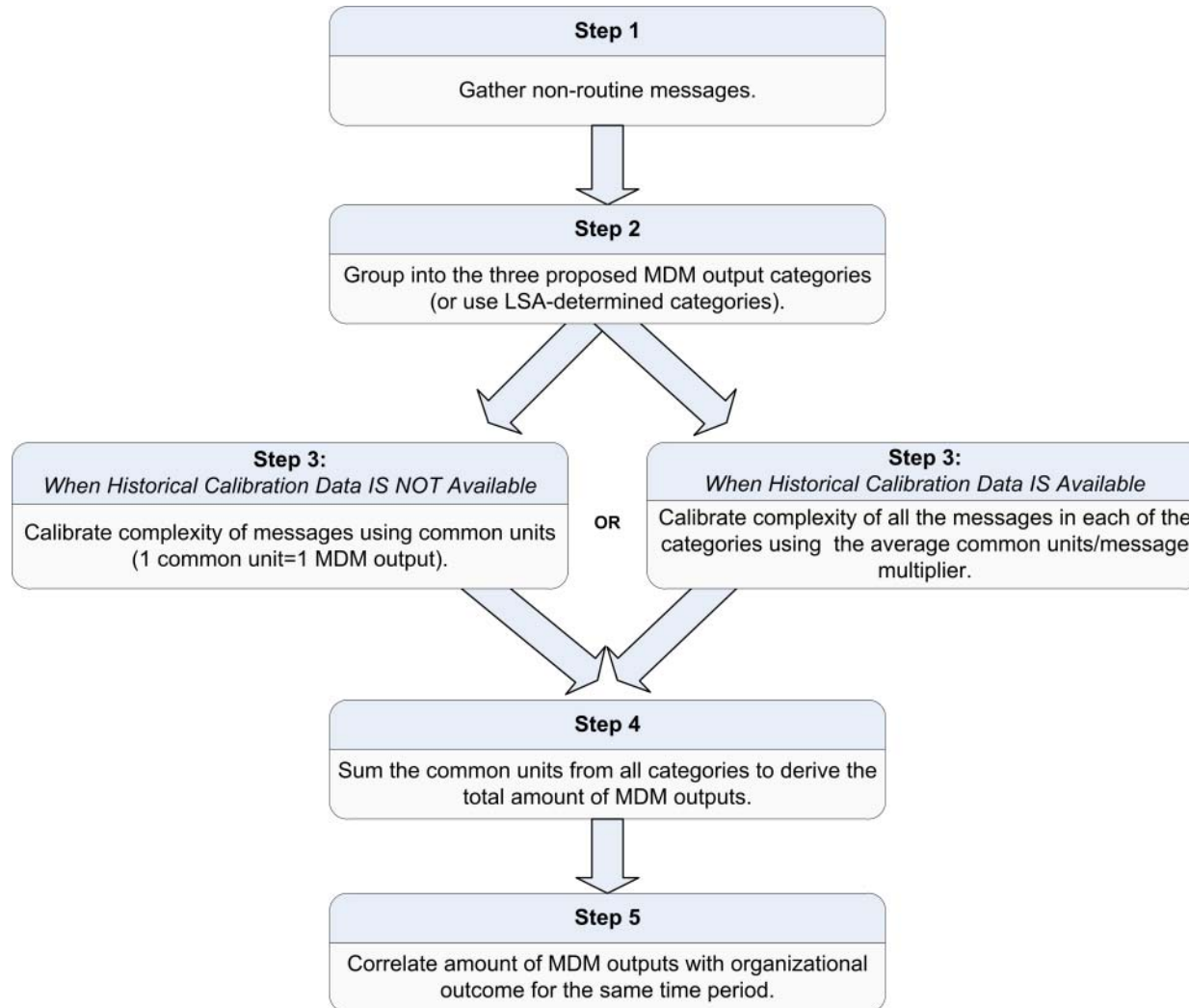
# Operationalizing MVA: MDM Outputs and Their Relationship to Management Objectives

## Management Dark Matter Outputs

		Qualitative Interpretation of Data	Evaluation of Interpretation	Non-Routine Decision
Management Objectives	Prediction	<i>Individual:</i> A manager makes a qualitative interpretation of data, and makes a prediction based on the interpretation.	<i>Individual:</i> A manager makes an evaluation of another manager's qualitative interpretation of data, and makes a prediction based on his evaluation.	<i>Individual:</i> A manager makes a decision based on a prediction that he has made.  <i>Team:</i> The team of managers agrees or disagrees with the validity of a particular prediction and makes a collective decision.
	Risk Management	<i>Individual:</i> A manager makes a qualitative interpretation of data, in an attempt to manage risk by reducing uncertainty.	<i>Individual:</i> A manager makes an evaluation of another manager's qualitative interpretation of data, in an attempt to manage risk by reducing uncertainty.	<i>Individual:</i> A manager makes a decision in an attempt to manage risk.  <i>Team:</i> The team of managers comes to a consensus, and makes a decision, in an attempt to manage risk.



# MVA Steps: Anecdotal Case Study



# Research Questions

- **Does a categorization of MDM outputs provide a mechanism for better understanding variation in MDM's contribution to organizational outcomes?**
- **Does mapping the proposed categories of MDM outputs to organizational goals provide a mechanism for better evaluating MDM's contribution to organizational outcomes?**

# Future Research

- **Establish a practical method for measuring MDM outputs by systematically coding the messages that managers create, modify, and use.**
- ***The Delta Problem:* Provide empirical data to test the strength of the correlation between MDM outputs and organizational outcomes.**