Sharpening the Intangibles Edge

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Today, intangible assets generate most of a company's growth and shareholder value. Yet extensive research indicates that investors systematically misprice the shares of intangibles-intensive enterprises. While, overpricing wastes capital, under-pricing raises the cost of capital. So, companies must generate better information about investments in intangibles, and disclose at least some of that data to the capital markets.

Getting at that information is easier said than done, however. There are no markets generating visible prices for intellectual capital, brands, or human capital to assist investors in correctly valuing intangibles-intensive companies. And current accounting practices lump funds spent on intangibles with general expenses, so that investors and executives don't even know how much is being invested in them, let alone what a return on those investments might be.

At the very least, companies should separate the amounts spent on intangibles and disclose them to the markets. Executives should also start thinking of intangibles not as costs but as assets, so that they are recognized as investments whose returns are identified and monitored.