

IC: Ready to Cross the Chasm?

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Authors' Note

The work we did on this paper an exercise in listening to our customers. And we learned some good lessons. While IC Rating™ has been very successful and has created significant value for our clients, most struggle to link the performance of their intellectual capital and the financial results of their businesses.

Yet our network has deep experience that can help companies make that link between IC and financial results. This has led us to make changes to the way we use IC Rating™ in our consulting engagements—focusing on solutions and results instead of just reporting the ratings. This shift will be important for use of IC assessment in the coming years, and ensure that it moves into the mainstream of business practice.

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Abstract

Awareness of the concepts of intellectual capital (IC) measurement and management continues to grow world wide. Many organizations have become early adopters of the “technology” of IC. Yet, after more than ten years of development, the field is still not widely known or understood in the mainstream business community.

In his bestselling book, *Crossing the Chasm*, Geoffrey Moore explains a fundamental challenge for marketers of new technologies: the chasm between early adopters and mainstream buyers. Early adopters are willing to take risks and make fundamental breakthroughs. Mainstream buyers, in contrast, seek incremental, measurable improvement and a complete product.

This paper tells the stories of nine companies from around the world that have used the IC Rating™ intellectual capital assessment (ICR) as part of their management strategies. The stories were developed based on interviews of the key manager who championed the assessment. The goal was to understand why they engaged in an assessment as well as the nature of the findings, what kind of changes the findings inspired and the results from the process (both financial and non-financial).

The companies where these managers work are spread across Europe, Asia and the Americas. They include small, private companies; strong, middle market organizations and divisions of the largest multinationals in the world. Different industries are also represented: non-profits, manufacturers, technology and service companies. Despite this diversity, many of the same themes were repeated in the interviews of each manager.

It was also clear from these stories that the nine managers interviewed all exhibit the characteristics of “early adopters,” as defined by Moore. They each had a strong vision, were willing to fight to sell this “technology” internally. Most felt that the process of evaluating their IC had been extremely positive, even transformational. However, they still have difficulty identifying a clear link between IC and financial results.

This still imperfect link between IC technology and financial results shines light on the chasm between today’s early adopters and tomorrow’s mainstream buyers. Financial results are a key interest of the mainstream buyer. In order to “cross the chasm” and move into the mainstream, the field of IC will need to do a better job of identifying and documenting the link between intellectual capital and financial measurements.

IC: Ready to Cross the Chasm?

1. Early adopters

Early Adopters: Visionaries are that rare breed of people who have the insight to match an emerging technology to a strategic opportunity, the temperament to translate that insight into a high-visibility, high-risk project, and the charisma to get the rest of their organization to buy into that project...they are not looking for an improvement, they are looking for a fundamental breakthrough (Moore, 1999)

In his best-selling book on high tech marketing, *Crossing the Chasm*, Geoffrey Moore laid out the challenges of launching and building businesses based on new technologies. He explains the critical importance of early adopters to the success of a product. But he also cautions that early gains do not guarantee success in the long term. The next stage of buyers after the early adopters has different viewpoints and different needs. These buyers are more pragmatic. Shifting from the visionary early adopter to the pragmatic mainstream is challenging. Many technologies get caught in a “chasm” between the two which can doom their product. Mr. Moore’s ideas hold valuable lessons for those interested in intellectual capital.

Intellectual capital (IC) can be understood as a technology, a new way of solving the challenges of strategy and management in the knowledge economy. This new technology emerged over a decade ago but it is still relatively unknown; there is still no broad understanding in the business community of even the basic definition of intellectual capital as consisting of human, relationship and structural capital. Much of the work in the field continues to be performed by academics and publically-sponsored programs.

One exception to this rule has been the community formed by Intellectual Capital Sweden AB (ICAB). ICAB developed the IC Rating™ (ICR) assessment methodology over ten years ago based on early work in the field. The methodology has been used widely in Northern Europe and Asia, and has been licensed to firms around the world. Altogether, this network has performed over 430 projects using ICR. The methodology involves interviews with twelve internal and twenty-five external stakeholders of an organization. Questions focus on current performance, outlook for renewal/innovation and risk of each category of intellectual capital. The output includes both a letter grade and stakeholder comments. More detail on the methodology can be found in Appendix A.

The companies that have participated in this process are quite diverse. They range from early stage to multinational corporations. They include for-profit and not-for-profit enterprises. Many operate in high tech and service industries, but quite a few operate in basic manufacturing. One of the threads uniting the companies, however, appears to be that the managers choosing to advocate for this process exhibit many of the characteristics of early adopters.

This paper endeavors to draw lessons from these early adopters and asks the question whether the technology of IC is ready to move into the mainstream.

2. The stories of early adopters

The data for this paper was generated through interviews with nine managers, each of whom served as the point person on a past intellectual capital assessment using the ICR technology. The interviews were conducted by members of the ICR community in Europe, Asia and the Americas.

The interviews included five specific questions that elicited responses on a Likert scale from 1-8 and seventeen open questions designed to draw out the story of why the company undertook the assessment and what they learned from the process. The responses were transcribed and, where necessary, translated into English. As much as possible, the managers' own words are used in summarizing their experience.

The focus of the objective questions and average response was as follows:

Question	Scale	Ave. Response
Impact on internals	1-Extremely negative 8-Extremely positive	5.6
Impact on externals	1-Extremely negative 8-Extremely positive	6.5
Impact on business performance	1-Extremely negative 8-Extremely positive	6.2
Manager's recommendation of ICR	1-Strongly discourage 8-Strongly recommend	7.4
Future importance of IC	1-No importance 8-Extremely important	7.1

These responses indicate an enthusiasm and confidence that clearly identifies these managers as early adopters. They feel that the process was less understood internally than it was externally. They are not always able to track the direct impact on business performance. But they have a strong belief in the process, based on their willingness to recommend it to others. What is behind these scores? The stories below shed light on this question.

Company: Mindtree

Country: India

Industry: Information technology

Year(s) assessment performed: 2005

"We had been focused on knowledge management (KM) for almost three years, and we had stated our KM mission aligned with building intellectual capital, and had started talking about how we can try to measure intangibles.

The ICR process "brought the attention of not only the management team, but also other employees towards the importance of intellectual capital. There were many questions, and discussions around it. It helped bring in thinking about an often neglected area. Many people who were involved in the ICR process itself thought the questions being asked were excellent and were thrilled. Customers also gave positive feedback on the process."

"There were many learnings. A key area that emerged loudly was that we had to focus more on brand building and network creation beyond the senior-most management team. We invested more time and energy on brand building through knowledge dissemination and open external thought leadership, publishing more, speaking more, etc. which was a good way to build brand for a knowledge organization. We strengthened our networking aspects through media, recruitment relationships and partners."

IC is now part of the strategy of the company. “The plans for building human capital (e.g. competencies), structural capital (e.g. intellectual property) and relational capital are presented and discussed as part of the annual plan process. We probably need to do more in terms of valuation/monetization of IC – we have not been convinced of a systematic way of doing this to date, though we have done this at different levels (e.g. measuring project level profitability due to IC health on the project team).”

The organization was recognized as one of the “Most Admired Knowledge Companies” (MAKE), a global program that identifies leaders that transform corporate knowledge into enterprise intellectual capital and shareholder wealth or societal wealth. “Yes, we received our first MAKE Award the year after the ICR, and we were the only company other than Google to have gotten a MAKE after being in business for seven years. We have subsequently become the overall highest ranked winner in India and Top 10 ranked in Asia. We also won the NASSCOM Innovation Award [an award for Indian information technology companies] for our knowledge ecosystem which was seen as being innovative. Taking a serious strategic view of intellectual capital is part of the reason we have stood out.”

His advice to other companies? “They have to take a view of IC being built continuously, and an ecosystem must be created for that. They have to take a strategic view of intangibles, and use surveys as a way of gauging progress. We are in the knowledge economy – what gets done in IC management will define how robust our global economy is.”

Company: Norsk Tipping
Country: Norway
Industry: State owned lottery and betting company
Year(s) assessment performed: 2000, 2002, 2004, 2006

The manager at Norsk Tipping felt the roots of their IC effort go back to 1994 when Norway hosted the Winter Olympic Games. “Norway as a nation and Norsk Tipping as a company realized the great gains of reaching out internationally. Partly for marketing, but just as much to be able to take part in all the new ideas and fresh thinking out there.” The organization went on to host the global summit of the World Lottery Association in 1999. Preparation for the summit brought them in contact with leaders in the IC field. “We clearly understood then that IC was the true and real value of our company.”

At first, there was considerable resistance among the employees. The organization learned that “it is important to clarify at an early stage what this is really about, and that it is not a way to measure individual performance. We all learned a lot about how our environment looked upon us, and it opened for a dialogue with the staff on how we could improve on key factors.”

“We got some negative feedback from the first rating: we were considered risk averse, we were not good at learning or working horizontally, we needed to make much more cross-over connections in the organization, create cross-organizational teams. There was also the need to strengthen innovation. We realized that, at management level, we are all digital immigrants while our future consumers will all be digital natives. What does that imply for our business today and tomorrow? How do we make sure that we develop in order to meet their needs?”

“I had a very interesting discussion with my board. I wanted to go public with the first ICR to make the picture complete, side by side with the financial information in the Annual Report, But the board was hesitant, they were afraid that we would be disclosing too much. We ended up publishing it, and kept doing so over the seven-year period we used the ICR.”

“As we moved forward, we achieved a common language in dealing with these issues. Suddenly, things that used to be vague, undefined and a bit diffuse all became clear to us and we could start addressing them together. At Norsk Tipping we introduced Balanced Scorecard where the rating results were included. We definitely had them as part of our three-year strategy plan.”

“This was the first time we were looking forward instead of backwards, - what were our renewal efforts? How was our capability to manage change? What were the risks in front of us, and so on.

Previously we had managed the entire business on historic data, which can only tell you so much. The ICR analysis proved to be crucial for us in making priorities in the years to come.”

”What were the results? Between the year 2003- 2006 we were listed on the top-ten list of Most Admired Knowledge Enterprise (MAKE) award. We were rated number one in 2007. Our employee satisfaction increased significantly as did our sick-leave (among the lowest in Norway). We strengthened our culture and clarified our core values. Since we got more focus on the efficiency and renewal capabilities of the organization, all this resulted in better financial results.”

His advice to other companies: ”Go for it! Bring in staff representatives at an early stage, to be able to de-mystify the process. Be honest when you select the persons to be interviewed and make sure that you have a reflection of all stakeholders. The really great companies are getting more focused on non-financial results. Ethical codes, marketing principles and corporate social responsibility are all requiring companies to see the wider aspects of their business in a sustainable way. ICRs will help to better navigate in the future waters.”

Company: Goodyear Dunlop Tire Company

Country: EEMEA, headquartered in Belgium

Industry: Tire and rubber

Year(s) assessment performed: 2003, 2004, 2005, 2007, 2008

”When the concept of IC assessment was first was introduced to me, I saw the value immediately. When you work in the emerging markets, you have less data on how your company is perceived and how you perform. . Also the conditions are changing rapidly, you need to have a good external assessment...I wanted to objectively assess the direction of the different business units in a structured way. I also especially appreciated the in-depth interview approach, where you can reach levels of the organization that management cannot.”

The process was extremely helpful to management. Employees were a little slower to jump on board, ”People didn’t really understand at first, but they soon saw the value locally as well...They saw it as a help for organizational development, and definitely not as a threat. It all was a very positive experience.”

”We saw that we had poor internal communication, which surprised us. There were big gaps between management and employees, and that had to be addressed immediately. Also, there were high risks in the business recipe due to the dominant positions we enjoyed, which was very useful to discuss with the local organization.”

”There were a few major learnings: 1) you have to engage people from the outside to look into your companies. Don’t try to do this yourself, get help from professionals. 2) There is a huge need for evaluations for non-financial assets, we are too focused on financials in large organizations. You need this sublime assessment of who you are and where you are going. 3) To learn how we are perceived both internally and externally. Also, the risk assessment was excellent...Implementation varied a little between local companies, but on average it was a high impact.”

”Any company, regardless the size, has a need to do this kind of assessment. It was an eye-opener, that you could look at your company in a different way from the way you have been trained.”

Company: Name withheld

Country: Japan

Industry: Electronics

Year(s) assessment performed: Annually from 2003 – present

The first set of IC assessments in this large multinational manufacturer was performed at the business unit level as part of a Balanced Scorecard project initiated by headquarters. The organization continues to use the process annually, as ”a good tool for understanding our status from the external view and provides good opportunities to learn, especially what our customers think about us. We have

been conducting the rating every year and can capture the changes each year as well. We use the results to improve and correct our planning.”

“What struck me last year was that we are always confident about our quality assurance. We also thought our virtualization technologies were outstanding. Our internal KPI’s [key performance indicators] were also rising. However, in the rating results, the externals didn’t appreciate these things as much as we thought. They saw our level as more or less the same as the competitors. So we are trying to emphasize the benefit of the technologies in seminars now.”

“It is really difficult to connect the result to the tangible results. We are still working on the formula. I think there is a link somehow. But I have no idea how to monitor it. My advice is to use the result for the business PDCA (Plan-Do-Check-Action) cycle. IC assessment is very effective if it is combined with the PDCA cycle. Also the results are very useful for engineers who normally have very limited interaction with the customers/partners outside.”

Company: Name withheld
Country: Chile
Industry: Shipping
Year(s) assessment performed: 2006

“I first learned about intangibles during my university studies.” In the beginning, “the employees did not really see the value of the rating but it was able to sensitize the company to the considerable value of intangibles. We were able to begin a dialog about these issues that are so relevant—and we were able to give them a formal name, which was very positive.”

The initial reaction from externals was positive “because the process demonstrated that we are an organization that is concerned about its relationships with clients, suppliers and industry experts. I learned the importance of evaluating our organization from a 360-degree perspective, including externals. Another thing that helped and was enriching was to emphasize to the employees that the company is concerned about intangibles, that it is important to maintain them and develop them in order for the company to meet its goals.”

“We have been able to use the information for strategic alignment but we are not there yet at the level of applying it to improve our competitiveness. We have not measured the intangibles financially but we believe that they have a positive impact on our financial results. We are beginning to implement KPI’s that will measure our progress toward our goals.”

“Intangibles are very important right now and it is important to be clear that companies exist because their employees are willing to show up and be part of the collective goals.”

Organization: International Storytelling Center
Country: USA
Industry: Non-profit
Year(s) assessment performed: 2005

Going into the assessment process, “I remember the phrase that I used, ‘I’m stuck. And I don’t know where to go.’ I felt that we were having trouble moving from strategy to implementation. Money was a big part. Culture was also a very big challenge.”

“The rating was a process of learning. Even after we did the rating, it was only with time, as we began to use the recommendations that we understood the power of it. I’m still learning and still trying to get my arms around it. I learn by successfully applying the ideas and seeing how important the intangibles are in how successful you become. Identifying those areas that needed to be pursued to ‘unstick’ was what I got out of it—those intangibles that had to be addressed to enable to move the dream to results.”

“I think that most of the staff had trouble making the connections between the process and the knowledge that was gained—and their work at the time. I didn’t feel that way. That process was telling

us something. I'm still learning. I still held onto the attitude, 'What can we do here?' and I still keep the results from the rating by my desk."

The organization has implemented many of the recommendations that came out of the rating. These changes recently helped them reach a \$3 million fundraising goal. The manager offered, "I would recommend a rating to any organization if they are willing to apply the end results. And understand what it can mean to them."

Company: Bhoruka Power Corporation Limited

Country: India

Industry: Renewable energy

Year(s) assessment performed: 2008

"My management philosophy has always been to raise the bar within the organization with new information and tools. Being one of the few companies of our size that has obtained ISO 9001, ISO 14001, and ISO 18001, the next step was to capture this unique strength in a measurable and understandable module which could possibly give us some leverage when we go public or attract a private equity investor."

"Frankly, all of us went into this without any expectation or pressure. The buy-in at all levels is easier when not looked into as a performance indicator of individuals. Several discussions led to more clarity on who are our stakeholders." Would we "look like a strong, reliable and efficient organization? Irrespective of outcome this understanding has helped us to reposition ourselves to focus on the needs of these stakeholders and discuss deliverables."

"Since the rating was a collective performance indicator, it gave a sense of togetherness to do better. Further, for those who knew that their performance" was not at the level of the overall rating, it has given them reason to try "to rise above their mediocrity." We used the information to provide, "motivation through dissemination of the detailed results and self improvement on a continuing basis."

"As an organization, we feel more confident, yet trying to be not complacent since the rating is only an A and still along way to go before being at least AA+." The organization does not try to link intangibles with financial results, "It is a worthwhile exercise to undertake," but financial results are "not related so far."

Company: Name withheld

Country: Japan

Industry: Publishing and Retail

Year(s) assessment performed: 2007, 2008

When this manager first heard about IC assessment, "the concept was very shocking and enlightening to me. The root of the tree is the intangibles or IC and the outcomes, the fruit, is carried from the root. The roots are your future. It was almost an awakening for me. For many years, we had been struggling to grow our business and I was trying to strengthen the relationships with the customers somehow. The concept seemed to explain what I was trying to do."

"It was the first time that our business unit faced the voices of the customers...Live comments were really impressive and sort of shocking for many people, I think, in a good way. As we didn't much think about the comparison with our competitors in the past, the comparison result was quite interesting too. What was most impressive is what our customers really thought of us and their expectations are quite big. I never thought that there would be such sincere comments from outsiders. Of course that means that there were very negative comments as well from them, which we have to consider very seriously."

"We use such terms relational capital and human capital in our process model," an internally-generated tool that is similar to the Balanced Scorecard or Skandia Navigator. "IC is the base of our strategy/business planning. It will take more time to really permeate the concept among the organization, but at least we use it in our official planning process."

In terms of financial results, “I think there is a link but it is very difficult to directly link it. There are some KPIs that we found that indirectly influence the financial results. But still we are in the learning process. This is the biggest challenge: to find out the effective IC drivers to the business results. Once that is identified, the concept is really useful. Personally I am a big fan of ICR. The method is very useful. We are actually trying to market the concept to one of our customers in collaboration with our consulting firm.”

Company: Innovatika

Country: Poland

Industry: Consulting

Year(s) assessment performed: 2005

This company makes a business of tracking management trends and learned about IC through their work in knowledge management. The firm was just two-years old and growing rapidly when they undertook an assessment. Their goal was to understand their strengths and weaknesses to enable them to prioritize growth initiatives and develop the right positioning to fuel continued growth. Management was especially interested in taking the pulse of external stakeholders:

The staff of the firm went into the process with mixed feelings, “There was a bit of excitement and maybe fear connected with asking for feedback or appraisal—I guess you need courage to voluntarily ask for it and be ready to hear not just that you are the best, but also listen to the points where you need to improve.” But it ended up being a very positive process, including with external stakeholders, “We were very pleased to see how open and willing our partners and clients were to meet and give feedback on our strategy, service and people...we received very valuable advice and ideas for improvements.”

“Probably the biggest strategic change has been building a second pillar of our business line, which now accounts for half of our revenues and is still growing in importance.” Internally, the assessment made it very clear that the firm needed to develop more robust processes in order to scale the business, specifically for sales, knowledge and project management. “It is good to know if your business is dependent just on human capital...I guess IC helps you in defining where it is worth it to invest in building structural capital and where you can just focus on increasing the skills of your people.”

The key manager’s advice to other companies, “today’s companies are built of IC and you need a good system to measure their performance. Tools like ICR are excellent for 360-degree feedback for the organization, allowing it to grow and renew better than its competitors. But you need to have the courage to ask for feedback and be ready to act on it...and a set key indicators to track between ratings.”

3. Lessons from these early adopters

Despite the diversity of the companies involved, there are a number of themes and lessons that are woven throughout their stories:

- **One of the toughest sells in starting an IC assessment is internal.** It is advisable to invest time upfront introducing the concepts of IC and the goals of the process before it begins.
- **Engaging external stakeholders is a very valuable part of the process.** There is less resistance from them upfront. To make the most of the experience, keep them in the loop afterwards and show them how you have taken action on their feedback.
- **IC assessment needs to be integrated in the company’s strategy process.** An assessment should be part of an iterative strategy process that circulates from assessment to strategy, then execution, performance measurement, and back to assessment.

- **KPI's are an important way of measuring performance of IC.** Assessment highlights strengths that can be leveraged and weaknesses that should be improved. Establishing KPI's for the key strategic IC efforts keeps these goals top of mind and helps the company internalize its understanding of the importance of IC.
- **The link between IC and financial results is still hard to establish.** None of these early adopters has “cracked the code” to be able to identify the direct link between IC and financials.
- **IC is not going away.** The move to a knowledge economy continues to accelerate. Understanding the knowledge side of business will be increasingly critical.

4. Ready to cross the chasm?

As explained at the outset of this paper, the managers profiled here exhibit many characteristics of technology early adopters, with vision and courage to try something new. Which then begs the questions: “What comes next?” and “Is this technology ready to move beyond the early adopter?”

Moore's scheme of technology adoption describes the market stage after the early adopters as the “early majority.” These buyers are mainstream pragmatists:

“If the goal of visionaries is to make a quantum leap forward, the goal of pragmatists is to make a percentage improvement—incremental, measurable, predictable progress... Pragmatists tend to be ‘vertically’ oriented, meaning they communicate more with others like themselves within their own industry...They want a whole product”

Moore advises that the best way to attract these pragmatists is to focus on specific niches and develop data that can be referenced within an industry. The concept of the whole product is also important. He defines a whole product as “the minimum set of products and services needed to fulfill the compelling reason to buy for the target customer.” In the case of IC assessment, it was clear in the interviews of early adopters that a “whole product” needs to include a way of connecting the results to the strategy and performance measurement system of the company. There are already many approaches that accomplish this, including the Skandia navigator and the Balanced Scorecard.

The biggest challenge left in crossing the chasm is the need of the mainstream market for measurement and data. Many in the field of IC insist that data is beside the point, that the innate characteristics of knowledge intangibles make measurement irrelevant. Instead, the argument goes, businesses need to shift their thinking to allow for understanding and appreciation of intangibles without measurement.

While the pragmatists in mainstream business appreciate the difficulties of measuring intangible assets, it is safe to say that they are not ready to throw away a business culture that values measurable results. In fact, this lack of data is probably the principal reason that the field is today, in many ways, caught in the chasm between the early adopters and mainstream pragmatists. The intellectual capital community must address this challenge if it hopes to gain widespread adoption of its concepts and unleash the full power of IC in our economies and businesses.

References

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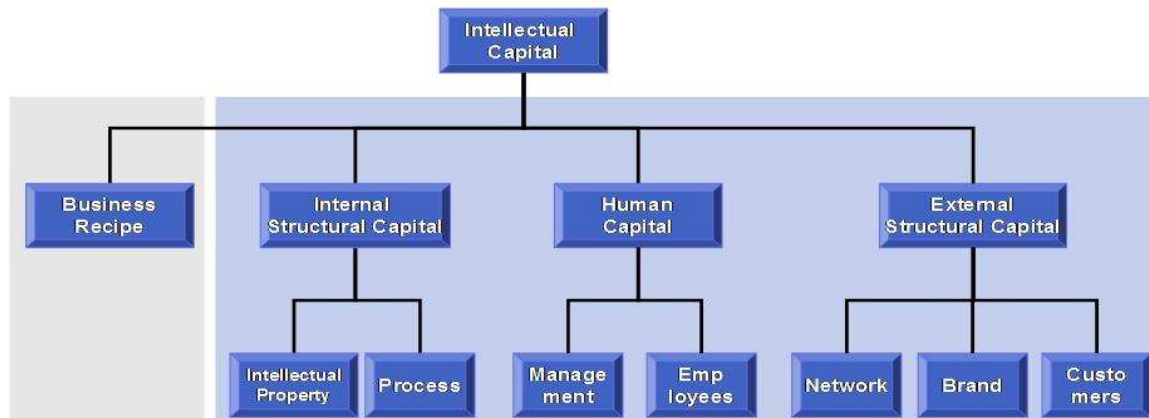
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Appendix A: The technology

The ICR technology used for rating all the companies in this study provides feedback on an organization's intellectual capital. The categories of IC examined are summarized in Figure 1.

Figure 1.



Inspired by: Leif Edvinsson, IC Value Scheme

The approach involves interviews of 35 stakeholders, one third of whom are internal to the company and two-thirds of whom are external. Internals include both management and employees. Externals also include both senior and operational staff. There are also guidelines to help get a good mixture of suppliers, customers, partners and industry leaders into the interview group that know the company well.

Interviews take roughly an hour each and include both numerical ratings and open follow-up questions. The questions reflect three perspectives on each category of intellectual capital:

- Current strength and/or performance
- Strength of efforts to sustain and renew
- Risks to future performance

The questions are asked in relationship to the strategic goals of the company, which are discussed at the outset of the interview. Strategy becomes the measuring stick for the IC. This means that questions about processes, for example, are asked in relationship to the company's strategy: "does the organization have the right marketing processes to enable it to achieve its strategic goals."

The output of the process is a report that includes letter grades similar to bond ratings (AAA, AA...B, etc.) as well as details behind the ratings and stakeholder comments. This process often represents the first time that the company has seen all of its intellectual capital examined or reported in one place. The use of a standard methodology has led many users to repeat the ratings over time and/or to compare the results across multiple divisions or companies.