

Intangible Capital

A preview of: ***Intangible Capital: Putting Knowledge to Work in the 21st Century Corporation***, a book in development with Praeger/Greenwood Publishing Group by Mary Adams and Michael Oleksak.

The New Factory

In the industrial era, value came from *ownership* of raw materials and machines to convert them into products → In the knowledge era, value is derived from *access* to intangibles.

1. Knowledge: The New Oil

Knowledge is a commodity that can be sold in its raw form (e.g. a book), as a service (e.g. consulting) or be embedded in a product (e.g. quality engineering). Knowledge fuels our economy.

2. Intangibles: The New Raw Materials

Within an organization, knowledge raw materials take the form of human, relationship and structural capital. Structural capital is the “holy grail” of the knowledge economy because it converts knowledge into scalable processes, systems and IP.

3. Intangible Capital: The New Factory

Each organization has a unique combination of intangibles—its knowledge factory—through which it creates value for its stakeholders.

The New Management

In the industrial era, management systems and tools were designed to ensure efficient mass production of products. → In the knowledge era, management is about leveraging and maximizing value for a customer or community.

4. Network: The New Org Chart

New ways of working—cross-functional teams, alliances with external partners, innovation and co-creation with customers—need to be mapped as a network.

5. Orchestration: The New Command and Control

Innovation and knowledge work cannot be dictated from the top down. Managers need to shift to a role of supporting and coordinating the work of empowered individuals.

6. Innovation: The New Strategy

Rather than *optimization* through deliberate strategy, most companies today need to pursue *innovation* through emergent strategy.

The New Accounting

In the industrial era, value could be measured through financial exchanges. → The value of knowledge is not captured in our accounting systems so alternatives need to be created.

7. I-Capex: The New Capital Expenditure

Today, investments in intangibles are expensed but not capitalized. In order to think strategically about these investments, a management report should be prepared to analyze cumulative intangible capital expenditures over time.

8. Assessment: The New Balance Sheet

Most knowledge assets cannot be owned or valued monetarily. The knowledge era balance sheet assesses and evaluates the capacity (assets) and risk (liabilities) of the organization. This helps measure the organization's ability to meet its strategic goals.

9. Performance Management: The New Income Statement

The performance of the knowledge factory cannot be measured in the same way as tangible production. For this reason, specific metrics serve as leading indicators of progress toward strategic success—and financial return.

10. Reputation: The New Bottom Line

Organizations do not own or even control many of their knowledge assets. Human capital walks out the door at night. Stakeholder relationships are rarely mandatory. Organizations must earn their connection with these critical assets. Future earnings are dependent on effective management of intangible capital which ensures continued strength of reputation.

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