

# The New Basics of Business

A preview of *Fueling Your Future: Putting Knowledge to Work in the 21<sup>st</sup> Century Corporation* in development with Praeger/Greenwood Publishing Group.

## 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 knowledge captured in processes, systems and IP.

### 3. Intellectual Capital: The New Production Line

The knowledge era production line is its intellectual capital—its own unique combination of human, relationship and structural capital that creates value for its stakeholders.

## 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.

### 4. 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 investments over time.

### 5. 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.

### 6. Performance Management: The New Income Statement

The performance of the intellectual capital “production line” 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.

## 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.

### 7. Innovation: The New Strategy

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

### 8. 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.

### 9. 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.

### 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 intellectual capital which ensures continued strength of reputation.

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