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THE NEW ORGANIZATIONAL WEALTH

Managing and Measuring Intangible Assets

PREFACE

Final draft Aug 6 1996

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This book is a milestone on a continuing journey I began in 1979, when I left the secure, well managed, orderliness of Unilever, to hazard my luck, and my career in what was, for me, the alien world of financial analysis and publishing.

I joined a group of friends as a partner and manager to buy the fledgling business weekly, Affärsvärlden. There were 10 of us at the time. When we sold the company in 1994 we were 160 people and the company, renamed to E+T Förlag (Business and Technical Publishing), had seven titles, and was one of Scandinavia's largest specialist publishing groups.

Afterwards, I went back to school to try to make some sense of my 15 years as editor and manager, by finishing my pending PhD on the theme of "A Knowledge Perspective on Organization".

In 1979, I had no idea what I was letting myself in for. I thought managing a small company with a few tangible assets would be a piece of cake. I was utterly wrong. Nothing had prepared me for the non-manufacturing world; certainly not the business school I had once attended, nor the management literature I read so avidly, and least of all my management experience at Unilever. At the time I still believed “real” companies had formal structures, managers were in control, output was visible, and the balance sheet gave a reasonably accurate account of the value of business.

At Affärsvärlden, we had no organization; we focused on the editorial content and outsourced everything else.

We had no managers; I was the only one with managerial “experience”, and I couldn't understand what was going, let alone manage it.

We had no visible "production"; we wrote in one city, and the journal was printed in another.

We had a formidable competitor in Veckans Affärer owned by Sweden's largest and richest publishing group.

We had no "real" assets, and the balance sheet was a joke; there was no visible equity, and the brand name of the journal was valued in the accounts at a nominal one Swedish Kronor.

But we did have substantial invisible assets, including some of Sweden's best financial analysts, a well known brand and a large network of friends and well-wishers in the business community.

After I discovered the conceptual tools that I had acquired in my earlier career were useless, I decided I had to start again, with a blank sheet of paper. My curiosity about the nature of the organisation I had become part of, led me to seek out and interview leaders of similar companies who had been compelled, by their lack of tangible substance, to pay much closer attention to their intangible assets.

I began to realise that what distinguished such people most clearly from their counterparts in manufacturing firms, was their different perceptions of their businesses. They took little notice of the “financials”; they were more concerned about their people, their networks, and their image. And it was clear that the number of leaders who saw their firms in this way, was growing rapidly.

I changed jobs several times, from accountant, to financial journalist, to stock market editor, to database manager, to management journalist, to publisher, to executive chairman, while remaining one of the managing partners, throughout. I was becoming fascinated by the issue of managing intangible assets and in 1986 I wrote my first book on the subject, in Swedish; Kunskapsföretaget (The Knowledge Company).

I believe that I have since acquired a deeper understanding of the knowledge company, but my original observation, that managers in some of the fastest growing and most profitable businesses, focus on knowledge, see their businesses from a knowledge perspective and act as if their intangible assets are real, remains valid.

By freeing themselves from the mental strait-jackets of the industrial age, some of these pioneer managers have found, seemingly by accident, sometimes, a wellspring of limitless resources arising from the infinite human ability to create knowledge, and the convenient fact that unlike conventional assets, knowledge grows when it is shared.

But most of the pioneers lack explicit tools; they manage intuitively by gut feeling. I have seen it as my task, over the past 15 years, to make explicit some of their tacit knowledge, in order to supply them, less experienced knowledge managers, and other interested parties, with a tool-box of knowledge management to make their lives a little easier.

They are travelling in uncharted territory and most of them lack even a basic theory of knowledge or an epistemology, as philosophers call it. It's as if managers and management authors, shy away from a task that has engaged the interest of the philosophers since the dawn of human thought.

I believe the managers of knowledge companies must suppress their natural distaste for philosophizing, and confront the need for a “theory of knowledge”. I have therefore devoted Section 2 of this book to an exploration of the concepts of knowledge and information. We must look, anew, at these two concepts, and the relationships between them. I will argue, on the basis of my experience in the media industry, that the widespread assumption in our modern IT-intensive age, that information is meaningful and valuable, is completely and dangerously wrong.

When urging managers to adopt a "knowledge perspective" and to see their firms as having "invisible balance sheets", of intangible assets, it is important to understand that knowledge organizations do not exist per se, and nor do they constitute a class of firm. The term is a label signifying a "family" of organizations, which *share common features*. The section is rather theoretical, and busy readers may be tempted to skip it. They should try to grasp the key points, however, because epistemological concepts and tools will help them shed new light on most managerial areas.

We move on to more practical matters in Section 3, with our discussion of how to manage intangible assets. It is a vast topic and I only have space to cover a few strategic points in this book. We shall look first at the primary production factor, revenue creator, and energy source in the knowledge organization – the creative individual – and describe some of the subtle power plays managers must cope with, in firms that rely for their success on the “production capacity” of key individuals.

We will go on to consider ways to improve the effectiveness of "knowledge conversion", the main production process in a knowledge organization. The differences between information and knowledge point to two very different approaches to the search for increasing returns; one information focused, the other knowledge focused. The section ends with a discussion of the implications of a more knowledge focused strategy. I will argue that information focused strategies are incapable of exploiting the full unlimited potential of human knowledge.

Most sections have summaries for quick reading, and section 3 includes a list of management rules of thumb, that I have picked up along the way, and found useful.

I have collected all the technical details, and descriptions of measures, in the final section Measuring Intangible Assets. It's a tool-box for measuring intangible assets based on the conceptual framework out-lined in previous chapters. It describes a.o. how WM-data, one of Europe´s most successful software/consulting firms has used the concepts and indicators outlined in this book to monitor their operations for many years. It also includes brief descriptions of other Scandinavian firms, which have begun to tackle the problems of measuring, and presenting intangible assets from which I believe American companies have much to learn. The section ends with a generic presentation format, the *Intangible Assets Monitor*.

I have been researching how to measure intangible assets for a decade by now, and my Swedish work has inspired a number of Scandinavian companies to monitor their intangible assets according to the principles outlined in this book. They have found that the problem is not to design indicators – there are plenty of them, already – but how to interpret them. It takes several years to leave old perspectives behand, and the transition period is frustrating.

Since we see what we measure, firms using measurement systems based on obsolete perspectives, are managing through a rear-view mirror. They preserve the past, instead of manage proactively for the future.

This is why the first section of this book is devoted to a description of the conceptual framework of the Knowledge Organization. Until you have got your mind around what your company is, you do not know how to manage or what to measure, and you have no way of knowing where it is, or could be going.