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Intellectual Capital Value Revisited
(and why we should care)

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Relatively speaking, is intellectual capital more valuable today than it was 15 years ago? If so, does that make it easier to get more resources for content and expertise management? The bad news is usually not, since we haven't made much progress in developing metrics that have a clear impact on the short term bottom line. The good news is the demand for our skills is growing, because the information sector is growing faster than the economy as a whole. But satisfying this demand will mean studying new business models, designing a new kind of infrastructure, and partnering with innovators.

In this article, I'll look at trends that impact the utilization of intellectual capital, describe specific examples of new business models and valuation approaches, and discuss what it all means for information professionals.

It's a new world

When I wrote CFO's Guide to Intellectual Capital in the mid-1990's, it was clear that the Internet was making intangible assets such as public opinion, customer feedback, and employee know-how more important — and accessible. Yet, of the twelve metrics I identified in 1997, all but two (micro lending and knowledge bank) were firmly rooted in an industrial age business model based on a scarcity of financial and physical capital.

Today, the limitations of physical capital (e.g. real estate) and financial capital (e.g. the stock market) are painfully obvious. Moreover, the credibility of a capitalistic system predicated on economic growth has taken a serious hit. Intellectual assets, though abundant at all levels of society, can be capitalized only by a lucky few — celebrities, technology entrepreneurs, and people with specialized skills du jour. Has the whole idea of measuring intellectual capital as a means of influencing investors and the internal resource allocation process become irrelevant?

In 1997, the most sophisticated collaboration tools were email and electronic discussion groups. That was before social search and tagging, networking sites (i.e. Facebook, LinkedIn), and smart phones. Still, most of these Web 2.0 services are supported by advertising — a mass market revenue model, albeit one that is being adapted to ever smaller, niche audiences. The real story, from an intellectual capital point of view, is the "Arab spring" phenomenon. We know that somehow smart phones + the Internet + a frustrated citizenry trumped a system of state-controlled mass media, nepotism, and private security forces sustained by a physical asset (oil). But we can't put a monetary value on the winning combination — nor are we sure what the ultimate outcome will be.

It's easier to track the relative value of intellectual capital if you look at individuals rather than societies or large organizations. Imagine a middle-aged employee with a good job in a mature industry and an underwater mortgage. He decides to walk away from his over-valued house, move to a lower cost part of the country, sell nonessential possessions, and rent an apartment. So much for physical capital. He then decides to cash in part of his retirement account and use the money to pay living costs while he starts a small, knowledge-based business. He uses contractors instead of employees and a blog instead of direct mail and print advertising. So much for financial capital.

Suddenly the whole context changes. Instead of calculating how much money he'll need to maintain his lifestyle after he retires, he's now thinking about how to maintain the relevancy of his services in a rapidly changing world. His business must sustain (and entertain) him for the rest of his life. For this person, the idea that "retirement" is something that happens after you quit "work" is no longer relevant. We have no standard metrics for this scenario, but an increasing number of people are acting on it, either by choice or necessity.

The future of intellectual capital value

I have found three indicators of how intellectual capital value is evolving in this new context. The first is about how intangible assets are changing the game in both the travel industry and public education. The second describes new forms of currency that both circumvent and complement the traditional, centralized financial system. The third describes the new context in which physical, financial, and intellectual assets interact.

1. New ways to monetize intangible assets

Valuation techniques based in financial terms (i.e. dollars, euros, renminbi) can be useful in the short term, but they are still based in the old industrial paradigm. It's more likely that intellectual capital with the most impact will be incorporated into new business models or even new forms of currency. This can happen in both the for-profit and not-for-profit sectors.

• *Capitalizing on traveler interests (for profit)*. A new company called Social Flights lets members post the itinerary of a trip they'd like to take. If enough other people want to travel to the same place at the same time, the service books a plane, and each traveler simply pays the cost of his/her seat. Not only is the per-seat price often lower, but the service minimizes the hassles of the commercial hub-and-spoke system and soaks up excess capacity on charter flights (see "Fly Like You're Rich With Social Flights").

But efficiency is only the starting point. Given a choice, I'd much rather fly to a concert series in London with a group of early music enthusiasts than with an anonymous group whose only commonality is their destination. In fact, if Social Flights has enough inventory to take me where I want to go, when I want to go, I'd never use commercial airlines again. Companies like Social Flights are monetizing intangible assets (traveler interests and their desire to meet like-minded people) and disrupting an industry heavily dependent on financial and physical capital.

• D*ecentralizing and refinancing education (nonprofit)*. Khan Academy offers more than 2,300 short educational videos ranging from simple addition to topics normally taught in college calculus courses. All are offered free of charge using a not-for-profit business model. Started by Salman Khan, a first generation Indian-American, the Academy is funded by the Bill & Melinda Gates Foundation, Google, and individuals such as Ann and John Doerr (a Silicon Valley venture capitalist).

The not-for-profit model has several advantages. Khan says he's able to attract all kinds of talented dreamers, many of whom work for free. He doesn't need to tailor the curriculum to the highly politicized requirements of big states like California and Texas. Most important, he doesn't have to cater to decision makers in large, complex bureaucracies. Khan says, "They could care less about the end user experience. We're very bottom up." See "The Messiah of Math."

2. New forms of currency

What do you do when you need something money can't buy? I recently taught a community college course for which I received no cash compensation. In a large metropolitan area, I might have shunned the opportunity, both because of the high cost of living and the relative ease of meeting other people with similar interests. But the calculation is different in a small southern town, where the cost of living is lower but the effort to find like-minded people is higher. The community college acted like a bourse that allowed me to "buy" the opportunity to meet local entrepreneurs by "selling" my time and expertise.

There are a number of interesting experiments that facilitate the flow of intangible assets on a global level. Examples include:

• E*quity trading exchanges* such as SharesPost and SecondMarket, that let employees and angel investors offload shares of stock in private companies, many of which are knowledge-intensive firms.

• *Regional currencies* that promote sustainable development by encouraging local purchasing. A well known example is BerkShares, a local currency for use in the Berkshire region of western Massachusetts. The slide show on this site, "Accounting with Berkshares," explains how the currency interfaces with traditional financial systems.

• *Digital currencies*, such as Ven and Seriosity. Ven serves a social network of globetrotting adventure-travelers and consultants. Seriosity serves as the currency for an application that makes it easier to identify important email messages in Microsoft Outlook. See this excellent Wall Street Journal video for details and examples.

• *A tool for designing your own currency*. The MetaCurrency Project is a project to create an open source technology platform for enabling widespread user-driven currency innovation. Its prototype is based on Intentions (requests or offers), Actions (an accepted intention), Assets (the benefit of an Action), Currencies (a formalization of the exchange mechanism), and Circle (a group of friends or players). The site is short of real world examples, but presentations by Art Brock and Jerry Michalski make the vision crystal clear (see "First, let's talk about economics" and "Thriving in the Relationship Economy").

3. *A new context*. Ultimately you can't talk about the value of intellectual capital and intangible assets without understanding how the world is changing. Thomas Homer-Dixon offered some useful insights at last month's Bretton Woods conference. In "The great transformation: Climate change as cultural change," he argues for the need to "raise our collective intelligence" and "create communities that are smarter than the sum of their parts." So far, so good — sounds a lot like conventional knowledge management.

But then he lobs some grenades. First, he says, we will move from a growth-oriented to a steady-state economy. In other words, you can't hope to make money merely by finding more consumers willing to buy more stuff. Second, there is a point beyond which network connectivity (and globalism) reduces our ability to respond to rapid and unprecedented change of the sort we face in a resource-constrained, climatically turbulent world.

What we need, he says, is a rough consensus about what the good life is. That means agreeing on how to value and use intellectual capital and intangible assets. At present, we have a stark contrast. On the one hand, there's an intellectual elite that places a high value on intangibles such as interesting work, access to a clean environment, cultural resources, and a sustainable lifestyle. On the other there's a financial elite that values conspicuous consumption and the power that money can buy. Then we have a growing number of have-not's who simply want to survive.

What it means for info pros

Homer-Dixon says we'll face four challenges in moving from a growth to a steady-state economy that correctly accounts for intangibles like "free" environmental resources (e.g. potable water, clear air, good soil):

• Winnowing (separating the wheat from the chaff in ideas);

• Cumulation (improving the good suggestions over time);

• Preventing hijacking (minimizing the influence of special interests);

• Managing experts (conventional experts don't generate enough new ideas fast enough, and they can stand in the way of viable solutions).

We are already seeing signs that the information professions are beginning to grapple with the first three of these issues. The new word for it is "curation" — tech-speak for information quality assurance. We also see plenty of activity in expertise management — but little of it addresses the problem of generating new ideas fast enough. Software tools, such as Facebook's "I Like" icon and Google's page rank algorithm, only scratch the surface and are subject to "gaming" (intentional distortion).

Meeting Home-Dixon's challenges means recasting our own intellectual capital. Monetizing skills tied to a physical entity (a library, a server, a newspaper) is like trying to buy groceries with a Spanish doubloon. It's no longer accepted as currency, but it's still gold — a valuable commodity. The recasting process involves:

1. *Taking the long view.* Be alert for trends on the fringes of business and society. Incremental change in existing industries is easier to spot and sell to the boss, but it has hidden risks. Because intellectual capital is ubiquitous and mobile, disruptive change can appear suddenly from an unexpected quarter. For more suggestions on trend-spotting, see "Moving up the value chain."

2. *Paying attention to the plumbing*. Compared to electronic tools for generating and tracking transactions in physical and financial capital, those for intellectual capital are relatively primitive and fragmented. We need to look beyond our "home" discipline (e.g. competitive intelligence, records management, management information, publishing) and participate in international initiatives to develop the computer plumbing for intellectual capital exchanges. See "Web + semantics: Are we there yet?").

3. *Partnering with innovators*. The best advice I give to clients who want to create an "information architecture" or SharePoint taxonomy is find an innovator and learn how he works. What makes him successful? What frustrates him? What worries (or excites) him about the future? How does he organize and use his personal intellectual capital? An innovator might be a star salesman, a leading dealer, an unconventional R&D scientist, a proposal manager, or someone else. The key qualifications are exposure to the front lines and the ability to think "outside the box."

Partnering is the most difficult of the three because it involves an intellectual capital negotiation. Even a single interview involves a calculation of time, trust, and the expectation of a future benefit. The concept is not foreign to info pros. Software developers have the open source development model. Librarians have interlibrary loan. Reporters use a system that protects their sources and often involves a quid-pro-quo exchange of information in return for publicity. But the model that works in one environment may not work so well in another.

That's the crux of the matter. Conventional accounting metrics are increasingly irrelevant because intellectual capital is being embedded in new business models and invested using new forms of currency, thus changing the context for the calculation. What we do know is that the knowledge-based economy is growing, and that it makes new demands on our skills. To meet the need, we need to look beyond our current job or project, recast our skills, and reformulate how we deploy our intangible assets. ❑