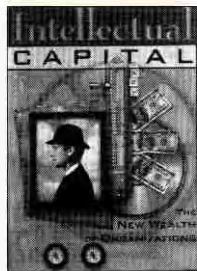


Guest reviewer: Mark Morrow, senior acquisitions editor, American Society for Training & Development.

**INTELLECTUAL CAPITAL:
THE NEW WEALTH OF
ORGANIZATIONS**

THOMAS A. STEWART



Thomas A. Stewart's new book, *Intellectual Capital: The New Wealth of Organizations*, is an insightful and entertaining journey through a business literature landscape that the

author calls an "information overloaded, jargon laden, hyperbolic jungle of business trends, fads, pronouncements, edicts and predictions."

As expedition leader on yet another even more potentially confusing and hyperbolic journey—how to understand, manage, and use an organization's intellectual horsepower—Stewart's considerable gifts as a seasoned writer for *Fortune* magazine make this cerebral trek well worth the effort.

From the opening sentence to the last, Stewart entices his readers to continue this journey with down-home and often humorous examples of where to find intellectual capital. Even one of the most ubiquitous 20th-century products—the beer can—is elevated to new levels of importance when filtered through Stewart's unique business perspective.

"Consider a beer can," Stewart says. "Open it if you want, but consider the can. If it is symbolic of anything, it is an emblem of the blue-collar industrial worker, an everyday accessory for 'Joe Six-Pack,' union member, factory worker. But it is far more: It is an artifact of a new, knowledge-based economy, evidence of how knowledge has become the most important component of business activity."

Stewart explains how technology and the tireless imagination and innovation of humankind have moved the

beer can from its beginning as a near lethal weapon made of steel to an aluminum can weighing only .48 of an ounce. He says, "The beer may have a head, but the can is about 25 percent knowledge."

It is Stewart's ability to juxtapose fascinating business facts and pop culture references and icons, along with expert witnesses from an impressive list of intellectual capital experts, that helps make this read successful and rewarding.

Along the journey, Stewart plays the business counterpart of a highly knowledgeable botanist who takes a less-informed city dweller on a walk through a city park. Like the botanist who entertains the novice nature lover to consider a mundane wildflower or insect, Stewart invites readers to stop and consider the technological wonders that we use every day and the intellectual capital of people's imagination and ingenuity.

For Stewart, technological feats are nothing short of indisputable evidence that any company not managing and investing in its intellectual capital assets will find 21st-century business success extremely illusive, if not impossible. Among the evidence Stewart presents in the first part of his book are these facts:

- ▶ The RAM memory in Stewart's laptop computer contains 500 times the hard-disk memory of his 10-year-old PC. (Even more amazing to Stewart is that his laptop's computing power has shrunk to about one-seventh the size of his old PC.)
- ▶ The Pentagon no longer considers a thermonuclear war the biggest threat to the U.S. mainland, but rather that hackers will shut down and destroy our economy using computers and streams of digital information.
- ▶ Since 1982, companies have spent an increasing amount of money on production technology. In 1991, Stewart says, technology spending exceeded production investment. He proclaims, "Call that year 1 of the information age."
- ▶ Microsoft is built largely on intellectual capital. Stewart points out that in 1996, IBM owned \$16.6 billion

worth of plants and equipment. Microsoft owned \$930 million.

"Put another way," Stewart says, "every \$100 socked into IBM buys \$23 worth of fixed assets; the same \$100 investment in Microsoft buys fixed assets worth just over a dollar." Knowledge companies, Stewart states, do not care about owning assets.

Stewart uses more than facts, figures, and humorous analogies to make his point. *Intellectual Capital* is well-organized and carefully constructed, divided into three main sections.

Part 1 maps the rise and fall of the industrial age and the emergence of the information age. Stewart's conclusion, obvious to all but those still living in caves or shipwrecked on a remote island for the past 20 years, is still somewhat surprising: We all operate in a knowledge economy, we work for knowledge-intensive companies, and we are all in one form or another knowledge workers.

"Now, the machine works for the man," Stewart concludes at the end of part 1. "The rise of computers, far from dehumanizing people, is forcing machinery to adapt to our idiosyncratic humanity.... Far from being alienated from the tools of his trade and the fruit of his labor, the knowledge worker carries them between his ears."

Stewart begins part 2 by admitting that it is not easy to quantify intellectual capital and its power. He notes that a CFO can tell how big his or her company's payroll is, but not the replacement cost of employee skills and even less so "whether [employee skills] are appreciating or depreciating." In typical Stewart style, he uses vivid images to clarify his point: "Like electrons in a cloud chamber, knowledge assets leave only ghostly images in corporate ledgers."

In part 2, Stewart develops fully his argument for the quantifiable power and use of the term *intellectual capital*. He divides it into three components: human capital, structural capital, and customer capital. He argues that without all three pieces of the intellectual puzzle in place, businesses are just spinning their corporate wheels.

Human capital (good people doing good work) doesn't necessarily make great companies, says Stewart. Companies need structural capital that "packages human capital and permits it to be used again and again to create value." Customer capital, as Stewart envisions the new corporate world, is the value of a relationship that an organization enjoys with its target consumer group.

Stewart follows with numerous examples of how companies have failed and succeeded at developing and using intellectual capital. Chapter 6 pays tribute to the power of training. He describes a factory in Rhode Island where training—i.e. building intellectual capital—is high on the 84-year-old owner's agenda. The company offers more than six dozen courses on everything from Weight Watchers to

ISO 9000 quality auditing. Despite its size—\$80 to \$90 million per year in revenue—the company invests \$300,000 a year in direct costs to the program, and it built a \$250,000 training facility.

Although the owner can't quantify the intellectual capital he is building, he does find real advantages from his training investment. "It comes back in the form of attitude," he says. "The company's story is even more remarkable considering that it was forced to reorganize in 1991 as it teetered on the brink of bankruptcy." Its recovery, Stewart emphasizes, was fueled mainly by investing in people, not just machinery. Stewart does note, with irony, that just as many businesses are beginning to realize that they shouldn't dillydally with employees' intellectual worth, those same intellectual assets may feel less loyal to their companies.

The book also offers job aids in the sections covering human, structural, and customer capital. At the end of section 2, Stewart offers 10 principles for managing intellectual capital.

Stewart concludes with a discussion of our information-dependent world as evidenced by the Internet. The Web (both intranets and the Internet) is completely changing the way companies think about how they conduct business and invest resources.

"The center, the genome, of all these new forms of organizational architecture is intellectual capital," says Stewart. "Internally networked companies, virtual organizations, and economic webs partake of the same information-age economic logic—that ideas, knowledge, information processing, and other intangibles (human, structural, and customer capital) can generate wealth much faster and less expensively than physical and financial assets traditionally deployed. The arithmetic of the goods economy is addition; in the knowledge economy, it's multiplication."

Last, Stewart offers readers career-planning concepts to ponder as we move into this intellectual, power-dependent age. Keep his seven-point "new signs of trouble" taped inside your desk drawer, especially if you're a middle manager.

"Middle managers account for only

ADDITIONAL READING

Hardback

The 500-Year Delta: What Happens After What Comes Next, by Jim Taylor and Watts Wacker with Howard Means. 302 pp. New York: HarperBusiness, 800.237.5534. \$27.

The authors argue that we are entering an age of possibility, and that we are encountering a change that is "so rapid and so massive that by century's end it will have swept away nearly the entire underpinnings of modern life." Taylor and Wacker explain how to survive in the current chaos and prosper in the future.

The book also looks at a shift from reason-age to chaos-based logic; the splintering of social, political, and economic organizations; and the collapse of producer-controlled consumer markets.

Circle 246 on reader service card.

The Living Company: Habits for Survival in a Turbulent Business Environment, by Arie de Geus. 240 pp. Boston: Harvard Business School Press, 888.500.1016. \$24.95.

Why do some companies—such as DuPont, Sumitomo, and Stora—survive for several centuries while most thrive only for 40 to 50 years? And what lessons can they teach about success and longevity? In his book, de Geus answers those complex questions and details the four essential traits of long-lived companies.

He also explores the difference between "living companies," which are living working communities, and "economic companies," which are in business solely to produce wealth for a small group of people.

The book is based on an informal study of 27 successful long-term corporate survivors, which was undertaken at Royal Dutch/Shell during the 1980s.

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Dig Your Well Before You're Thirsty, by Harvey Mackay. 310 pp. New York: Currency Doubleday. \$24.95.

Learn how to network successfully with tips from Harvey Mackay, a nationally syndicated columnist and best-selling author. He explains how to get to know the people you need to know, how to ask for what you need when you need it, and how to shine in the information age and on the Internet.

He also offers networking advice from such celebrities as Mohammed Ali, the late Erma Bombeck, and Larry King. Mackay's writing style is simple, to-the-point, and filled with useful tips, such as a top-10 list of best ways to stay in touch with your network.

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Paperback

A Critical Guide to Management Training Media, edited by William Ellet. 535 pp. Boston: Harvard Business School Press, 888.500.1016. \$39.95.

This third edition contains more than 40 percent new material, including reviews of Internet resources and books and more than 220 critical evaluations of training media.

The evaluations—written by working trainers, consultants, and line managers—cover such topics as diversity, leadership, customer service, management skills, and team building.

Each review includes a summary and content evaluation, as well as ratings on production quality, instructional value, value for the money, and ability to sustain interest.

Circle 249 on reader service card.

5 to 8 percent of the workforce, but nearly 20 percent of recent layoffs. A middle manager should not enter his boss's office alone," says Stewart.

The last part of the book describes tools for measuring and managing intellectual capital. Stewart admits, however, that "the field of intellectual capital is too new for cookbooks." He is correct in his assertion that he has not written a cookbook, but rather a useful guide that will encourage other intellectual capital expedition leaders to follow in his footsteps.

Several other books have recently been published on intellectual capital, and many more are sure to appear. However, it is doubtful that anyone will write a more compelling book on the subject.

Bottom line: An insightful and astute look at intellectual capital and the information age.

Intellectual Capital: The New Wealth of Organizations, by Thomas A. Stewart. 260 pp. New York: Currency Doubleday. \$27.

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TOP 10 BEST SELLERS AT ASTD'S 1997 INTERNATIONAL CONFERENCE



1. *Emotional Intelligence: Why It Can Matter More Than I.Q.*, by Daniel Goleman, published by Bantam, available through ASTD.
2. *In Action: Measuring Return on Investment*, by Jack Phillips, published by ASTD.
3. *Distance Learning: A Step-by-Step Guide for Trainers*, by Karen Mantyla and Rick Gividen, published by ASTD.
4. *ASTD Models for Human Performance Improvement: Roles, Competencies, and Outputs*, by William J. Rothwell, published by ASTD.
5. *How to Teach Adults in a Fun Way*, by Doug Malouf, published by DTS.
6. *Performance Consulting*, by Dana Gaines Robinson and James C. Robinson, published by Berrett-Koehler, available through ASTD.
7. *Evaluating Training Programs*, by Donald Kirkpatrick, published by Berrett-Koehler, available through ASTD.
8. *101 Recognition Secrets*, by Rosalind Jeffries, published by the Performance Group.
9. *The Computer Training Handbook*, by Elliott Masie, published by Lakewood Publications, available through ASTD.
10. *Mission Possible*, by Ken Blanchard, published by Blanchard Training.

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