

Book Review:

Karl Sveiby's 'The New Organizational Wealth'

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Karl Sveiby's *The New Organizational Wealth* joins a small but growing number of books devoted to understanding the new knowledge economy and how corporations need to find new ways to measure value. As information technologies become key in the creation of wealth, the task of understanding the value knowledge produces begins to assume ever greater importance to economic theory.

A case in point was a recent Chicago Tribune front page story under the headline, "The Unlikely Economy." With unemployment down, consumer confidence up, and an ongoing expansion, prices have dropped instead of going up. While most traditional economists were baffled, one theorist argued that investment in computers and labor-saving technology had pushed production beyond what the government could measure using the antiquated tools which only count industrial output. It's no longer simply giant physical assets which form the foundation of value in the economy. The difference between a corporation's net book value and its market value also reflects its intangible assets or "good will," which now usually exceeds physical assets. For example, General Motors with all its plants and equipment is valued at half of Microsoft with their single "campus" filled with nothing but desks and computers.

Sveiby divides these intangible assets into three parts: employee competence; internal structures such as patents, concepts, and computer systems; and external structures like customer relationships and public image. Knowledge corporations whose value is based in these types of assets do not face diminishing returns because, unlike limits on physical resources, ideas are infinite.

Sveiby bases knowledge within the social context of human interaction so that learning is a continual process which gives people the capacity to act. Therefore when he talks of worker competence, his definition embraces factual knowledge, skill, experience, value judgment and social networks. Knowledge is not something that can simply be programmed into software and used by anyone. Rather knowledge is deeply embedded in each individual, reflects their experience, and ability to communicate and act. Value thus resides in the worker and not the technology.

The author makes a sharp distinction between information and knowledge; in fact he states that "information is meaningless and of low value." His advice to managers is to treat information as a "glut product with little or no economic value." It's knowledge that makes sense of information, and the best way to impart knowledge is the traditional method of personal transfer. While information in technological systems contains knowledge, competence comes from the learning process under the guidance of a teacher, as in the master/apprentice relationship.

In the second part of the book the author tackles the question of how to manage intangible assets. His first observation is the power conflict between organizational managers and knowledge workers. Knowledge professionals need the freedom to create and are the workers most responsible for producing revenue. On the other hand managers police the organization and tend to value routine. This produces two power centers with resulting struggles over policy and direction. Sveiby's advice is to see and treat professionals as revenue centers, not as labor costs. They should be given the same or

even better pay than their managers, and have access to the same information. When experts become senior workers and are past their peak revenue producing activity they should be used as teachers for younger experts.

For Sveiby support staff are low in professional and organizational competence, tend to develop “underdog symptoms,” and make narrow demands around working conditions, But most anyone who has worked in an office knows that support staff actually have great organizational competence, and in fact often know more about the daily operation than managers. If given the chance, support staff can also have important insight into professional areas because of knowledge based in life-long experience.

A Case in Point

One business that might surprise Sveiby was the Community Law Collective in San Francisco which included support staff in all firm discussions over policy, community relations, and business decisions. For sixteen years this collective was one of the most successful models to develop out of the critical law movement of the 1960s. The two Chicana legal secretaries became full partners of the collective and were paid equally with the lawyers. Because these women were from the community in which the law collective worked, they helped to bring in cases which expanded the client base, and played an important role in maintaining relations with a wide set of neighborhood contacts. As collective lawyer Paul Harris explained they increased the “good will” and reputation of the office. They also taught the lawyers about the community and how best to relate to clients. These examples are exactly what Sveiby means by knowledge value.

The secretaries also exerted real influence in policy debates. One of the most important was whether or not to represent drug dealers who were offering a lot of money for legal services. Some of the lawyers argued forcefully to take these cases. But the typists opposed this position because it would harm the reputation and good will the collective held in the community. The secretaries won the debate and thereby helped guarantee the long term success of the business.

Like many other corporate consultants, Sveiby is big on outsourcing, particularly of low-status jobs such as watchmen, cleaners and gatekeepers. He argues at outsourced firms these workers become “security executives and hygiene specialists whose experience and skills are vital assets. They become aware of a hunger they never felt when employed by large firms to perfect and develop their skills . This change in perspective affects strategy in a profound way. When knowledge of cleaning is the core business, the skill of cleaners become a strategic core competence.” (p. 103) I think Sveiby needs to clean a few toilets and carry out his own garbage for a week. This fantasy of turning low paid and insecure workers into what the author now calls “independent professionals” is the worst type of corporate hype. One of the areas of greatest ignorance for knowledge consultants is their lack of understanding of working class reality One must wonder if this isn’t all just corporate propaganda to cover low-wage profit strategies, or simply an area where the author lacks “competence.”

Sveiby is on firmer ground when he returns to the relationship of information to knowledge, and the role they can play in a company. He estimates that the supply of information has grown tenfold over the last ten years which has caused an excess of supply over demand. As Sveiby explains, “it takes time, experience, and mental effort to turn information into useful knowledge. Information that turns out to be worthless is really worth less than nothing.” (p. 111) Financial markets are the most information intensive where speed plays a key role. Yet adding more information obscures and slows things down and therefore can play a negative role.

Mass vs. Custom

Many corporations have reacted to the informatization of markets in a typical second wave fashion. The more information the better, as if mass market strategies can be adapted to the knowledge economy. This leads to a strategy of offering a low degree of customization, aiming at mass sales, and regarding people as costs. Managers usually promote this industrial age strategy, particularly because it increases control and lowers costs by substituting information technology for labor. This widespread use of information technology inside an industrial pattern may explain the lack of big gains in productivity because managers can not visualize the proper use of the new productive tools.

As Sveiby explains: “Information technology can be used to standardize or to customize. It can be used to increase control over people or to decrease it. It can be used to control very large bureaucracies or empower very large networks. It can be a powerful servant of an industrial strategy, an information-focused strategy, or a powerful enabler of knowledge-focused strategy. The choice is made not by the technology but by those in power.” (p. 137) Knowledge based strategy develops a high degree of customization, which sells knowledge as a relationship and process. It looks to the “potential of professionals to increase revenue rather than on the ability of managers to reduce costs. (p. 138) The strategy is hard to copy because it is based in specialized knowledge and therefore very competitive. And as Sveiby shows in the last part of his book this strategy is quantifiable, predictable, and controllable.

The three major indicators used to measure intangible assets are growth and renewal, efficiency, and stability. Each of these is analyzed in terms of the companies’ external and internal structures, and the competency of its workers. The areas used to measure the growth of worker competency are the average number of years that professionals have in their field, education levels, and how many customers demand the development of new knowledge skills. Under efficiency the value added per expert and the value added per employee is measured. Stability means tracing expert turnover and seniority years—particularly compared to new hired experts. In all these areas Sveiby is looking for ratios and sets of balances that are correlated with good profits rates.

Only professional staff are grouped under competency. Support staff are measured as part of the internal structure along with investments in R&D and information technology as percents of value added activity. External structure looks at the time employees spend building, and developing customer relations. And customers are measured not only by profitability, but image enhancement, references, and if the relationship spurs the company to learn new skills.

These and other measurements are used to monitor each area of intangible assets and direct the company on investment and organizational decisions. Sveiby is not just spinning abstract theories. His ideas have been put to successful use in a number of corporations. Two Swedish firms, WM-data and Skandia AFS are leaders in this field. For those of you tired of reading futurists predicting how technology will change our world, here is a book hard at work developing the economic theory that can measure the real changes taking place.

Lastly, one insight that struck me while reading this book is how much political groups are knowledge organizations. Many of Sveiby’s ideas are directly applicable to political parties. Your best organizers or cadre are your knowledge professionals, always demanding the freedom to create and adopt tactics while the administrative apparatus is often concerned with routine and control. The “good will” a political party maintains with its base is key to its success. There needs to be a good ratio between senior organizers and new blood, with older cadre acting as teachers. New mass campaigns extend the

knowledge base of the group and forces it to learn new skills. and the list goes on. So reading Sveiby is valuable from a number angles. The book runs 202 pages including graphs, well designed charts and chapter summaries.