CHAPTER 1

Intellectual Capital: What Is It And Why Do You Care?

We have been discussing how the new economy is driving a demand for knowledge workers—people who produce value with their brainpower rather than their hands. Organizations that can harness the intellectual capital of these knowledge workers will be successful in the information age. To illustrate, let's use an example of knowledge at work.

Gordon Feeney, vice chairman of the Royal Bank Financial Group, is very aware that knowledge and knowledge workers have permeated the way we do business. The Royal Bank Financial Group has over 200 different product and services, ranging from telephone banking, to deposit instruments, automobile loans, mortgages, and mutual funds. To handle much of this business, they employ more than 2000 people at call centers. Although these call center operators don't command the heady salaries of computer programmers, they are nevertheless knowledge workers since the Royal's objective is to handle 80 per cent of all calls without referring them to anyone else. Thus, they must be able to understand, synthesize, and integrate an enormous amount of knowledge to serve customers well. In addition, they need to be alert to opportunities to interest the client in other Royal services that both meet the customer's need and are profitable for the bank. Call center operators must be willing to use their abilities of analysis, synthesis, integration, and innovation to make each call as profitable as possible.

An example of this happened one Saturday afternoon at a Royal call center. An operator received a request for the exchange rate on the peso. She provided it and then asked, did the caller need a calculation? Yes, the caller agreed, that would be helpful. The conversion from pesos yielded several million dollars. The operator offered help again—did the caller want to deposit or transfer the money? "Actually," said the caller, "I want to invest it." Using the bank's listing of investment counselors, the operator connected the client with the appropriate people and by Monday morning, two or three people were working on making profit both for the client and the bank.

When knowledge workers invest their intellectual capital in an organization, the results can be both satisfying for them and profitable for the company. And if they don't, withholding their intellectual capital can create serious problems. As Gordon Feeney points out, "It would have been easy for that call operator to stop after giving the exchange rate. After all, that was all the client was asking for. If she hadn't been willing to go further, we would have missed that opportunity and would never even have known."

That is the key difference between knowledge workers and other workers. Because so much of what is valuable occurs in knowledge workers' heads, whether they are using their intellectual capital to best serve the organization can usually only be assessed at a time well past the point that a company can do anything about it. For example, with so much information and the pressure of calls—the Royal's call centers handle between 50 and 60 million calls a year—it is easy to see how call center operators could be tempted simply to process whatever the customer asks for and no more. However, if they do that, the sales will be unsatisfactory and managers will likely spend many months trying to figure out why. It could be that the operators aren't using their intellectual capital, but it could also be that the services aren't ones that the customers want, or that other banks have equally attractive offerings at a lower cost or more conveniently available.

Some organizations have tried to compel employees to use their intellectual capital by imposing sales quotas and monitoring calls with customers. And while they have some success, both suffer serious flaws. Quotas or targets allow the company to meet revenue targets but don't encourage or perhaps even allow for the possibility that customers don't want a product or might want another which either isn't targeted or doesn't yet exist. It assumes that some senior person who is not talking directly with the customer knows what the customer needs and will buy better than the customer herself or the person dealing with her. If the targets are not met, it's not clear whether the fault is the operators' or an unrealistic target.

Monitoring the operators' calls to ensure they are spending the time needed to assess the customers' needs is also a possibility but unless a call center is willing to effectively double its staff, it's not possible to monitor every one. Only a small percentage can be, which still leaves operators with many opportunities to choose whether to invest their intellectual capital in their calls.

So while quotas and monitoring might have some success, the most effective way to ensure that knowledge workers use their intellectual capital in service of the organization is to convince them that they want to. That isn't to imply that sales quotas and monitoring will be unnecessary but it will mean that they will not be the drivers of profitability but simply ways to measure how well the company is doing. True success will come when your knowledge workers want to make an investment of their intellectual capital in the organization.

Thus, we all need to pay attention to how to leverage the intellectual capital of our organizations. To do this, let's first discuss the types of intellectual capital in your organization and then the management challenges that each type generates.

Broadly, intellectual capital is divided up into three large areas. The first is human capital or the knowledge and experience people bring to the workplace. It is another way to say "people" but thinking about them as human capital points out how brainpower has effectively replaced asset capital as the driver of wealth. Human capital is the wellspring of the new economy. In the example above, the call operators' use of their abilities to analyze, synthesize, integrate, and innovate is the organization's human capital.

Of course, these characteristics have always been important to an organization, but the difference is that they were usually only truly necessary for the top echelon of the company—those who were seen and saw themselves as being responsible for doing the thinking for everyone. In traditional manufacturing operations, the division between thinking and doing was very sharp. Managers analyzed the market, synthesized the data, and decided what new products were required. The workers manufactured the result of that thinking. Even in service outfits, the tradition has been that managers decide what needs to be done and workers do it.

It was possible and probably even most effective to use only managerial intellectual capital when there were few products or their variations minor. Then, managers had knowledge to make those decisions. But when the products and services an organization offers grow and the knowledge needed to produce them is also growing, the idea that a relatively small number of people in the organization can or should be the only ones to use their intellectual capital is no longer viable. Everyone's intellectual capital must be used.

The second type of intellectual capital is structural capital. To tap human capital, organizations have to use more of what their people know. One part of structural capital is building systems like databases that allow people to be connected to and learn from each other. It avoids reinventing the wheel and, in addition, promotes the synergy that comes when two or more like-minded people work together. In our example, the call operators have access to information on-line (e.g., a list of investment counselors), that they might otherwise have to research themselves. They are able to make use of other people's knowledge because it has been housed in some structural capital—in this case, a database—which allows easy access.

However, beyond connecting people, there is another equally important function of structural capital. As more and more of what is valuable resides in the heads of people, organizations are becoming aware that if the people leave, the value leaves also. They are trying to find ways to capture this knowledge so others can use it and the organization can retain it. Some ways are standards and procedures as well as hardware and software. In summary, structural capital is the infrastructure that helps to convert human capital into wealth for the organization.

Organizations know that customers are the pivot of their livelihood. Customers create wealth. If they don't buy, you don't prosper. So the third pillar of intellectual capital is customer capital. Customers have always been important to any company but like voters, they are becoming both more demanding and crankier. To capitalize on your customer base and continue to generate revenue, you need a new relationship with them. This relationship increasingly needs to be long term, stretching over many years and many repeat sales rather than a one-time, one-off contact, and how your knowledge workers deal with customers will drive whether customers are willing to enter into this continuing connection. If the call center operator is rude or appears to be selling product rather than meeting the customer's needs, that customer will not be willing to enter into a long-term relationship with the bank. However, if the customer believes that he was treated well by the call operator, he is more likely to buy the next time, creating customer capital for the company.

Managing different types of intellectual capital well is the key to your company's competitiveness. However, it also prompts new management challenges,[1] and we'll discuss them in this chapter. The three types of capital are:

- Human Capital
- Structural Capital
- Customer Capital

Human Capital

The more computers dominate our landscape, the more those exclusively human characteristics of judgment, analysis, synthesis, and innovation are important. This change requires nothing less than a rethink of the relationship of knowledge and position power. In most organizations, the higher your position, the more power you have. Simple, obvious, almost pre-ordained. However, focusing on the creation of wealth through knowledge can change that. Suddenly, who is important in an organization shifts. It's the working level knowledge workers whose moods, needs, and interests become most important. They are the ones who both have the most up-to-date knowledge and are closest to the customer. Thus they have a substantial influence on a company's success through their ability to transform knowledge into wealth and to build customer capital. It is the job of every manager to pay attention to these knowledge workers because they control the levers of wealth creation.

The usual response to the previous sentence is something like: "Of course, people have always been our most important resource." We've heard it from every corporate executive who's swept in to lay a blessing on the troops on his way to more important matters. But in fact, in most organizations, it has never been true. It is our bosses' moods, needs, and interests which rivet our attention, not our employees'. We might have an interest in our employees' moods and needs, but let's face it, it's usually optional. If you don't deliver results, caring about your employees doesn't cut the mustard. But the information economy has moved this focus on employees from optional to mandatory because caring about your employees is becoming the way to deliver results.

New Management Challenges with Human Capital

So, dealing with knowledge workers has major implications for who you're going to worry about keeping happy. But there are other challenges in managing the human side of human capital. Its effective use requires:

- Encouraging new knowledge to come forward.
- Tapping everyone's knowledge.
- Managing knowledge you don't understand.
- Encouraging people to learn.

Encouraging New Knowledge to Come Forward

In the olden days (i.e., when we first started working), there was usually a set body of knowledge we all worked from. There were designated new knowledge gurus like researchers and engineers and by and large, knowledge spread through the organization in a steady and organized fashion.

Today, knowledge comes at the organization from all sides—the Internet, greater media coverage, plus all the old ways, like conferences and business articles. What's more, the competitive advantage today is not the slow, sure building of knowledge, but the breakthrough innovation which might come out of left field.

Given this, one of the most important jobs managers have is to encourage new knowledge to come forward. And while we all think that we do that, in practice, many of our systems and mind-sets prevent it. For example, I was brought into a consulting firm that had an excellent track record for attracting new customers but needed a line of services to keep them buying. I had a body of new knowledge that could provide that next wave.

However, there were hiccups. Consultants "owned" certain customers with whom they had a relationship and from whom they derived their revenue. The new knowledge I had was the logical next step for most customers, but if the consultant recommended me to a client, who got credit for the resulting revenue? The original consultant who recommended me or me, since I had the knowledge the client needed? If I got it, why would any consultant want to use the new knowledge, since he lost both the revenue and the client? If he got it, what was in it for me? Since we were both judged on how much revenue we brought in, it caused some heartache and more importantly, jeopardized the ability of the organization to introduce the new knowledge.

"Business as usual" is the way an organization usually deals with this problem. It's also the death knell for new knowledge. New knowledge demands changes, not just in what knowledge is used, but in the systems and structures which have grown up around the use of the old knowledge. It can be, and often is, very disruptive but unless you learn how to manage these changes, new knowledge will be prevented from infusing your organization even if it is critical to your competitive advantage.

Chapter 2 will show managers ways to encourage employees to bring forward their new knowledge.

Tapping Everyone's Knowledge

In recent years, with the advent of better educated workers, it is recognized that the philosophy that managers think and workers do no longer fits organizational needs. There has been some push to share responsibility for thinking in all its elements—analysis, synthesis, innovation, and strategy—with more people in the organization.

The information age will push this requirement even further. In a world of increasing knowledge, it's no longer possible for one person (like the CEO) or one set of people (like managers) to take in enough of the relevant knowledge to make the decisions in the same kind of isolation as was possible in the past. Thus, employees need to be consulted and involved in decisions beyond the scope of their immediate jobs. It is in the best interest of the organization not simply to access its employees' know-how, but also to increase their willingness to commit to the strategic direction. Knowledge workers who don't want to invest their intellectual capital in an organization, don't have to, and that unwillingness can be hard to detect as in our example at the Royal Bank. So while consulting with and involving employees can provide insights into the running of the business, they can also be a compelling invitation to employees to donate their intellectual capital to the organization.

Chapter 3 will outline how managers can help employees understand the company's strategic direction and its implications well enough to make informed decisions and recommendations. Chapter 4 will cover how to consult employees on company-wide issues and Chapter 5 will discuss how to involve them in corporate decision making.

Managing Knowledge You Don't Understand

As knowledge proliferates, it also specializes. In most academic fields, the knowledge is so great that you can only become truly proficient if you go down deep. One of my colleagues in graduate school did his thesis on color preference in chicks (baby chickens). Honest.[2]

The requirement for a narrow but deep focus has been less extreme in business environments but most of us still had to decide at some point in our careers whether to be generalists or specialize in one function like finance, marketing, sales, or operations. But today, even within a specialty like finance or operations, there are levels of expertise that cannot be conquered by everyone. For example, in a manufacturing operation, you could have experts in process improvement whose depth of knowledge about how you re-engineer may be unparalleled. Exceptional proficiency in one area is often at the expense of breadth of understanding, but it still means that, in that niche, you have no equal.

An unsettling corollary for managers is that, more and more frequently, employees are doing things you don't really understand. That is, you may understand the broad outlines, but you don't have enough knowledge to know whether it really is wisest to zig when your inclination might be to zag at a particular point.

This in turn leads to uncomfortable questions like: "If I don't know what they're doing, can I direct them?" And even worse, "If they know more than I do, do I have a real job?" The answer, you'll be glad to know, is "yes" to both questions. How you get there is covered in Chapter 6.

Encouraging People to Learn

In a static world, the need to learn isn't very great. You generally do a lot when you're young and stop after a certain point. But in an uncertain world, learning never ends. As we all come to terms with what that means to us and the work world, companies need to make a concerted effort to help knowledge workers to continue to add to their store of knowledge. Those at the leading edge of the knowledge are the ones who create competitive advantage. A haphazard, well-meaning approach to this learning is not enough. Chapter 7 will cover how to establish a learning program in your organization. As you can see, the rise of knowledge workers in the workplace will make profound changes in the way you manage. When position isn't important anymore, how do you direct? When you supervise people whose job you don't fully understand, how do you lead? If new knowledge is easy to stifle but critical to long-term success, how do you encourage it? When knowledge wants to be free, how do you keep a competitive edge? And these are just the management challenges for human capital. There are more in the next section on structural capital.

Structural Capital

Structural capital—the infrastructure side of intellectual capital—often gets the most management attention, probably because it's the most concrete. Building computer systems or databases fit the way we're used to working—put it on a time line and get it built. Human and customer capital enter that much mushier realm of innovation, trust, and interpersonal issues. You can't put them on a time line ("you will have a breakthrough idea by 0800 hours tomorrow").

Most organizations have more structural capital capacity than they need.[3] The role of structural capital is to support the real knowledge network: that of people talking to other people. All of your structural capital needs to be assessed in this light. In fact, leaders in the field of intellectual capital are unanimous that "without strong underlying human capital, any amount of structural capital is all but worthless."[4]

There is no point in an elaborate infrastructure unless you address the following management issues which structural capital generates.

New Management Challenges with Structural Capital

While building and maintaining the structural capital infrastructure is an important contribution, it is not sufficient if you want to leverage your organization's intellectual capital to maximum advantage. Effective management of the human side of structural capital requires:

- A free flow of information.
- A freer flow of knowledge and people.
- A willingness to share and learn.
- Rewarding knowledge.
- A willingness to change.

A Free Flow of Information

If I'm a stock clerk and you want me to use my knowledge for the good of the company, you need to help me understand exactly what that means. For example, unless I know we're having trouble financially, I may not bother redesigning the inventory controls so that they're cheaper and simpler. Of course, I know, based on the exhortations of all the higher ups, that I'm always supposed to improve my job, but let's face it, I've got a life outside stock clerking. I'm only going to do it if there is a compelling reason to pay attention. Knowledge and innovation cannot be ordered, but only invited. The challenge for all managers is to make the invitation so irresistible that all will respond. Some part of that compelling invitation is ensuring that knowledge workers know what is happening in the company. This often entails releasing information that has hitherto been largely management's province (e.g., financial and other confidential information) and helping people to understand how it relates to their jobs. Chapter 8 will cover what information you need to release and how to do it.

A Freer Flow of Knowledge and People

If your structural capital is working for you, you can envision a system where you type in "statistics—graduate level" and get the names of several knowledge workers who have those qualifications. You call one, explain the help you need and work together. You get the project done faster and learn something. It sounds great but this idyll is predicated on a system or mind-set that doesn't exist in most organizations. Let me sketch what usually happens. Ken, our statistician, does statistical analysis full-time. As with any other job, he's got a full plate of activities. The first time someone from outside the section asks for Ken's time, it may not be a problem. However, as the number of requests or the amount of time needed rises, Ken's boss starts asking, "So just when are you going to do the stuff I need?" Unless this can be resolved, Ken will be told to quit responding to these requests unless they come through official channels (i.e., his boss). And the network is prevented from working as intended. Unless managers can resolve the problem of sharing resources, you may run into an untenable situation: you know where the experts are; you just can't talk to them. Chapter 9 will address this issue.

A Willingness to Share and Learn

You can build a beautiful database, but if no one inputs any data, what good is it? Say I'm a whiz at writing bids for contracts. I know the requirements cold, and even the quirks and preferences of all the major customers. If I think that my job or my feelings of worth depend on having a unique competency, why would I want to load this knowledge onto a database for all to use? By making it widely available, I cheapened the value of my knowledge (and maybe of me).

For databases or any other type of structural capital to be effective, employees must believe it is in their best interests as well as the company's to share what they know. This belief cannot be compelled or mandated. Oh, you can order me to share, but since by definition, I know more about the contracting process than you do, just how do you know whether I've shared all I need to? Probably only after it's too late—when a bid has been unsuccessful after someone else besides me tried to use the data in the database. It's like a chef who gives you the recipe for his to-die-for chocolate cake, minus one ingredient.

Because sharing is always voluntary, the challenge is to create an environment in which people both want to share what they know and make use of what others know. Otherwise, databases and other structural capital are just expensive ways to keep the IT department busy.

In addition to getting people to learn, there is another, equally important challenge. The example used above assumes that everyone is dying to get this new knowledge and it's our old processes and attitudes that are getting in the way. But in fact, that's not always the case. Sometimes, people need to be encouraged to learn.

Let's return to the example of the consulting firm. One stumbling block was the compensation system but another was just plain human dynamics. Consultants are the purest form of knowledge worker since knowledge is the only thing they have to peddle. Like most knowledge workers, they're proud of their expertise and rightly so. However, this pride can make it more difficult to accept new knowledge. It can be a direct attack on the body of knowledge I've already mastered. Admitting I need to know something new may prompt me to wonder whether I really was doing the excellent job I always thought I did. And, to learn this new knowledge, I have to choose to be incompetent for a period while I struggle to understand, integrate, and use it. For those who have drawn self-worth and recognition from their expertise, it's a distasteful situation.

Most of us take pride in what we know and learning new knowledge can be both threatening and unsettling. Unless we're in an environment and with a boss where being temporarily incompetent is okay and where the new expert doesn't suddenly displace everyone else as the favorite son, it's less likely the new knowledge will proliferate quickly. Chapter 10 will tackle this topic on an individual basis and Chapter 11 will deal with it in a team setting.

Rewarding Knowledge

We've already discussed the problem some organizations are getting themselves into by assuming that the only lever they have to attract and retain knowledge workers is money. Money is of course an important element in maintaining your human capital but it is only one of several types of rewards which you can and should use. Chapter 12 will deal with money's role and other incentives to acquiring and using knowledge.

A Willingness to Change

As you can see, tapping intellectual capital requires substantial personal change of both managers and staff. Whether it's giving away decision-making power or overcoming resistance to new knowledge, these are challenges in and of themselves and we'll deal with personal change in Chapter 13.

Ensuring that structural capital really contributes to your store of intellectual capital requires people who are willing to share their knowledge, a free flow of information among all levels of the organization, a freer flow of people than traditional, and a willingness to learn from others. A network of structural capital is a necessary but not sufficient condition. Managing what goes into and comes out of your infrastructure is the source of true leverage.

Customer Capital

I bought my first PC when the term "PC" was a brand name. It didn't even have a hard drive and almost anyone else with a home computer was a geek-in-training. They were interested in how it operated and why. I just wanted it to work. I could care less about what was on the inside and the less I had to know, the better. I was a modern consumer, ahead of my time. Like me, today's customer has come to expect that products and services will be easy to use, practically indestructible and instantly repaired. Oh yes, and cheaper the next time he buys. And over the course of the last decade, companies have delivered on these expectations. However, given the demands for low price and high quality, it's not surprising profit margins are squeezed. With each individual sale producing less profit than previously, a company can stay in business only if customers will buy and rebuy. Customer loyalty is an important component of your success.

But customers are a fickle lot. Xerox conducted a study reported in Harvard Business Review. On a five-point scale, going from one (completely dissatisfied) to five (completely satisfied), customers who were fours (thoroughly satisfied) were six times more likely to defect than fives.5 Imagine, even customers who call themselves thoroughly satisfied will drop you like a hot potato! They have to be at the I-love-you-and-nothing-will-ever-break-us-up stage or they're not loyal. Yet their loyalty is critical to your viability.

New Management Challenges

The kind of fanatical loyalty you need to succeed in this volatile marketplace is not solely a function of price or quality. They're important of course, but all your competitors will eventually match them and, as we know, competing on price is a no-win game. As Fortune columnist, Geoffrey Colvin points out, you need to compete on service and innovation, "both of them nearly magical results of human interactions that will never be easy to engineer or even understand."[6] So, what human management challenge does this new relationship with customers generate? Customer capital requires:

Employees Who Build Loyalty

So how do you get these magical interactions that produce customer loyalty? Sears has done an interesting analysis that indicates employee attitudes about the job and company are two factors that predict their behavior in front of the customer, which in turn predicts the likelihood of customer retention and customers' recommending the company to others, the two factors that, in turn, predict financial performance. So loyal customers are a result of loyal and satisfied employees. Thus, you need both to build loyalty in employees (Chapter 14) and know how you're doing on building it (Chapter 15).

Will all this focus on the human dimension of intellectual capital really make a difference to the bottom line?

A good question and an important one. Asking managers to focus on amorphous issues like sharing and learning is difficult enough as it is—it needs to have a payoff. And the research shows there is one.

- Using the 61 publicly traded companies of the 100 named "Most Admired" in *Fortune's* 1997 poll, 45 yielded higher returns to shareholders than the Russell 3000 (an index of large and small companies that mirror the 100 Best). The 61 companies averaged annual returns of 27.5% vs. 17.3% for the Russell 3000. Ten-year patterns were the same. Russell 3000 annual returns of 14.8%; publicly traded Best companies, 23.4%.[7]
- Gallup matched employee attitudes with company results. Four attitudes, taken together, correlate strongly with profits: workers feel they are given the opportunity to do what they do best every day, they believe their opinions count (and simply you saying they do, is not enough), they sense their fellow workers are committed to quality, they've made a direct connection between their work and the company's mission.[8]

- Sears found that if a store increases its employee-satisfaction score by five measuring units in a quarter, the following quarter its customer-satisfaction score would go up by two units. This in turn leads to a revenue growth of .05% above the national average.[9]

So yes, this concern about the human side of intellectual capital does make a difference to the bottom line. It makes a difference now and it's going to be even more important as the information age picks up speed.

From Common Sense to Common Practice

We've done a quick tour of intellectual capital and the new people management challenges it generates. For your intellectual capital to be a competitive advantage, you must have employees who are willing to offer new ideas, share their own knowledge, learn from others, and create customer loyalty. The way to invite people to donate their intellectual capital to the company will involve revisiting and reworking many of the concepts such as shared decision making, creating a team, and employee loyalty that have been floating around organizations for years.

At this point, some of you may be thinking: "Been there. Done that. Got the T-shirt." However, when managers say they've done trust, involvement and communication, it reminds me of when Total Quality Management (TQM) was being launched. I knew how gut-wrenching and revolutionary TQM was if an organization was serious about improving its quality. It was a long and never-ending journey with a 70 to 80 per cent failure rate. So when I heard executives say, "Quality? Oh ya, we did that last year," I knew not only had they not, but whatever they had done, it wasn't going to improve quality. But when I heard, "Quality? We're trying but it's hard! We're not making as much progress as I'd like but there is some movement," I knew there was something there.

It's very similar with intellectual capital. It is difficult, not conceptually but in practice, to put a system into place which actually delivers the results you want. Moreover, it's easy to be fooled into thinking that the level of sharing and learning going on in your organization is what is actually needed to have a competitive edge. Allowing people to go on courses doesn't making an organization a learning one, anymore than people occasionally pinch-hitting for each other makes it a sharing one. The level of sharing and learning we're talking about is much more profound than most organizations have experienced.

So if you're tempted at points in the book to say, "Yes, but that's just common sense," you're right. It is often common sense but it is rarely common practice. The focus of the book is on what you need to do in order to turn common sense into common practice. And that is more of a challenge than I think anyone can imagine.

Summary

Just as information technology is causing a revolution in almost everything we do and think, so it is prompting an upheaval within organizations. New management challenges arise from the demands of working with knowledge, including the need to decrease issues of turf and increase employee loyalty.

This chapter has given you an overview of the human management challenges which intellectual capital brings to an organization. The next chapter will start to delve into each of these in more detail, starting with encouraging new knowledge to come forward.

Main Points

- Intellectual capital consists of human, structural, and customer capital.
- The human capital management challenges are encouraging new knowledge to come forward, tapping everyone's knowledge, managing knowledge you don't understand, and encouraging people to learn.
- Managing structural capital well requires a free flow of information, a freer flow of knowledge and people, a willingness to share and learn, and a willingness to change.
- The management challenge related to customer capital is creating and maintaining loyalty among employees who in turn determine whether customers are loyal.

S e c t i o n O n e

The Human Side of Human Capital

While building intellectual capital has many components—technology, systems, and measurement—the most important is the human dimension. Managing human capital to leverage its worth for the company requires:

Encouraging New Knowledge. Even if your people know a lot, if they can't or won't apply this knowledge to their jobs, it can't create wealth. Chapter 2 deals with how managers can encourage new knowledge to come forward from individuals.

Pushing Down Complexity. The days when managers made all the decisions and workers did all the work is long since past. In order to leverage the human capital in the organization, managers must help employees understand the company's strategic direction and how it applies to their work. They can do this by pushing down complexity (Chapter 3).

Tapping Knowledge Throughout the Corporation: Consultation. Once employees understand the business environment, their input into corporate decisions can be invaluable both for the specialized knowledge they can bring to bear and to increase their commitment to the organization's goals. However, while valuable, the process of consultation needs to be managed carefully. How to do this is covered in Chapter 4.

Tapping Knowledge Throughout the Corporation: Involvement. Similarly, asking employees to decide or recommend on the big business challenges of the day can have important pay-offs for the company, but ensuring that the involvement process builds rather than destroys commitment and trust lies in careful implementation. This process is discussed in Chapter 5.

Managing Knowledge You Don't Understand. As the amount of knowledge available grows by leaps and bounds, workers must increasingly specialize in order to master a particular niche. Managers are faced with more and more employees whom they must direct without an in-depth understanding of what the employees do. Chapter 6 will consider how to deal with this conundrum.

Encouraging People to Learn. Intellectual capital is only a sustained competitive advantage if it continues to grow. Thus, the people in the organization must be able to enhance their store of knowledge and skills through on-the-job learning. However, a learning program is more than a few courses and Chapter 7 will cover how to set one up which will encourage the kind of continuous learning an organization needs.

Footnotes

[1] Or ability to fulfill your mandate. I realize that in non-profit and public sector environments, competitiveness will not be as relevant. However, the principles to be discussed have as much relevance in terms of delivering on your mission.

[2]They prefer red.

[3] Leif Edvinsson and Michael S. Malone, *Intellectual Capital: Realizing Your Company's True Value by Finding Its Hidden Brainpower* (New York: HarperBusiness 1997), 57.

[4] Ibid, 46.

[5] Thomas A. Stewart, "A Satisfied Customer Isn't Enough," *Fortune* (July 21, 1997): 112.

[6] Geoffrey Colvin, "Art of Becoming Unbeatable," *Fortune* (November 24, 1997): 299.

[7] Linda Grant, "Happy Workers, Happy Returns," *Fortune* (January 12, 1998): 81.

[8] Ibid.

9 Sherman Stratford, "Bringing Sears into the New World" *Fortune* (October 13, 1997): 183