----Original Message----

From: Debra Amidon [mailto:debra@entovation.com]

Sent: Wednesday, September 12, 2001 5:06 PM

To: director@fasb.org

Subject: In support of Intangible Value on the FASB Agenda

Letter of Comment No:

Date Received: 911201

File Reference: 1123-001

12 September 2001

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Lucas:

It is my understanding that FASB is now considering addition a careful analysis of the merits of reporting potential indicators of intangible, intellectual value that are not currently reported on the traditional financial balance sheets

As one of the pioneers of the knowledge movement - having written about the

intellectual wealth of a nation in 1987 - I can only applaud your efforts. I see so many other organizations and self-espoused experts in the field offering their proprietary models as standards and I believe that only a Board such as yours can provide the necessary direction forward.

My travels take me to all corners of the global and our network, now spanning 80 countries, includes many of the thought leaders in the field. We are all learning together; and so even though we have not all the answers, a careful, thoughtful assessment of what we do understand in the new economy

should be articulated by prestigious groups such as your own.

This is the new Knowledge Economics as I wrote about in my book - Innovation

Strategy for the Knowledge Economy (1997) -

http://www.entovation.com/backgrnd/art.htm. In the subsequent publication published by the Society of Management Accountants of Canada (1988), Collaborative Innovation and the Knowledge Economy -

 $\underline{\text{http://www.entovation.com/backgrnd/future.htm}}, we actually articulated the$

trends entitled the 'Economics of Intangible Value.' We have also, through a variety of electronic newsletter articles informed our worldwide audience on developments on Measuring Intangible Value -

<u>http://www.entovation.com/whatsnew/intangible-innovation.htm</u> - and building

IC Reports for Nations - http://www.entovation.com/whatsnew/ic-nations.htm.

And this is only the beginning...

We are experiencing a fundamental transformation all over the world with unprecedented implications on all economic levels: micro-, meso- and macro-economic. A new world order is evolving - one that is based upon knowledge or intellectual capital, rather than financial capital. This is what I witnessed at the World Knowledge Partnership Meeting in Kuala Lumpur,

Malaysia last year -

http://www.entovation.com/whatsnew/knowledge-societies.htm - with 90 countries building Knowledge Societies. It is incumbent upon us all to comprehend what all this might mean in terms of bridging these worlds. The insight of FASB is integral to such an understanding.

Please keep me apprised of your progress.

Sincerely yours,

Debra M. Amidon

Debra M. Amidon Founder and Chief Strategist ENTOVATION International, Ltd. 2 Reading Avenue, Suite #300 Wilmington, Massachusetts 01887 USA

T: 978/988.7995 F: 781-939-0877

E-mail: debra@entovation.com URL: http://www.entovation.com

"Innovating our Future...together."



Power of Innovation Capital: Leveraging Collaborative Advantage

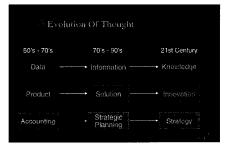
By: Debra M. Amidon

The dawn of the new millennium has been met with great enthusiasm and an equivalent commitment to change – or as we prefer to call it – innovation (the capacity to preserve the best of the old and realign the rest to take advantage of future opportunity). Individuals and organisations from every function, sector and corner of the globe are envisioning a new economic world order – one based upon intellectual, not financial capital. Of course, knowledge has always been an essential element in the advancement of civilisation, but today's emerging economy proposes that knowledge be managed explicitly.

Today, we know that the knowledge agenda is worldwide, pervades every function and every industry, and has implications for industrialized and developing nations alike. Indeed, it has become an agenda of international collaboration. There is no

such thing as a non-knowledge worker, nor is there such a thing as a non-knowledge-intensive industry. The knowledge of all individuals is important. Knowledge is what makes companies unique – even within the same industry. And, we have more to gain by building upon the competencies of one another as nations. The focus on knowledge strategy is nothing less than a platform for world peace.

The innovation of which we speak and must manage is not a function of the



flow of technology, or even the flow of materials into viable products and services. Rather, it is the learning process – the pace and effectiveness with which knowledge is exchanged – and how swiftly ideas (old and new) are applied.

We are just beginning to discover how to value knowledge in our organisations and the fact that knowledge has no value until it is put to use. Leaders in technological innovation and knowledge management are beginning to converge in their concepts and in their practices. University research initiatives are beginning to prollferate. Nations are launching initiatives for 21st century positioning, and societal organisations, such as The World Bank, UN, EU and OECD, have placed knowledge and learning as centre stage for future sustainable economic development. It is only the beginning.

Knowledge value proposition

Much progress has been made in our quest for harnessing intellectual capital. Over the last decade, we have learned that there is a difference between tacit and explicit knowledge; and there are ways to make our insights visible and even convert them to structural and/or financial capital. We also know that those companies able to

explicitly manage their innovation infrastructure – within which ideas are created and commercialized – are considered market leaders.

We live in an era of 'kaleidoscopic change'. It is not the speed of change of one variable, or the speed of change of multiple variables challenging today's management executives. It is the compounding effects of the speed of change of multiple variables creating a business landscape where old traditional policies and practices are not sufficient. Just as with a kaleidoscope, one may not know how the weight, shape or texture of pieces combines to form a new image. What we do know is that there is no turning back. Executives are challenged to manage enterprises in a world where the economic rules have changed and the new ones have yet to be invented.

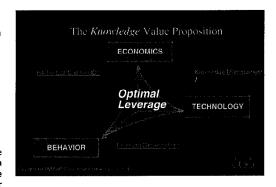
To be more specific, today's companies measure success based upon cost, quality and time. However, as the marketplace becomes hyper-competitive, the performance metrics become more complex and intangible, the organisation becomes more networked, people become more empowered and energized, processes become boundary-less and the enterprise will increasingly reliant upon technology. And as enterprises become more reliant on technology and its attendant complexity, they will become more dependent upon the knowledge and behavior of employees as well as other stakeholders – both inside and external to the firm. Simultaneously, performance metrics will become more hidden, intangible – related to what leading management philosophers have defined as intellectual capital. Therefore, the traditional value proposition of cost, quality and time – although still very important – is just not enough.

Balanced management

Modern value propositions, then, must balance these complex, interdependent factors: performance, behavior and technology. A focus on one aspect will have an

automatic effect on the other elements. Only a balance among the three in an innovation process enables an enterprise to be centered and capable of managing forward toward sustained prosperity. The knowledge movement has taken flight in every function, every industry and every corner of the globe – developing and industrialized nations alike.

What follows are some of the items to consider under each management factor. The actual elements will differ



between organisations, industries and countries. However, the universal concept is that a management system requires the balance of all three, and the interrelationship among the factors may be more important than the discrete categories themselves.

- Performance Economics (intellectual capital) Metrics for investments and profitability; asset identification (financial, technological and intellectual); qualitative/quantitative success measures; budget level; resource mix; rewards/incentives: tax structure and creative financing mechanisms.
- Behavior (social capital) Learning networks of expertise; system dynamics; reporting relationships; staffing patterns; cultural and cross-cultural aspects; llalson relationships; collaborative strategles; sense of purpose; work imperatives; individual/organizational balance; development plans; learning philosophy; role responsibilities; work design; simultaneous parallel activities; cross-fertilization of ideas; cross-functional teaming; global souring; benchmarking best practices; periodic review and evaluation; and communication strategies.
- Technology (technological capital) Electronic communication infrastructure, intelligence system, service delivery techniques; technology advancements; transformation; shared technology resources; collaborative groupware; workflow documentation, intranets, corporate portals, decision support, computer memory and network management tools.

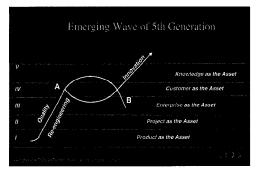
It is easy to recognize that the behavioral aspects (for example psychology, sociology, anthropology and political science) are the crux of the productivity paradox. This is precisely the driver that has led executives to begin to assess the implications of the human capital as a tangible, measurable asset. How can it be measured and leveraged?

Many consider this movement is the brainchild of consulting firms – searching for a new label for their change management, re-engineering practices. Others, especially in the US, consider knowledge management a function of the technology – with the use of intranets, the internet and the inevitable e-commerce. There are many that minimize the immediate economic rewards because the concepts are 'theoretical' and 'academic.' None of these assertions are accurate in-and-of-themselves.

Innovation in the workplace

Reality is that this knowledge movement is actually one born out of practice, not academic theory or consulting models. Modern managerial concepts are being innovated on a daily basis. There are least three sub-themes of the movement – each with leadership from both academia and industry. The focus on intellectual

capital has been led Leif Edvinsson, Karl-Erik Sveiby and Baruch Lev (USA). Hubert Saint-Onge (Canada), Ikujiru Nonaka (Japan) and Peter Senge (USA) may be credited with the behavior or learning perspective that builds social capital. And Kent Greenes (UK), Bipin Junarrkar (USA) and Delphi (USA) have been applying the concepts with award-winning architectures and technology infrastructures – building technological capital. It is the combination of all three that



constitute innovation capital - the power of putting knowledge to use.

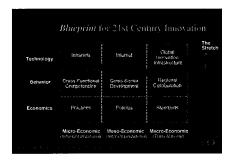
In a time when both the rate of change and the growth of knowledge keep accelerating, the more people you have who can learn more in a shorter period of time, the more competitive you will be. The real formula for success is less mechanistic: It requires the creative energies of everyone associated with an organisation, as well as careful stewardship of an organization's shared purpose and practices. Many have described the fact that learning may be our only competitive weapon. Few have created mathematical formulas to describe the phenomenon. Imagine the power of the model when applied to building collaborative, not competitive advantage.

Digital Equipment Corporation in the US was a company considered a managerial enigma. It was the leader in the mini-computer industry with progressive management policies, low turnover, high churn rates and the largest user society (close customer intimacy) in the industry. The company had the largest intranet before there was even such a term for the vast internal technology network. Perhaps the fact that Compaq bought Digital when Digital should have acquired Compaq is a prime example of how knowledge resources can be mismanaged. In contrast, our research shows that successful knowledge leaders are visionary, holistic, systematic, and encourage an environment of teamwork, learning and innovation. They know how to take advantage of the opportunities afforded a knowledge economy.

21stt century innovation strategy

The challenges that confront institutions approaching the third millennium are complex, diverse and compelling. Such change dynamics are kaleidoscopic in nature, transformative in impact and international in scope. One could take on the traditional planning role of identifying and overcoming obstacles in attempts to control the environment so as to minimize any negative impact. Such has been the focus of competitive strategy for the past three decades.

A more constructive strategy is collaborative and synergistic. It embraces the inevitability and strength of change in ways that catapult learning forward, stretch imaginations and define common ground for contributions from diverse paradigms. Such a strategy recognizes the value of the whole and its interrelated parts, operating as an evolving ecological system in which streams and crosscurrents of activity are opportunities to harness the value of knowledge.



Creating the innovation culture where knowledge is valued and shared effectively is one of the most difficult challenges faced in practice. One of the primed influences may actually be the competitive environment that has been developed over time and begins with a child's birth. Competition is healthy when describing sports, and it was appropriate for an economic climate where resources were plentiful. Once global competition

became a reality, available resources shrank rapidly overnight. However, the knowledge economy promises an abundance of resources if the metrics and measurement systems can be properly defined.

Of primary importance is the innovation language – a language that transcends the paradigm and biases of one function or another. Ideally, such a language would also encompass industries, sectors and regions of the world, and therefore be universal in scope. There are several attempts to define the language with a glossary of terms. Of course, the language must be adapted to the heritage, purpose, mission and strategy of a particular entity. It is important that the language be established and pervade all operations and planning efforts.

Shared purpose is essential for an enterprise to thrive in the dynamic global economy. Amidst the turmoil and chaos of the past decade, throughout downsizing and re-engineering processes, many organisations have lost their sense of direction. Initiatives have become fragmented and, worse still, Internally competitive. Interestingly enough, it may not be the financial resources that are scarce today as much as the mind-set and available commitment time of the enterprise leaders. Too often managers operating in the traditional, competitive work climate are managing initiatives with unnecessary duplication of effort and sub-optimal allocation of resources. In many instances organisations must find a way to coalesce, rededicate themselves to a common agenda and respect the complementary competencies that can be brought to bear. Creating the community of innovation practice may be one way to begin the process.

Innovation must be in the head, heart and hands of every participant in the system. It does not mean that everyone is an expert technician and expert marketer at the same time. What it does mean is that everyone has knowledge of the entire innovation system and his/her particular role in that process. It does mean that there is some common language and shared purpose, and that the boundaries fade between functions, sectors, industries and cultures of the world. It means that there is a basic trust, mutual respect and collegial competencies. In addition, it is likely that a thirst for learning pervades the culture.

That being the case, players at all enterprise levels (from microeconomic to macroeconomic) can share these modern management philosophies, an in so doing overcome the barriers and obstacles to progress.

Academics, government officials, industrial executives and non-profit practitioners may all participate in this community of innovation practice. With this in mind, a three-dimensional transformation matrix has been and can be applied. This includes the activities that can be mapped according to the different economic levels, as well as the three elements of the architecture: economic, behavioral and technological.

Management accountants should think about their activities, according to three time lines: immediate (one year), medium term (one to three years), and long term (three to six years). These can be completed function-by-function, business unit by business unit, company-to-company, sector-to-sector, and nation-to-nation. In short, this is the blueprint that could provide a mega-level view to contrast the innovation activities.

(Published in: Business Excellence for the Intellectual Capital Investor. Issue 1, Summer 2000)