Column
IP Merchant Banker

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Another leap forward

Is management obsolescence the next stage in the development of the intellectual property economy?

Habit, if not resisted, soon becomes necessity.
St Augustine

St Louis, Missouri, 15th May 2008: Intellectual property is a particularly good way to protect productivity. Knowledge gained through innovation can reduce labour, improve material efficiency and eliminate error. If intellectual property is like an iceberg, then productivity IP would be the 90%-plus of ice that lies below the waterline. Of course, intellectual property itself is a productivity measure because its creation is often the result of a formal process to increase outputs while minimising inputs. But more often than not, productivity IP is an exclusively internal intellectual asset of businesses that increases both the competitive advantage and size of profits on the bottom line. It is harder to dissociate productivity IP as a discrete financial asset of a business, so we tend to lump its financial effect in a stock premium the business holds in relation to its peers in the marketplace.

The history of productivity IP has passed through the agricultural and industrial revolutions. It is now well underway in the profession services arena as computers and the internet provide software and hardwiring to replace brain power with kilowatt-hours and mass storage servers. The intellectual property that improves productivity often arises in businesses situated in first-world economies so that, once discovered, they are intangible tools that are readily exported to cheap labour markets.

In effect, the intellectual property system hardwires the knowledge of advanced economies whose circuitry can then be exported globally. This is a double productivity effect because unit labour costs can be reduced while processes improve.

When the labour effects were limited to reducing production workers and clerks, which is to say the persons tasked to perform the hardwired knowledge and not the knowledge workers themselves, it was easy to see the reduction of first-world jobs and the export of smarter jobs as global economic progress. But now it is knowledge workers themselves, whether managerial or professional, that are increasingly the targets of opportunity in productivity innovation. On the current trend line, even intellectual asset managers may have to consider the prospects of outsourcing – or being outsourced – as part of the central process of IP management. All of this seems quite paradoxical: why would anyone work towards a goal that is likely to result in the extinction of their livelihood? Better to be a Luddite.

To understand the why of job obsolescence we need to consider the motivations of economics. Intellectual property, despite its monopoly protections, may be one of the last true endeavours of free market capitalism in the Adam Smith mode. Market capitalism is cost driven so that at innovation's endpoint we have the least costly goods and services. When intellectual property is not creating completely new articles of commerce – which is quite rare – it is always seeking novel and useful ways to serve human needs.

The useful part of intellectual property relies on economic theory to explain useful in terms of lower cost. The free market capital model extends to profits as well, so profits as well as costs will approach a minimum in free markets. This is a completely rational argument for capital which is, after all, a number system for money, but not for capitalists – the living persons and enterprises for which capital provides a livelihood.

Because the modern economy requires combinations of labour, capital and know-how, we use the law to organise and create the business organisations – corporations, partnerships and trusts – to carry out our business missions. This has been a handy way to combine the needs of capital owners who need to make money from capital to the needs of capital users such as labour and vendors who need money to make a living. To mediate these processes we have a managerial class to serve capital owners and pay capital users.

So far we have not discovered a better structural model for business. As a result, management has been able to successfully exploit its critical path position between capital and the marketplace. This monopoly of structure, not surprisingly, has resulted in an extraordinary rise in compensation for the managers of capital. To their credit, the managerial class has managed the franchise to create a scarce resource effect that transcends the structure monopoly. We therefore must pay top management more to access the limited supply of top managers to serve the capital markets.

As management in its core essence is the application of wisdom and judgement from accumulated experience to successful decision making in the present and for the future, one may wonder: has intellectual property itself not captured some of this managerial essence? If it has, as some believe, then perhaps management itself can be displaced by technology and/or outsourced to cheaper markets. After all, information technology and computational modelling have radically transformed all manner of professions, from medicine and manufacturing to accounting and animation. But so, too, has the infrastructure of capital markets changed.

Mass information and data systems now make it possible for small capital owners to lend directly to small capital users. This has had great positive effects in remote, emerging third-world markets, where US$500 can create immediate, community-wide tangible wealth better with cellphones and solar chargers than can US$500 million in hydro-electric projects mediated by corrupt governments. And such effects are not limited to the third world. Micro-lending obviates in part the traditional banking and financial institutions required to accumulate capital for re-investment.

So perhaps I was mistaken and intellectual property has indeed changed the model for business itself. Speaking on behalf of small capitalists and capital users everywhere, that might be a great leap forward for us all.

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