

MAXIMIZING ROI IN HUMAN AND INTELLECTUAL CAPITAL: AN INTEGRATION METHODOLOGY

Introduction

People and other intellectual resources have become for many organizations their most important forms of capital, resources in which they invest with an expectation of returns through improved performance and capabilities.

While human capital is generally regarded as the most important form of intellectual capital it forms part of an interconnected triad of capitals, the other two commonly defined as social or relational capital (relationships between people: employees, customers, suppliers and others) and structural or organizational capital (technologies, processes, brands, patents and other intellectual assets). All three capitals are closely interdependent – in organizations what you know is often dependent on who you know and vice versa; people, systems, technologies and processes need to operate in unison to influence performance.

The interconnected and interdependent nature of intellectual resources suggests that they would benefit from holistic and integrated approaches to planning and management. The OECD and other expert bodies have shown however that organizations typically do not have well integrated strategies for managing what are often their most critical assets.

Planning and performance management tools such as scorecards and dashboards, activity based costing, total quality management, business process management, enterprise resource planning and Six Sigma have proven individually useful but none offer an integrated approach to managing intellectual resources.

Knowledge-based approaches have highlighted the importance of acquiring, sharing and exploiting intellectual resources but have generally failed to reconcile and integrate humanistic perspectives of knowledge as essentially embodied in the human knower and technological concepts of knowledge as disembodied symbolic representations.

Approaches based on intellectual capital accounting and reporting have had some success in measuring structural assets such as patents or brands but are ill suited to modelling dynamic interactions between people and other assets and their performance effects.

Organizations are clearly managing despite the evident limitations of current tools so what practical benefits they can expect from adopting more holistic and integrated approaches? An indication of the potential benefits can be gained by considering the following propositions and ranking your organization's current performance on each one on a scale of 1-10:

- Our people and other intellectual resources and linked support services and activities are optimally aligned with our business strategy and internally with each other.
- We both generate and capture maximum value from our investments in people and other intellectual resources.
- We can accurately model and measure how people and other intellectual resources interact and influence business performance
- We make effective insourcing and outsourcing decisions involving people and intellectual resources.
- We have well integrated information and knowledge management strategies.

An average score of 7 or less out of 10 to these questions suggests your organization could benefit from a better integrated approach to managing its human and intellectual capital. The balance of this paper describes such an approach and the benefits to be obtained.

An Integrated Approach to Managing Intellectual Resources

Research and practice have shown three important and interrelated principles to be critical in developing an integrated approach to managing people and intellectual resources: *fit*, and *dependency* (both drawing on contingency theory) and *systems thinking*.

Fit based approaches stress the importance of alignment or congruence, externally between the organization and its environment (vertical or strategic fit) and internally between organizational resources and activities (horizontal fit). Fit based perspectives have been successfully used in strategic HR to diagnose and optimize fit of HR strategies with business objectives, and fit of internal HR practices with the varying demands of disparate human capital and with each other. Knowledge-based strategies have similarly emphasised the importance of knowledge-product congruence for knowledge integration and alignment of knowledge domains for knowledge sharing.

Dependency perspectives stress the importance of coordination between people, tasks and resources. Organizations produce value in different ways, involving different types of interdependency. Manufacturing organizations for example tend to use production methods involving sequential interdependence, as in a production line. Banks tend to rely on centralised IT systems creating a form of pooled interdependence. Hi tech and professional service firms tend to rely on reciprocal interdependence between consultants in solving customer problems; similarly in hospitals, nurses, doctors and other specialists interact reciprocally with each other to manage patients' health outcomes. These differing forms of dependency have been shown to require different organizational strategies and control systems.

Fit and dependency perspectives are mutually complementary and reinforcing. Fit-based perspectives help to ensure that people, activities and resources are well aligned while

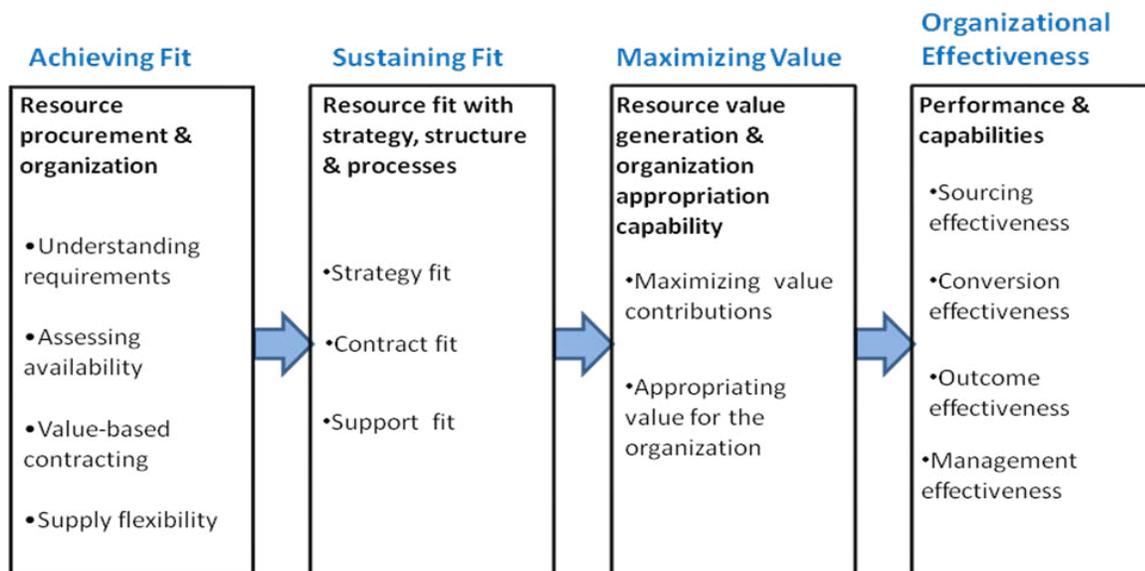
interdependency perspectives reveal how they interact and depend on each other to influence performance.

The *systems* perspective complements both fit and dependency by viewing organizations as multilevel systems involving fit and dependencies between organizational elements across individual, group and collective levels. Optimizing on one set of resources, activities or organizational level without reference to others may have suboptimal or even negative consequences. For example alignment of HR practices such as staff selection, training and compensation with the differing human capital characteristics of various categories of employees may prove suboptimal if those employees and the HR support services they use rely on IT services that are inadequate or ill suited to their needs.

Combining fit, dependency and systems-based perspectives provides a basis for integrated approaches to planning and performance. Using these principles and drawing on knowledge based, strategic HR and value -based management concepts has enabled us to develop a generic methodology for planning and managing intellectual resources. The core elements and application stages are shown below (see fig.1 intellectual capital integration model).

Core components of the methodology depicted in Figure 1 have been successfully field tested around the world and results reported in a variety of published studies. A recent implementation of the overall methodology involving 15 departments and 85 job functions in two major hotel groups in Australia provided strong support for its ability to demonstrate the links between how firms source and manage human capital and their business performance.

Figure 1 Intellectual Capital Integration Model



Implementing the Intellectual Capital Integration Methodology

The methodology is designed to be implemented in stages; each stage involving a diagnosis of factors associated with resource fit followed by an analysis of resource interdependencies. While the model can be used to diagnose and optimise fit and interdependencies between any resources, the logical starting point for most organizations is to commence by assessing human capital alignment and interdependencies with other key resources such as information technologies (IT), business processes, brands, etc. From a human capital perspective each stage involves the following activities:

1. Achieving human capital fit by identifying and appropriately contracting with people having the human capital characteristics required by the organization.
2. Optimizing and sustaining fit by aligning human capital, work contracts and HR practices.
3. Motivating individuals to develop and contribute their human capital in ways useful to the organization and ensuring the organization’s ability to capture the benefits of their contributions.
4. Optimizing performance and measuring effectiveness.

Figure 2 (below) provides some examples of fit measures and related people-IT interdependency factors based on a hypothetical Stage 1 audit of human capital fit.

Figure 2: Stage 1 Capabilities audit example

| Capabilities | Typical fit measures | People- IT interdependency examples |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Stage 1 Achieving Fit | | |
| 1.1 Knowledge of human capital demand | Awareness of organizations human resource requirements. | Knowledge of resource requirements may depend on knowledge of what systems are required and the IT knowledge people need to have. |
| 1.2 Market Availability | Availability of people with requisite skills and experience. | Requisite skills and experience may include IT knowledge. |
| 1.3 Knowledge of value-based contracting | Understanding fit between strategic value of people to the organization and choice of contractual arrangements | Knowledge of the strategic value of resources may depend on estimates of people’s IT knowledge and IT value to people. |
| 1.4 Supply Flexibility | Levels of resource flexibility and organizational coordination flexibility. | Human resource supply flexibility may depend on people’s knowledge of IT. The extent to which HR and other management practices can be reconfigured to adapt to new demands may depend on the flexibility of IT systems and support. |

Implementation process and options

The methodology is typically implemented in two phases as indicated below. Interventions may be implemented progressively during each stage, based on diagnostic feedback or alternatively after a general audit has been completed.

Phase 1: Capabilities Audit:

This phase uses a survey methodology to diagnose and measure an organization's current capabilities, in terms of fit of human and other resources and the status of resource interdependencies. Outputs from this stage comprise a series of scorecards that rate the organization's capabilities and highlight items requiring management attention.

Phase 2: Targeted Interventions:

This phase is based on the findings of the Stage 1 audit and is designed as a series of practical and actionable recommendations to improve resource fit and interdependencies.

Benefits Summary

Benefits obtainable from use of the methodology include

- More effective and efficient resource procurement (insourcing and outsourcing)
- Greater resource and coordination flexibility
- Better fit of resources, contracts and management practices
- Improved ROI from resource investments
- Improved performance and capabilities

From an HR perspective the benefits relate to 4 major areas of organizational effectiveness:

Sourcing Effectiveness: Improving sourcing of human capital

- Improvements in staff sourcing and selection methods
- Better strategic decisions regarding internalizing and externalizing of work
- Improved contractual arrangements

Conversion Effectiveness: Improving the value that the organization reaps from its human capital

- Closer alignment of HR management practices with the specific needs of different categories of internal and external staff
- Improvements in workforce willingness to contribute

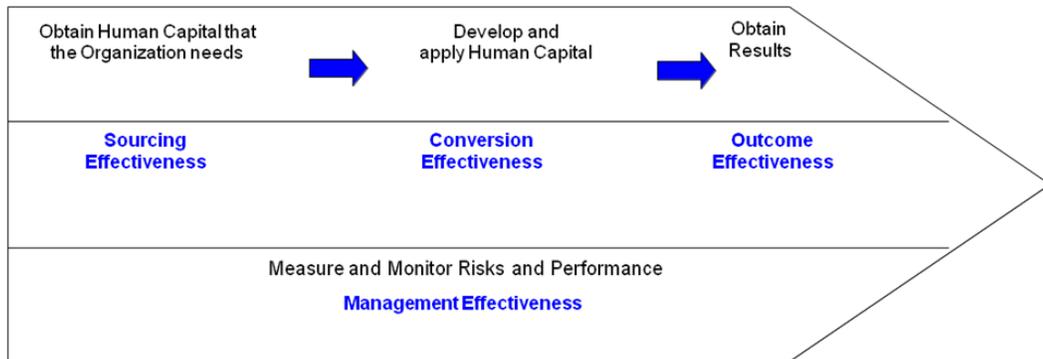
- Greater ability to identify, capture and exploit workforce knowledge

Outcome Effectiveness: Improving business performance

- Enhanced business performance modelling and planning capabilities
- Enhanced contribution from linked resources e.g. IT resources

Management Effectiveness: Improving the way that risks and performance are measured and monitored

- More accurate and precise measures of workforce and business performance
- Better tools for analysing opportunities and risks



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