Intellectual Capital: A Human Resources Perspective

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ABSTRACT

The purpose of this paper is to underscore the importance of intellectual capital, particularly at this time in terms of our current economic business environment. It is the opinion of the authors of this article that intellectual capital is “knowledge” and “experience” that directly contributes to a company’s bottom line, as well as directly contributing to an organization’s survivability and sustainability. Intellectual capital includes knowledge and competencies residing with the company’s employees.

Keywords: Intellectual Capital, Human Resource Perspective, Preserving Human & Relationship Capital

INTRODUCTION

The term “Intellectual Capital” (Sullivan, 2000) collectively refers to all resources that determine the value of an organization, and the competitiveness of an enterprise. Understandably, the term “intellectual capital” from a human resources perspective is not easily translatable into financial terms. For all other assets of a company, there exists standard criteria for expressing their value. Perhaps, this term could more appropriately termed a “non-financial asset.” In an article written by Paolo Magrassi titled Taxonomy of Intellectual Capital”, 2002, Mr. Magrassi defines human capital as “the knowledge and competencies residing with the company’s employees” and defines organizational intellectual capital as “the collective know-how, even beyond the capabilities of individual employees, that contributes to an organization.”

Although there has been an increasing interest in intellectual capital and an increasing interest in how it might be managed, there has been little written to succinctly describe and define the concept. This article is intended to describe where and how it fits into the collective knowledge of an organization. Therefore, this article is intended for academicians and practitioners alike. It is intended to provide an overview of intellectual capital, where it fits into an organization, what the component elements of it are, and what might be done to manage them.

Intellectual capital can include the skills and knowledge that a company has developed about how to make its goods and services. It also includes insight about information pertaining to the company’s history; customers; vendors; processes; stakeholders; and all other information that might have value for a competitor that, perhaps, is not common knowledge. Intellectual capital is therefore, not only organizational knowledge, it is also industry knowledge. It is the combination of both cognitive knowledge and intuitive/experience-related knowledge.

ELEMENTS OF INTELLECTUAL CAPITAL

In all definitions of Intellectual Capital, the following taxonomy can be recognized:
• Relationship Capital: All business relationships a company entertains with external parties, such as suppliers, partners, clients, vendors, etc.
• Human Capital: Knowledge and competencies residing with the company’s employees.
• Organizational Capital: The collective know how, beyond the capabilities of individual employees.
  E.g. Information systems; policies and procedures; intellectual property. (Sullivan, 2000)

The importance of knowledge pertaining to external parties relevant to an organization has been emphasized as an especially important body of knowledge pertaining to all aspects of the organization. (Majfud, 2009)

**PRESERVING INTELLECTUAL CAPITAL**

The problem today in many organizations is employee attrition through layoffs, resignations, retirements, and other forms of employee separation from the company. We would like to ask employers the following question… Are you sure that when the economy sufficiently turns around, you are able to predict if your most valuable employees are about to walk out the door?

Employees have extensive knowledge about their job, the business processes, the data that supports their jobs including how to make things happen, and what works best. Unfortunately, in most instances today their knowledge has not been captured, transferred, or made available to others. In a recent “Business Week” article (Nov., 16, 2009) one of the publications’ editors, Deborah Stead, writes about the importance of identifying and recognizing the importance of preserving intellectual capital. In her article titled “Are Your Employees Just Biding Their Time?”, the article discusses that the current unemployment rate across the country has scared working Americans into hanging on to their jobs at all costs. The Bureau of Labor Statistics (year-end, 2009) reports that just 1.3% of employees voluntarily resigned their jobs. However, the article goes on to express that employers that do not fully recognize the importance of employees should not count on workers’ loyalty to outlast the recession.

To add to this viewpoint, the BLS reports that the “engagement” or “loyalty” of top-performing employees has dropped by 25% over the past year, largely because people who kept their jobs have been soured by extensive layoffs, cuts and/or elimination of various employee benefit programs, and the significant elimination of promotions. It is the opinion of the authors of this article that employers should be mindful that when the job market improves, many of these employees might have become disengaged with their employer, and will move forward to leave their current jobs for other new opportunities.

It is very probably that many employees at this very time are quietly researching other places to work. In a Monster.com survey taken in May, 2009, 79% of jobholders expressed that they had stepped up their search for a new place to work since the recession began. It is one of the main themes of this article that many employers may not fully grasp what it takes to retain good people. Therefore, “Intellectual Capital” is not only today’s challenge, but will most likely become tomorrow’s asset.

**THE IMPORTANCE OF IMPLEMENTING INTELLECTUAL CAPITAL PROCESSES**

A key challenge today is that employees have tremendous knowledge about their job, the business processes, the data that supports their job and those processes, as well as knowledge of how most effectively to make things happen, and the insight about what works and what does not. Unfortunately, in most situations, they have no means, or incentive, to share their knowledge. i.e. Their knowledge has
not been captured, transferred, or made available to others. One impact of today’s recession and unemployment situation is that this knowledge is potentially lost to the organization. It is the opinion of the authors of this article that a critical challenge for Human Resources professionals and managers to obtain and store information about:

- Core job knowledge of all employees, their experience, and their key skill-sets.
- Training is perhaps more important than ever.
- Performance review systems are based upon meaningful metrics.
- Development of effective succession planning systems.
- Leadership and management development programs.

The successful implementation of new technologies, therefore, is dependent on many factors including the efficient management of human resources systems and processes. The Human Resource Departments are well positioned to ensure the success of knowledge management programs, which are directed at capturing and using employees’ knowledge, and by meaningfully implementing an appreciation for preserving Intellectual Capital.

Global organizations have an even more demanding requirement to capture and understand intellectual capital given differences in language, culture, time zones, and all other forms of communication requirements.

The corporate knowledgebase is fluid and must respond to the ebb and flow of required knowledge throughout the organization. It is the opinion of the authors that most of the intellectual capital resides in peoples’ heads, and one of the objectives of knowledge capture is to reach out and encourage people to share.

**The Value Factor**

The value to the organization of such a knowledge repository is almost incalculable. Consider the collaboration and communication opportunities and all network/peer relationships that have been established. The knowledge repository could be an invaluable resource database. The opportunities for problem solving and interactive sharing are quite apparent.

**EMPLOYEE AND MANAGEMENT TRAINING & DEVELOPMENT**

The knowledge repository could also be used for training new employees. This repository would be a ready-made reference source when there are problems to be solved.

Capturing intellectual capital and the resulting organizational insights could become core and important functions of Human Resources management. At some point, metrics would also be useful to indicate usage, to indicate what is and what is not being accessed, and also to give management a sense of the value of the knowledge repository.

The types of knowledge that would be relevant for intellectual capital are data definitions, business processes, business rules and procedures, specialized technical knowledge, the “fit” with the corporate culture, management styles, organizational history with customers and vendors, and how data flows through the organization.

**Capture Process**

The capture process would include structured interviews that would be specific to each department and functional area in the organization, and specific to the types of knowledge that would be seen as most
important. The results of these interviews would then need to be validated for accuracy and usability. The knowledge repository must be organized to make it both useful and accessible. (Adelman & O’Neil, 2007)

**Socialization of Knowledge**

Knowledge builds off other knowledge; it is cumulative. One thought or idea is built from preceding thoughts and ideas. The internet and computer technology offers many vehicles for the socialization of knowledge. Some of these vehicles include the following:

- Groupware and collaborative software
- Wikis
- Portals
- Threaded conversations
- E-mail lists
- Online chats
- Social networking

**STRATEGIES FOR IMPLEMENTING INTELLECTUAL CAPITAL KNOWLEDGE**

One pragmatic recommendation for implementing an Intellectual Capital Knowledge process would be to establish a “pilot” program. This pilot could initially focus on an individual department within the organization. The authors think that the Human Resources Department would be an excellent choice. The purpose of the pilot would be to evaluate the usefulness of this initiative, to learn from its successes and problems, and to provide a template for the capture and dissemination of knowledge in other departments and functional areas.

This pilot would need a strong sponsor and facilitator. Perhaps this could initially be the senior level Human Resources person. The title of this person, with regard to a pilot program, would essentially be the Chief Knowledge Officer for the organization. To get this off the ground, the participating employees would need to have a high level of buy-in and commitment to this process. The pilot project should be evaluated for the value it provides to the organization. The primary determinant would be the level of access to the knowledge repository. This knowledge repository would need to be effectively maintained and kept current for it to remain valuable.

With the establishment of a pilot program, starting with the Human Resources Department, data would need to be identified and stored in such areas as: (partial listing)

- Benefits administration
- Compensation structure
- Compensation strategies and practices
- Performance Review and Management Data
- Recruiting and Hiring Processes
- Training & Development Programs
- Payroll services
- Human Resource policies and procedures
- Successful business practices
- Workplace safety information
- Data pertaining to all compliance areas.
CONCLUSION

It is the opinion of the authors that, especially in this recessionary business environment that has resulted in extensive layoffs, reduction or elimination of employee development and leadership development programs; reduction or elimination of employee compensation and benefit programs, inactivity of recruiting efforts, and emphasis given more to short-range planning rather than longer-range planning, that the principles of Intellectual Capital should remain in clear focus and high priority to those people accountable for the Human Resources function.

All of an organization’s stakeholders can be of tremendous strategic importance to the full-scope of managing Human Resources. In summary, this point which has been central to this article, includes the “intangible” intellectual capital knowledge pertaining to employees, customers, vendors, owners, investors, competitors, and any other partner relationships which impact the successful sustainability of the organization.

ABOUT THE AUTHORS

Dr. Charles P. Leo earned his B.S. Degree in the field of Psychology at the University of California at Berkeley. He earned his MBA Degree in Labor Economics and his Ph.D. Degree in Applied Behavioral Science and Organizational Psychology both from the University of California at Los Angeles. He has over 30 year’s executive-level experience in the areas of Human Resource Management, Employment Law, Strategic Planning, and Organizational Development. Dr. Leo has had significant consulting assignments with over 250 organizations throughout the country, and the majority of those consulting assignments were extensive multi-year engagements. He has simultaneously held the position of Adjunct Professor of Management at Pepperdine University for over 25 years. He is currently a full-time Practitioner Professor in the Applied Behavioral Science Dept. at the Pepperdine University Graziadio School of Business and Management. He has written numerous articles in the areas of Human Resource Management; Employment Law; and Leadership. Dr. Leo is an active member of PIHRA (Professionals in Human Resources Association) and the APA (American Psychological Association). He has been a keynote speaker and seminar leader at numerous professional association conferences.  (lsconsultancy.com)

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