

Return on intangibles

Firms stand to gain thru their people investments

WELCOME TO the knowledge era! The name of the game is human capital. Your company's success is directly proportional to the depth of human capital you command. And it is going to be measured in terms of the new ROI: Return on Intangibles! Corporations have been working overtime to maximise the traditional ROI, which is return on investment. Investment in people actually benefits an organisation in the form of many intangibles. Investment firms and industry watchers are realising the importance of intangibles and the impact it creates for corporations through a higher market cap.

Impact of intangibles: There have been some selective, sporadic but very reliable studies in the area of the impact of intangible on business outcome. Stanford professor Jeffrey Pfeffer's studies support that HR practices account for up to 40% or more gains in market cap. Baruch Lev, professor of finance & accounting with New York University, has done extensive work in the area of intangibles. In an interview, Lev mentioned that the market value of S&P 500 companies is more than six times what is on their books! Lev attributes this to the intangibles.

HR and the intangibles: Here is where HR as a function and profession can add tremendous value to the business in substantially enhancing the presence and impact of intangibles. Despite increasing realisation that HR practices contribute to creating value for business, there still exists even in the minds of the HR professionals doubts about how they can create value. Traditional HR often confused doing things with delivering value, according to Prof Dave Ulrich who is widely regarded as the HR guru. HR doables included recruitment, training programmes, competency frameworks, performance appraisal tools, diversity initiatives, compensation revision and the like. These are necessary but not sufficient. HR deliverables have more to do with creating those outcomes that help the organisation implement strategy effectively. Prof Dave Ulrich guides HR professionals to look at designing and implementing HR practices that facilitate creation of valuable intangibles.

Intangibles HR can create: While there are many intangibles that HR professionals can create or enhance, let me focus on just five of them:

Engagement: Creating a framework for employee engagement that is tailored to an organisation's needs will create an invaluable intangible for the company. Engagement is often not understood in its entire sense in many organisations. Hewitt Associates define engagement as comprising three measurable behaviours on the part of the employees. First is 'stay' (people stay with the company despite tempting offers elsewhere), next is 'say' (people say and advocate good things about the company) and last is 'serve' (they exert a lot of discretionary efforts which may not be part of the job descriptions). Consulting firm DDI de-



finer engagement as, "the extent to which people enjoy and believe in what they do and feel valued for doing it". Here is my advice to HR managers. Use whatever framework you are comfortable with. After all, it does not matter whether the cat is black or white, so long as it catches the mouse!"

Leadership bench: Another investor intangible would be helping the organisation build a solid leadership bench. Leadership delivers immeasurable value to the business outcomes as has been demonstrated by IBM, General Electric, Colgate-Palmolive, Allied Signal, Unilever and many others. HR managers must work with the leadership team in their organisations to design and implement a leadership pipeline frame-



work and build a cadre of leaders across all levels. Competency frameworks tailored to an organisation's strategy will be very helpful, rather than any vanilla approach. "Level 5 Leadership" framework by Jim Collins or "The Apprenticeship Approach" advocated by Ram Charan could be used with or without adaptation. When a bunch of senior executives from GE moved out and over to Boeing, 3M, Allied Signal, Home Depot, etc., the market cap of these companies reportedly zoomed by over \$25 billion! Such is the power of leadership as a key intangible. Great leadership pipeline is viewed as a lead indicator of future success for the company.

Collaboration: Most organisations have vast scope for increasing collaboration as a key capability within and outside with suppliers and customers. Collaboration between functions and departments in any organisation is anybody's guess! Scandinavian quality guru Claus Moller asks this in his workshops: "When department A fights with department B or department C fights with department D, who wins?" After listening to the participants, he declares in his

characteristic style "well, competition wins!" This exercise is a true eye-opener for anyone who understands the cost of not collaborating internally. If HR managers can design and deliver initiatives and interventions that enhance collaboration internally and externally with partners, this becomes a significant investor intangible contributing to the market capital.

Ability to Execute: It is very well established that organisations rarely underperform or perish for want of a strategy, but often because they are not good at execution. Ram Charan and Larry Bossidy discuss lucidly in their masterpiece work 'Execution' that executing well is a discipline that organisations can learn and practice. They provide a very pragmatic approach to enhance the ability to execute by working on three critical organisational processes, namely strategy, people and operations. All the three are, of course, interrelated. HR managers can create the intangible of

very "execution-oriented culture" by focusing on "bias for action" as an organisation-wide people capability. Designing and implementing appropriate interventions for goal-setting, holding each other accountable, reviewing with robust dialogue and rewarding those who execute well will be the key agenda for HR professionals in their quest for creating and sustaining an execution-oriented culture. Investor confidence multiplies when they know that a company is good at flawless execution and they deliver what they promise.

Diversity in talent: Talent per se is a great source of intangible value for corporations. However, understanding the power of the diverse workforce that reflects the market place is a smart business move. Diversity is no feel-good phenomenon. For example, most medium scale industries in United States are managed or owned by women. And, if you are selling to such institutions, it makes sense for you to increase the share of talented women workforce in your organisation. Likewise, for other facets of diversity in terms of race, colour, disability, and more. HR managers must educate the leaders in the company who own talent acquisition and development to be aware of the business implications of diversity and enhance the same. IBM, HP, Ford Motors, and many other corporations have reaped rich dividends by celebrating diversity.

Return on Intangibles — the new mantra! HR managers need to look no further than creating strategy-driven intangibles for their organisations. It is time they gave up the flavour-of-the-month programmes and initiatives and focused only on those people practices that delivered the key intangibles as discussed above. There lies the return on intangibles and perhaps even the much elusive return on HR!

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