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MANAGEMENT PERSPECTIVES

Measurement

From the Editor

Okay, here's a bit of advice that you probably don't hear every day: *Keep your eyes on the invisible*. "Yeah, sure," I thought when I first heard that, "now ... where was I?" I was about to move on to the next subject and then I got stopped in my tracks.

It is what you often can't see that can hurt you — negative attitudes, emerging resentments, drop in morale, confusion ... you've got the idea.

So seeing what you can't see is important, critically important to most managers and leaders. To do that we have to be able to listen to the early warning signals, hear the messages in the nuances, or interpret what is being said in the white space.

At LIVE Consultants Inc. we help managers to listen between the lines to the important messages that are being sent. We do this in the seminars we offer, the programs we develop, and the consulting interventions we make.

Marilyn Baetz, editor

About the Author and the Article

Here's the confronting question that our author posed to himself. "If people are the most important resource, how come the only valued accounting system we have within organizations counts, tracks, and monitors financial resources?"

That question got Stephen Baetz thinking about the possible ways an organization could measure the growth of intellectual capital. He concluded that there are four sources an organization could use as they search for some measures.

Stephen Baetz is a principal of LIVE Consultants Inc., the organization which sponsors this publication.

Stephen Baetz

Capital Ideas

By rough calculation, I've heard this statement at least once a month for the last five years: Our people are our most important resource. Every time I hear it, two thoughts, running parallel, go charging through my mind.

"Surely to goodness, there's got to be a better word than resource. Are we nothing more than commodities to be used or used up?" I can usually calm that thought by arguing with myself that words are slippery and the intention was not malicious.

The second thought comes, I suppose, from some cynical well-spring within me. "If people are the most important resource, how come the only valued accounting system we have within organizations counts, tracks, and monitors financial resources?" How a company performs is defined and reported in terms of profit, how well it manages its cash, the size of reserves, the direction of the revenue curve, or a debt to equity ratio? This second thought is not so easy to calm. How come we haven't figured out whether our human resource, our intellectual capital, our walking wealth — call it what you will — has grown?

Again, the more cynical side of me suggests that the speech about people being the most important resource is nothing more than a corporate recognition come-on that is designed to seduce us into working even harder.

That explanation, however, is too simple. People aren't so easily duped. I think we all know at some fundamental level that the growth of intellectual and human capital is so essential for any organization's prosperity — especially in a world that values quality information, knowledge, and intelligent service. For better or worse, the statement about people being our most important resource is essentially true.

The challenge, then, is to figure out ways to *measure* the growth of our intellectual and human capital. And once we've figured that out, we'll find ways to generate it and manage it.

To start this discussion, I'd like to suggest some possible measures — not that any of them are assured of being workable. I suspect, far from it. In the early stages of any thought process, we need a starting point. I hope this serves as that beginning.

The Sources

An organization's intellectual capital is the total from the interaction of four sources: change-readiness, innovation, learning, and relationship capital. A major deficit in any one of these capital sources is costly and can threaten an organization's long-term viability.

Change-readiness

Change-readiness is the organization's ability to read, assess, and interpret what is happening in the environment around it as well as its ability to adjust, accommodate, or respond to those environmental realities.

Easily enough said. But how do you measure whether an organization has a capacity to be change-ready or not?

Perhaps by the number of changes that get made to the organization chart or the amount of time invested in thinking about the future — in strategic thinking, marketplace assessment, or planning. It may not be a perfect measure but imagine what kind of signal it would send if the organization determined that 10% of all its human resources would be dedicated to thinking about the future and changing the organization to meet those emerging needs.

Or what about developing a change-readiness index which is a combination of the number of positive changes observed by customers or suppliers, the number of organization-initiated changes to processes, and the perceived satisfaction of employees with how the change was implemented?

Innovation

Innovation is the organization's ability to either make better what it already does or make new.

The possible measurements might be a little easier to imagine than with change-readiness. An organization might consider measuring the percentage of new ideas implemented, the percent of revenue from products or services that didn't exist a year ago, the average cycle time from needs identification to introduction to the marketplace of a new product or service, the reduction of cycle time or transaction time that is a function of a process improvement, the number of improvement suggestions per employee; or even more importantly, the number of improvements per employee.

It might be challenging but also worthwhile, to develop an innovation index or barometer that takes into account the percent of revenue from products or services less than a year old, the number of times the organization has been first to the marketplace with a new service or product, and the number of suggestions per employee.

Learning

Learning is the organization's ability to acquire knowledge or skills that will help it deal with the environment around it.

Once an organization defines a direction that its learning should take — as defined in a strategic plan — it then has to figure out two things: how it can acquire the knowledge and skills that it needs now and in the future and how to measure if the organization knows more and can do more than it did in the past.

To answer the latter issue, the possible measures might be the length of time it takes to get productivity back after a dip that comes with a major change, the reduction in the number of errors, the number of initiatives that are consistent with the needs of the marketplace, or the number of people who are capable of multi-tasking.

Relationship

Relationship is the organization's ability to establish, maintain, and grow alliances and affiliations.

How might that be measured? Consider the length of relationships with key suppliers or customers, the depth of product and service by customers, a customer satisfaction index, average revenue per customer, complaint resolution time, or even the average profitability of customers. Internally, a co-operation index could be used or perhaps a business partner satisfaction index.

Sophistication Will Come

There is no doubt in my mind that some of the suggestions I've made are far less sophisticated than what we may have five years from now. They'll look like Model T ideas in hindsight.

But sophistication takes time and experience. We've got to figure out what measures are worthwhile and what measures aren't; what helps us to manage our business and what doesn't.

One thing we can't do any longer is persist with the assertion that people are our most important asset and then have no way of measuring the growth of the intellectual capital they bring. If we do that our credibility as leaders will be sacrificed.

Sure enough tomorrow you won't be able to stand up at an Officers' meeting or an annual meeting and talk about the real growth of intellectual capital, but it sure would be nice to be able to do that — at least in a preliminary way — several years from now.

The most appropriate way to start is to use the intellectual capital you have, to come up with the best possible measures. Challenge them to find appropriate measures in each of four sources. Ask them to come up with the useable, not the perfect. Refinement will come with experience and more knowledge about what measure is most essential.

The beauty of measuring the intellectual capital of the organization's employees is that it communicates that money isn't the only focus for the organization — that involving every mind and growing human abilities and talent is just as valuable a pursuit.

Okay, so maybe I'm a dreamer. But some day when the question about the bottomline is asked, it sure would be nice to talk about the growth in intellectual capital.

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For more information about our services, contact us at (519) 664-2213.

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