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Your Resources

Purpose

This tool will help you to identify the resources that your firm has available, and then determine if they are adequate for you to pursue your chosen strategy.

Overview

By working through this tool you will be able to answer the following questions.

- Why do I need to understand my resources?
- What resources does my firm have?
- What is intellectual capital?

People involved

Members of your management team who have clear responsibilities for the allocation of resources especially those with financial responsibilities who play finance roles.

Note: It may be beneficial to seek external assistance if you are interested in performing a detailed analysis of your resources.

Background Reading

PRINT21 Background Paper 2	Section 2.1	Sell total business solutions
	Section 2.2	Invest in your people
	Section 2.3	Manage your technology

Useful Inputs

- Any company reports that deal with resource issues
- Industry statistics to benchmark resources against
- Any resource information
- Industry reports
- Research carried out by government bodies
- Research carried out by industry associations.

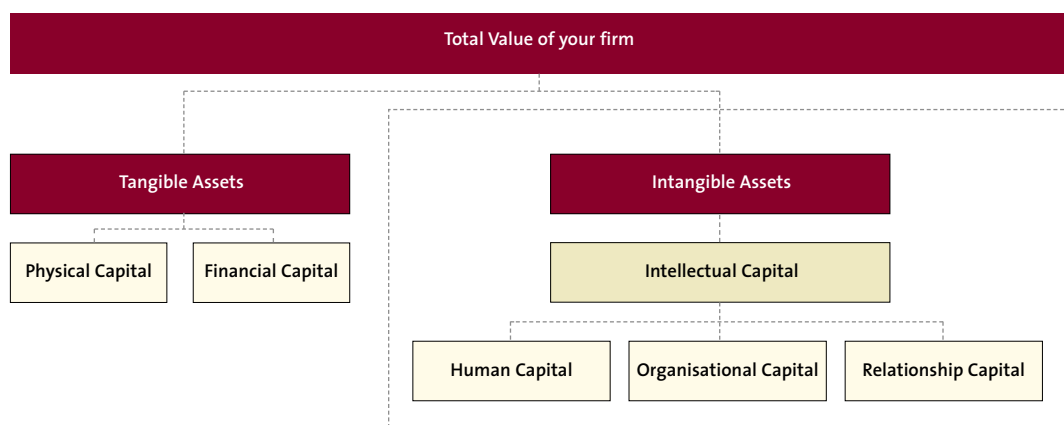
Important Ideas

Tool 1 was about managing your financial and physical assets to create value for your firm. In the emerging new Australian economy, however, it is not your tangible assets but your intangible assets that are driving future value creation.

Knowledge and information (ie. intellectual capital) are now important sources of competitive advantage. The effective management of these resources represents a huge opportunity to create value for your firm. To capture the benefits you will need to create strategies to manage both tangible and intangible assets.

Capturing the benefits

The basic premise on which these tools are based is that you are seeking to increase the value of your business. The total value of a firm is made up of its tangible assets plus its intangible assets. If a firm only manages its tangible assets, it is only managing 20 - 30% of its total assets. The challenge for managers is to create a strategy to manage all of the assets of your firm.



Tool 1 was about the management and interpretation of your firm's stocks of physical and financial capital.

The focus in this Tool will be on your intangible assets, or your intellectual capital as they are also known. These consist of your firm's human, organisational and relationship capital.

By understanding what your intangible assets are and by measuring your firm's store of them, you can leverage them to increase the value of your firm.

What is intellectual capital?

Intellectual capital refers to the intangible assets of your firm.

Intellectual capital has three components:

- human capital
- organisational capital
- relationship capital.

It includes such things as:

- the knowledge, competence and skills of the firm's staff
- the working methods, processes and systems in use in the firm
- the culture that supports the staff
- the image of your firm in the marketplace
- the relationships that staff have with the firm's customers, alliance partners and suppliers.

Intellectual capital is very different from physical and financial capital and therefore it needs to be managed differently.

Physical and financial capital abide by zero sum principles. This means that the more you use these assets (eg. machinery, materials or money), the less you have left of them for future use.

On the other hand, intellectual capital follows the principles of positive sum and does not deplete as you use it. The more use you make of intangible assets (eg. your technical skills or your staff's motivation), the more you can create for your future use.

Traditional accounting allows you to manage the value of your tangible assets through methods such as expensing and depreciation. Intangible assets, however, are not measured by traditional accounting methods.

Human Capital

What is Human Capital?

Human capital refers to those assets that are directly related to the employees in your company. The capabilities of your employees are worth money and thus they are a form of capital, but it is embodied in humans, not machines.

There are three dimensions of human capital - competence, attitude and intellectual agility.

Although human capital forms part of the total value of a firm, it is only partly owned and controlled by the company. This is because each individual has a major influence on what they think and what they do. When people leave work each day they take their capabilities with them. Value is only created for the firm when they come back and perform.

Despite this, people play a critical role in shaping a business and the right type of human capital can provide a firm with a strategic advantage.

For this reason, printing firms often employ or develop people who have unique or highly specific competencies such as designers, press operators and digital equipment technicians.

If your firm has the right type of human capital (eg. staff with particular skills who can provide you with a competitive advantage), you should do all you can to develop these employees and minimise the turnover of these staff.

While key people are able to contribute to the development and competitiveness of your firm, you are likely to be severely disadvantaged if they resign, particularly if they go to your competitor.

When you are thinking about human capital it is useful to consider each of its three dimensions.

- Competence.
- Attitude.
- Intellectual agility.

Competence refers to the knowledge and skills of the employees of a firm. It generates value for your firm through the talents and know-how of your employees. Competence represents what your firm can do, its innermost potential, residing in its employees.

An indicator of the competency of your firm's human capital could be the number of hours of training per employee or the length of time an employee has spent in a particular job. More training would mean higher levels of knowledge in your firm and more time on a particular job could mean greater skill levels.

Attitude refers to the motivation and behaviour of the employees of a firm. You cannot directly control motivation, as it depends mostly on personality traits, but by creating the right environment you can motivate staff and encourage the right behaviour.

An indicator of the attitude of your firm's human capital could be the time spent by senior staff explaining the firm's strategy and actions to employees.

Intellectual agility refers to the ability of your people to apply knowledge in different situations, to innovate, adapt and transform ideas into action. It is closely linked to competence, in that it is their ability to use their knowledge and skills and apply it in a practical situation.

Indicators of the intellectual agility of your firm's human capital could be the number of new products and improvements to processes that your employees suggest, or the savings accruing to your firm from implementing these suggestions.

Analysis

To analyse your firm's human capital, there are three steps you have to undertake.

First look at your current stocks of human capital. Then try to identify what human capital you would need in the future to carry out your chosen strategy. Finally, you need to compare your current situation with your future situation and plan how to bridge the gap that may exist.

Step 1 A

Think about your firm's current stocks of human capital, in terms of what types and what quantities you currently have.

Try to identify your most valuable stocks of human capital. The value of a stock of human capital is determined by its relative scarcity as it represents something that your firm has that your competitors do not. It should also be something that is hard to replicate.

For example, a long-serving and extremely efficient production manager could create value for your firm that your competitors are unable to match if they don't have access to a similar resource.

Group your firm's stocks under the three dimensions of human capital - competence, attitude and intellectual agility.

Write your answers in the following table and try to assign a value that the human capital represents to your firm. Value can be measured by the dollar cost of replacing staff, or by a more general scale of difficulty in replacing the human capital in the firm.

Scale:

- Easily replaced (Labour hire staff)
- Can replace (Must advertise)
- Hard to replace (Advertise and use contacts)
- Cannot readily replace (Must train)

The cost of replacing staff is not just the cost of employing a new person. It is also the cost of the old employee not being at work, the cost of training and the cost to the firm of all the associated effort in replacing and skilling up the new person.

This is often a difficult sum to work out, but the cost for a trained worker is often in the order of \$30,000.

HUMAN CAPITAL - NOW

Dimensions	Our current situation	Value to our firm
Competence		
Attitude		
Intellectual Agility		

Step 1 B

Now think about the future and in particular the strategy that your firm will implement to achieve success. Try to identify what types of human capital your firm might need to carry out this strategy. Write your answers in the following table.

HUMAN CAPITAL - THE FUTURE

	Human Capital we need in the future to successfully implement our strategy
Dimensions	
Competence	
Attitude	
Intellectual Agility	

Step 1 C

So far in this analysis you have done two things:

- you have identified your firm's current stocks of human capital
- you have made a judgement about the human capital that you need in the future to achieve your firm's objectives.

You now need to consider the gaps that you have identified in your resource base as a result of this analysis and develop a plan to bridge that gap.

This is an example of how this might be done:

Dimension of Human Capital	Current situation	Desired future situation	Actions to take
Competence/ Intellectual Agility	All staff skilled in printing technology but no experts in the broader field of information technology who can help us take advantage of the opportunities in the new economy.	A key employee as an expert in information technology who helps us develop innovative solutions to our customer's needs and allows us to diversify our offerings.	Employ a person with these skills/ knowledge/ability.

Using this example, consider each of the gaps you have identified in the human capital base of your firm and develop a plan here to address them.

Dimension of Human Capital	Current situation	Desired future situation	Actions to take

Organisational Capital

What is Organisational Capital?

Organisational capital is that component of intellectual capital that stays behind when all employees go home.

It is all the physical and non-physical things related to the internal structure and day-to-day operations of a business, such as databases, process manuals, culture, and management styles.

Organisational capital is normally owned and controlled by the company and therefore it can be licensed or sold. For a firm to develop its organisational capital, it requires a continuous and deliberate investment.

There are two dimensions of organisational capital:

- organisation
- renewal and development.

The organisation dimension refers to the infrastructure, processes and culture of a firm.

Infrastructure represents the hardware of the firm, the tools and enablers the company uses in its operations to produce results.

It also includes the intellectual property owned by the firm, such as trademarks and patents, and even mailing lists, customer databases and process manuals.

If infrastructure is the hardware of the firm, processes are the software that indicate to people how the firm should function. Finally, culture is the rites, symbols and norms that define the firm, and it is created and affirmed by the constant interactions of its members.

Indicators of the organisational capital of a firm could be revenue from patents, or the decrease in the ratio of administrative expenses to revenue resulting from improved processes.

Renewal and development is the second dimension of organisational capital.

These are the intangible things such as plans that can create value in the future for the firm.

For example, investment in new machines is part of the renewal and development dimension of organisational capital as long as it is in the planning stage and therefore anticipates the creation of value in the future.

Once the plans are realised, and the machinery is purchased, it becomes a financial asset and will be accounted for as a tangible asset, not an intangible one.

This dimension also includes new product development, re-engineering of processes and the development of employee training programs.

Indicators of the renewal and development capital of the firm might be the percentage of business from new products and services, or the development and implementation of strategic plans for the firm.

Analysis

To analyse your firm's organisational capital there are three steps you have to undertake.

First, look at your current stocks of organisational capital.

Then try to identify what organisational capital you would need in the future to carry out your chosen strategy.

Finally, you need to compare your current situation with your future situation and plan how to bridge the gap that may exist.

Step 2 A

Think about your firm's current stocks of organisational capital, in terms of what types and what quantities you currently have.

Try to identify the most valuable stocks of organisational capital that you currently have, grouping them under the two dimensions of organisational capital - organisation, and renewal and development.

Remember the most valuable stocks of this capital will be those that are scarce and difficult for your competitors to replicate.

Write your answers in the following table, and make a judgement about the value that these stocks represent to your firm in terms of replaceability.

- Adds a lot of value to the firm
- Adds some value to the firm
- Adds little value to the firm
- Adds no value to the firm.

ORGANISATIONAL CAPITAL - NOW

Dimensions	Our current situation	Value to our firm
Organisation		
Renewal and Development		

Step 2 B

Now think about the future and, in particular, the strategy that your firm will implement to achieve success.

Try to identify what types of organisational capital your firm might need in the future to implement and carry out this strategy. Write your answers in the following table.

ORGANISATIONAL CAPITAL - THE FUTURE

Dimensions	Organisational Capital we will need in the future to successfully implement our strategy
Organisation	
Renewal and Development	

Step 2 C

So far in this analysis, you have done two things:

- you have identified your firm's current stocks of organisational capital
- you have made a judgement about the organisational capital that you will need in the future to achieve your firm's objectives.

You now need to consider the gaps that you have identified in your resource base as a result of this analysis and develop a plan to bridge that gap.

This is an example of how this might be done:

Dimension of Organisational Capital	Current situation	Desired future situation	Actions to take
Organisation	Review of processes for improvement is undertaken on an adhoc basis by management only.	Processes are continually reviewed for possible improvement by all staff.	Set up a system whereby all staff are encouraged to contribute to process improvement. This could take the form of a competition to kickstart initial interest

Using this example, consider each of the gaps you have identified in the organisational capital base of your firm and develop a plan here to address them.

Dimension of Organisational Capital	Current situation	Desired future situation	Actions to take

Relationship Capital

What is Relationship Capital?

Relationship capital is the value created for your firm as a result of the relationships that members of your firm enjoy with each other and with external stakeholders.

Relationships are characterised by the interactions and exchanges of knowledge and information that occur between your employees and the firm's stakeholders.

Good relationships create value for a firm in a number of ways. External relationships, in particular, can allow your firm to build a sustainable competitive advantage.

The most important relationships a firm has are with its customers and suppliers.

For example, a good relationship with your existing customers can have the following benefits:

- lower costs of delivery - it's cheaper to sell to your existing customers than to have to find new ones, and satisfied customers will spread the word about your firm
- reduced price elasticity of your products and services by making price less important as a determinant of value in your customers' minds
- reduced impact from competitors, as your satisfied customers are not receptive to their marketing efforts.

Considering these benefits, it is clear that a good relationship with your customer is essential to the long-term profitability of your firm.

Indicators of the strength of your relationship capital with your customers include the level of their satisfaction with your service and products and the number of new customers referred to you through word-of-mouth.

Another important source of relationship capital is that generated through your relationship with your suppliers.

A strong relationship with your suppliers can benefit your firm by allowing you to access discounted supplies, joint marketing and training initiatives, and sometimes even valuable intelligence about your competitor's activities.

Indicators of the strength of your firm's relationship with your suppliers could be the level of interest they take in your business and the level of support they offer.

If you have good relationships with your suppliers, they will help you to build your business because, by doing this, they are ensuring their own success.

Analysis

To analyse your firm's relationship capital, there are three steps you have to undertake.

First look at your current stocks of relationship capital.

Then try to identify what relationship capital you would need in the future to carry out your chosen strategy.

Finally, you need to compare your current situation with your future situation and plan how to bridge the gap that may exist.

Step 3 A

Think about your firm's current stocks of relationship capital, in terms of what types and what quantities you currently have.

Try to identify your most valuable stocks of relationship capital. Remember those stocks that are most valuable are those that are scarce and difficult for your competitors to copy.

You should give consideration to your internal relationships as well as external ones with your customers and suppliers. Write your answers in the following table and try to put a value on these stocks to your firm.

- Adds a lot of value to the firm
- Adds some value to the firm
- Adds little value to the firm
- Adds no value to the firm.

RELATIONSHIP CAPITAL - NOW

Dimensions	Our current situation	Value to our firm (\$)
Internal		
External - Customers		
External - Suppliers		

Step 3 B

Now think about the future and, in particular, the strategy that your firm will implement to achieve success.

Try to identify what types of relationship capital your firm might need in the future to implement and carry out this strategy. Write your answers in the following table.

RELATIONSHIP CAPITAL - THE FUTURE

Dimensions	Relationship Capital we will need in the future to successfully implement our strategy
Internal	
External - Customers	
External - Suppliers	

Step 3 C

So far in this analysis you have done two things:

- you have identified your firm's current stocks of relationship capital
- you have made a judgement about the relationship capital that you will need in the future to achieve your firm's objectives.

You now need to consider the gaps that you have identified in your resource base as a result of this analysis and develop a plan to bridge that gap.

Below is an example of how this might be done.

Dimension of Relationship Capital	Current situation	Desired future situation	Actions to take
Customer relationships	I think we are providing the services our customers value.	I know we are providing the services our customers value.	Develop and administer a survey to our customers to find out what services they value.

Using this example, consider each of the gaps you have identified in the relationship capital base of your firm and develop a plan here to address them.

Dimension of Relationship Capital	Current situation	Desired future situation	Actions to take

Putting it all together

This is what you have done so far in this tool.

- You started with the basic premise that you want to increase the value of your firm.
- You looked at what makes up the value of your firm - your tangible assets plus your intangible assets (also known as intellectual capital).
- You assumed you already know how to manage your tangible assets, so the focus in this tool is on the intellectual capital of your firm.
- You discussed the nature of intellectual capital and its three components - human, organisational and relationship capital.
- Then you worked through each of these components in detail, by following a three step process:
 1. identifying your current stocks of capital
 2. making a judgement about what stocks of this capital you would need in the future to carry out your firm's strategic plan
 3. comparing your current stocks with your desired future stocks and considering actions you could take to bridge this gap.

Now you need to bring this all together.

Step 4 A

Go back to Step 3C of the Analysis that you did for each of the three components.

Transfer the "Actions to take" (the right-hand column) from your human capital analysis, your organisational capital analysis and your relationship capital analysis into the table below.

This table now represents, in an ideal situation, all the actions your firm could take, in terms of its capital base, to ensure it meets the objectives of your strategic plan.

Actions to take

Step 4 B

Not all of these actions will produce a net benefit for your firm. Some of them might cost more to implement than the extra revenue they will generate.

You need to think about each of these actions and do a rough cost-benefit analysis.

Think about how much it would cost your firm to implement, and compare that to how much revenue your firm is likely to gain as a result of implementing this action.

Transfer your actions from the previous table to this one. Next to each action, write Net Loss or Net Gain, based on your cost/benefit judgement.

Actions to take	Net Gain or Net Loss

Step 4 C

Obviously, there is no point in implementing actions that will produce a net loss for your firm. You should concentrate on those actions that you think will produce a net gain.

Transfer only those actions which you have indicated will produce a net gain for your firm into the table below.

Now make an estimation of the size of that gain, if your firm was to implement the action identified here.

Actions to take	Net Gain or Net Loss	Estimated Gain
	Net Gain	
	Net Gain	
	Net Gain	
	Net Gain	
	Net Gain	

This table now shows you the opportunities arising out of intellectual capital for your firm, and gives you an estimation of the net gain if you take advantage of these opportunities.

If you have put a dollar value on the Intellectual Capital of your firm, then there is one more step that you should now do to really reinforce the message of this Tool. If you are only valuing your firm's tangible assets, you are only valuing 20 - 30% of your firm's total value. You also need to put a value on your Intangible Assets.

Step 5 A

Take the "Net Gain" figure you have just calculated above and put it in the table below next to the box marked "Opportunities".

Step 5 B

Go back through this tool and look at the sections where you wrote down your current stocks of human, organisational and relationship capital. Add up all of the values and put the total into this table next to the box marked "Current stocks of Intellectual Capital".

Step 5 C

Now add up the "Value" column.

Value	
Opportunities	\$
Current Stocks of Intellectual Capital	\$
Total	\$

This figure represents that part of your firm's value which is not measured by traditional accounting methods and that is often overlooked by managers - your intellectual capital and the opportunities it provides for value creation in the future.

FINALLY

At the end of Tool 2 you came up with the Net Present Value of your firm. Write this figure here and now add on the total calculated above.

<table border="1"> <thead> <tr> <th>Net Present Value</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">\$.....</td> </tr> </tbody> </table>	Net Present Value	\$.....	+	<table border="1"> <thead> <tr> <th>Intellectual Capital</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">\$.....</td> </tr> </tbody> </table>	Intellectual Capital	\$.....	=	<table border="1"> <thead> <tr> <th>Total Value of Firm</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">\$.....</td> </tr> </tbody> </table>	Total Value of Firm	\$.....
Net Present Value										
\$.....										
Intellectual Capital										
\$.....										
Total Value of Firm										
\$.....										

You can see now how traditional methods of valuing your firm understate its true value. If you are only managing your physical and financial assets you are only managing a small portion of your firm's resources. If you have identified any actions from going through the above, put them into an Action Plan framework as you have done previously in other tools.

ACTION 4

SITUATION	•	COST	BENEFITS	NET BENEFITS
	•			
	•			
	•			
MISSION ACTIONS	▶			
	▶			
	▶			
	▶			
ASSESSMENT		NET BENEFITS FOR ACTIONS ARISING FROM THIS TOOL		\$0.00
RESOURCES				
TIME				