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VALUE-BASED PERFORMANCE GAINS BY ALIGNING HUMAN CAPITAL WITH BUSINESS STRATEGY

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A CKO'S RAISON D'ÊTRE:
DRIVING VALUE-BASED PERFORMANCE GAINS BY ALIGNING HUMAN CAPITAL WITH BUSINESS STRATEGY

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ABSTRACT – 87 WORDS:

The three cases in this chapter were selected for illustration and discussion about the key roles and accountabilities of the CKO. All names, dates, places and organizations have been disguised at the request of the authors and/or organizations. Each case is presented from both a practitioner's and academic's perspective. Our main contention is that a CKO must embrace a generalist's perception of what drives value-based performance gains. The following three cases emphasize the important orientation a CKO must have to HR management, IT management and strategic management.

CHAPTER TEXT – 3,801 WORDS:

The following represents a dialogue between the first author and a prior boss:

Author: What do you think of the idea of changing my job title to Chief Knowledge Officer?

Boss: Chief officer of what?

Author: You know …

After kicking the idea around for a few minutes and receiving nothing but long, glazed stares, the author never brought the subject up again. The author soon acknowledged his old rule of thumb: don't talk about it, just do it and let the results speak for themselves.

So what results will speak for the CKO? What value-based performance gains will draw interest and broader support from key constituencies? We hope to shed some light and raise some questions. Each case consists of the following four sections: background, problem, solution and review. We approach each discussion from both our respective lenses, the practitioner view and the academic view. By combining both views we hope to enrich the dialogue on this important topic and underscore the value of professional partnerships.

Our main proposition is that CKOs should create and sustain a relevant linkage between what people do each day, how well they do it, and what value it creates in supporting business and financial objectives. At the same time, the CKO must create strategies for increasing intellectual capital and the organizational capacity to do these things quicker, cheaper and better than the competition and in a manner that meets or exceeds changing customer expectations.

In short, we think the CKO should own and be accountable for the achievements and outputs of human capital. The CKO should be responsible for the ongoing value created by innovative and strategic “human capital design”. By human capital design, we mean the organization, its culture, policies, practices, work-flows, processes and knowledge/learning-based technology applications.

Through our professional experiences and research we have found that it does not seem to matter whether the CKO’s role is rooted in HR, IT or somewhere else. What matters is the skill of the incumbent and senior management’s willingness to take some risks, do things differently, and foster an organizational mindset around strategic renewal and innovation.

Case 1a: Foreign Bank Inc. (Attracting Human Capital)

Background

Foreign Bank Inc. offers a full range of financial products and services and has reported assets well in excess of $100 billion with approximately 15,000 employees worldwide. This case illustrates the recruitment challenges faced by an organization when doing business in a highly competitive foreign market.

Problem

Foreign Bank Inc. was having difficulty attracting and retaining key talent needed to compete in the aggressive U.S. financial marketplace. New product opportunities were often missed due to the lag time needed to get the sales organization up to speed with technical product knowledge and customer selling applications. By the time the sales organization was trained, the competition was already on to the next product innovation.

Based on specific recommendations from the HR team headed by the CKO, the company ramped up a very aggressive recruitment and retention strategy by committing a substantial investment in training and distance learning. Within 18 months, the company became a respected force in the marketplace. The results of the new strategy yielded increased quality of new hires and increased retention of key employees. Foreign Bank Inc. soon became the most productive and profitable business unit outside of the parent company's home country.

These results were accomplished by evaluating how well business objectives were linked with day-to-day employee activities and customer demands. An internal HR team determined that there were several disconnects among strategy, knowledge sets, work outputs and customer needs. In addition, senior management's naïve perception of the highly competitive recruitment market showed they had an unrealistic view of prevailing workplace needs and realities.

The first priority was to understand why employment offers were being rejected and why certain types of targeted candidates were not interested in accepting an initial interview. It was rumored that foreign banks in general were not admired by U.S. candidates. Potential candidates perceived that selecting a foreign bank was a detrimental career move. Furthermore, it was assumed that compensation packages would be significantly lower. These results were not popular with senior management at Foreign Bank Inc. They believed that everyone wanted to work for their company.

Solution

The CKO's primary objectives were to meet the needs of the recruitment market, gain the commitment of senior management to a new strategy and support the current demands of the business, all at the same time.

The project began with three important questions: 1) what were the positive attributes of working for the company?, 2) how far could total compensation be increased?, and 3) what were the competitive advantages that were not being properly exploiting for recruiting purposes? The following represents a list of the answers:

- quality of work life and balance with family;
- commitment to a career versus short tenure risk if you don't produce within very aggressive time frames;
- excellent benefits and long term incentives;
- commitment to teamwork and a company filled with really great people;
- a vision and commitment to innovate and to build a venerable financial institution, and
- much improved total compensation packages, especially when benefits and long term incentives were factored into the equation.

With these advantages identified and articulated into the recruitment plan, the CKO set out to discover whether the top talent at other firms would be interested or intrigued enough to let Foreign Bank Inc. tell their new story. Initial research showed that one in five people were very interested in the idea of a longer term, quality of life career alternative. Interestingly, money was now listed as one of the secondary factors in the new mix of the total package.

In sum, the CKO transformed the perceived weaknesses into strengths by identifying, linking and selling these key values to a specific market segment of qualified candidates. In the end, the views of senior management and the needs of the business were aligned with the needs of a highly competitive recruitment market with the result of hiring several new, top tier, knowledge-intensive bankers. An effective mechanism for human capital development was now in place.

Review

This case illustrates the role a CKO played in what was traditionally the sole domain of the HR department: recruitment. The fact of the matter is that selective recruitment is the primary methodology for increasing the knowledge base of an organization.[1]

It is important for senior management to recognize that a CKO's role in increasing the knowledge base of a company is not easy. All the available knowledge in the world is accelerating at a phenomenal rate. While the whole world's codified knowledge base (i.e., all historical information in library books and electronic files) doubled every 30 years in the earlier part of this century, the number shrunk to 7 years by the 1970s. Information library researchers predict that by the year 2010, all the world's codified knowledge will double every 11 hours. A vote for the future security of the CKO is surely safe with such a prognostication. The following statistics also add to the support for a CKO as a mainstay in the corporate boardroom:

- over half a million knowledge-intensive high tech jobs remain unfilled in America;[2]
- four out of five managers believe managing knowledge is essential;[3]
- one in five Fortune 500 companies employ a CKO;[4]
- 42% of Fortune 500 companies anticipate such an executive to be operating within the next three years, and
- 51% of Fortune 500 companies report knowledge management activities already underway.[5]

Recent research conducted at the Institute for Intellectual Capital Research (IICR)[6] also supports the hypothesis that the CKO position will soon flourish in the corporate world. Representatives from fifty-three of the top executive search firms in Canada and the U.S. were surveyed about their perceptions regarding the future prevalence of CKOs. The responding headhunters conducted specialized searches in a variety of areas including accounting, finance, IT, engineering and top executives. 45% of those surveyed were indeed familiar with the position of CKO. More importantly, 72% of the respondents expected a significant increase in CKO searches in the future. The implication of these results is that although searches for CKOs have not yet materialized in great numbers, the executive search industry is preparing for increased demand. Another explanation of the interim results is that most CKO appointments thus far have been done internally where no external search firm was required.

Further results from the study predicted that CKOs would have no particular functional alignment but that their staff would be dispersed and embedded in business processes. This speaks to the importance of intellectual capital management as a corporate-wide initiative.[7] We are in the early trajectory of an evolutionary cycle in intellectual capital management. Even the Royal Bank, Canada's largest financial institution, recognizes the importance of servicing CKOs and their knowledge-intensive businesses by instituting a distinct subsidiary which specializes in exclusive non-traditional banking services to these companies.[8]

CASE 1B: FOREIGN BANK INC. (LEVERAGING HUMAN CAPITAL)

BACKGROUND

Once Foreign Bank Inc. addressed the challenge of attracting new talent to the organization, the CKO's role turned to leveraging the human capital base to its fullest potential. This case highlights the disconnect between an aggressive business plan, an ill-equipped sales force and a highly competitive and fast-paced marketplace.

Problem

An analysis of critical success factors conducted by senior management showed that product innovation and financial engineering were key elements in the customer value chain and that Foreign Bank's sales force was not equipped to compete at this level.

Thankfully, the recruitment efforts were paying dividends and the recruits were adding many innovative product and service elements to the business mix. However, the process of getting the sales and customer support teams up to speed on these new offerings was laborious and ineffective at best. A clear disconnect was occurring and the value-offering to the customer was lost.

Solution

Clearly, Foreign Bank Inc. needed to ramp-up organizational learning and the speed of execution. Attitudes towards the accelerated pace and the "going back to school" program also needed to be dealt with since the push-back from existing employees and managers was pretty strong.

Fortunately, the new recruits were leading the cause and demonstrating a clear linkage between knowledge, skill, speed and winning business. This laid a framework for an aggressive ramp-up plan to build a significant technology platform to support instant learning, 24 hours a day, in any time zone. Over a 12-month period, $6 million was invested in computer-based training, video-conferencing, bricks and mortar, software and people.

These technological initiatives created capacity to keep the sales organization up to the minute and connected to the latest product buzz. The changes contributed to the doubling of revenue in 18 months, which clearly justified the investment.

Review

The CKO at Foreign Bank Inc. developed alignment between: 1) what people needed to know and do each day to properly support customer selling opportunities, and 2) the company's strategy and growth objectives. In this case, knowledge management and the investment in technology were a winning combination and clearly demonstrate the power of a CKO's role in driving value-based performance gains.

These types of strategic alignments should clearly fall under the responsibility of the CKO. The important point here is that the CKO must envision the whole integrated strategy regardless of organizational lines or personal responsibilities. The power of alignment in this case came with linking recruitment, knowledge management and technology. Attempted separately, each initiative would likely fail.

In today's world of bits and bytes, a CKO must have a strong grasp and appreciation of technology. A CKO's minimum responsibility is to be cognizant of the operating functionality of the tools in the following four technology categories:[9]

- information retrieval (e.g., e-mail, message boards);
- document management (e.g., collaborative authoring in MS Office 2000);
- groupware (e.g., Lotus Notes, Dataware Systems), and
- integrated systems (e.g., enterprise-wide resource programs).

Although traditionally the domain of the Chief Information Officer (CIO), a CKO should also be involved in IT strategy and investment decisions. According to Hansen, Nohria and Tierney, Andersen Consulting and Ernst & Young have each spent more than $500 million on IT to support their knowledge management strategies.[10] Of course, not all companies should be expected to invest such large sums of money. Hansen et al. argue that the level of IT investment is directly related to which knowledge management strategy an organization adopts. What is most important in leveraging human capital for performance gains is to realize that the technological structure required to support human capital plays an important but secondary role. Only after the human capital is appropriately in place can the structural capital required to support it be implemented.[11]

CASE 3: LUXURY RETAIL CORP.

Background

Luxury Retail Corp. is a multi-site retailer specializing in exclusive, high-end jewelry and gift oriented merchandise. Within 5 years, the company had impressive growth from $600 million to over $1 billion in revenue. Luxury Retail Corp. has 5,000 employees operating in 120 locations in 20 countries.

Problem

Luxury Retail Corp. was faced with several challenging business growth objectives:

- grow share of market and wallet in each existing location;
- maintain and improve customer service levels;
- make each store more accessible and less intimidating;
- continue a worldwide expansion program without brand dilution, and
- fund growth from cash flow.

One of the most perplexing and difficult objectives for any company is to support aggressive growth while maintaining strenuous sales and service standards. This is especially risky when sales and service standards are key elements of the mix driving competitive advantage. In this particular case, there was added difficulty because the product and the sales/service processes were highly technical in nature. It would literally take employees years to reach the competence level necessary to meet the company's high standards.

To complicate matters further, many of the service processes were "old world", complex and highly leveraged by diminishing artisan skill sets. These processes would certainly not stand up to the pressures and productivity demands of an aggressive worldwide expansion strategy.

The fact was that service and sales standards were falling and sales growth was coming primarily from new store expansions and an unpredictable tourist trade. Customer complaints were on the rise and senior management agreed that these circumstances had to change.

Solution

The company undertook several integrated and innovative steps to achieve its business growth objectives. To date, the results have been miraculous and demonstrate exactly what a CKO and a senior management team can do when they all pull together on the same end of a rope. Same store sales increased 15% per year while site locations expanded into 22 countries. The brand is stronger than ever and earnings continue to grow at record levels.

One of the key initiatives the CKO undertook was the re-engineering of the sales organization in order to develop a consistent, high quality selling approach and an unequaled customer service experience. The goal was to develop and retain lifetime customers, especially in local markets around the world. There were several pieces to the puzzle as follows:

- redefine and consistently communicate the new sales and service standards;
- identify where organizational alignments needed work to improve the customer's experience;
- develop measures to provide feedback on progress;

- enhance and accelerate the development of sales leaders around the globe to support and implement the new standards, and
- develop a strategy to reallocate capital for investments in information and knowledge sharing technologies.

The CKO asked two important questions: 1) what would be the ideal sales process?, and 2) what would be the ideal customer service experience? Once the answers were defined, gaps in the existing customer delivery system could be readily identified. Improvement plans could then be developed and put into place. This may seem like an obvious approach to many but gaining consensus on answers to these questions proved to be a daunting task. Each member of senior management had a different point of view on these questions. And under the circumstances, there was insufficient time or resources to pursue customer research or focus group activities. So, the CKO presented a different idea.

The CKO suggested bringing together the 15 "best" sales professionals from across the country, for a two-day workshop, to do three things:

1. Conceptualize and define the ideal processes and circumstances that would "wow!" each and every customer, based on the group's exceptional knowledge, talents and experiences.

2. Identify the gaps between their ideal model and existing activities and processes.

3. Develop broad-brush recommendations for change, listed in priority.

These recommendations could then be given to various cross-functional work teams who would begin the detailed work. Senior management really supported this idea and felt confident in the validity of what this group in particular would come up with. It was interesting how quickly and easily the “best” list was developed. However, when asked to define why these sales associates were deemed as the best, once again, no specific consensus could be reached.

There were several outputs from the workshop that proved important. First, it was amazing how similar the views of this “best in class” group were when the sales associates were asked the questions about highest quality customer processes and experiences. A learning point here for any CKO is to always go to the source (i.e., the sales associates) for important information versus listening to senior management or hiring outside consultants. They knew the information cold and were able to list in very specific detail what a sales associate needed to do each day and what the management and operational support systems requirements were to deliver outstanding customer satisfaction.

A key goal was to attain a higher percentage of business from repeat customers. The sales associates specifically defined what they did to develop and retain clients, often from generation to generation. Could this be bottled? A strategy was forming, with the idea of “codifying” what these “best in class” associates did, their daily activities, and how well they did it. The CKO could then programmatically proliferate this knowledge to all new and existing associates. Ultimately, the CKO was able to define the value-driven job activities and measure their impact on business performance. It formed the basis for knowledge and skill requirements, technology applications, coaching, performance measurement and rewards.

Review

This strategy of linking knowledge sets and learning to work activities, which are in turn linked with business goals, is at the root of a CKO's raison d'être. After this has been accomplished, technology can be implemented to deliver the speed element for keeping current with changing business and market conditions. When properly applied, this formula provides an important, positive contribution to sustained competitive advantage.

In this case, the focus of training and knowledge-based delivery shifted dramatically away from the classroom right out to the shop floor. Senior management's job also transformed from manager and administrator to developer and coach. For example, a widespread request from senior management to sales associates became "how can I provide you what you need right now to perform your job in a manner equal to or better than the customer standards?" This was a far cry from the sales associate serving the traditional quota needs of the senior manager.

It was also these day-to-day strategic shifts in focus and job activities that did more to influence and change the selling culture than anything else. Senior management needed to reinforce these changes with words and deeds, but real change occurred because of the day-to-day changes. The CKO spearheaded organizational learning behaviors incrementally, one day at a time.

It was clear early on that this new knowledge codification process could easily get out of control and become too complex and cumbersome. There were several versions that were pared down with each edit. It was important for the CKO to bring focus to the key job elements that drove value. The rest would come in time. Line managers and sales associates alike kept saying the new processes had to be simple and not complicated. The willingness to change and adapt the program to their needs went a long way in building support and usage.

CONCLUSION

A comment or two on the complementary or lateral values associated with the aforementioned projects. The incremental development of a world-class selling organization created an enormous advantage for the recruitment and retention of talent. This lateral benefit added to the ROI because associates stayed with the company for years. As a result, both the company and the associates received a payback for the initial investment in time, money and resources.

Arguably, the CKO should be able to create a significant trail of lateral value by properly conceiving and executing alignment strategies. These alignment strategies will ultimately benefit customers and shareholders as well as the on-going well-being of the entire company.

There are many tools to help CKOs achieve alignment strategies which fill human capital gaps. Much has been written on the following: intellectual capital, human resource accounting, economic value added, and the balanced scorecard.[12] The common thread in each is the importance of measurement. A CKO must treat his initiatives with the same measurement rigor that an accountant would.

Another recommendation for aspiring CKOs is to participate in the TANGO Simulation. The Tango business simulation[13], invented by Karl-Erik Sveiby and marketed by Celemi, provides participants with an introduction to the concepts of valuing and managing intangible assets such as human capital. Five or six teams compete, as simulated organizations, for up to a seven year period (which actually takes one to two full days). Organizations compete to attract clients and knowledge workers, as well as other staff, to service those clients. Conventional financial statements provide an indication of the relative success of organizations. However, Tango demonstrates, as is increasingly obvious in real life, that conventional financial statements provide only one perspective of the health of knowledge-based organizations. Conventional financial perspectives are far from adequate for determining the health of many organizations that now generate wealth from assets that are primarily intangible.[14]

To provide additional support for measuring and aligning human capital, GreenLight Management Inc. has developed a measurement process, called the Human Capital Valuation System, to better quantify the intangible aspects and predicted results associated with alignment strategies. Furthermore, the Institute for Intellectual Capital Research has developed a joint quantitative and qualitative instrument which measures the antecedent and consequent effects of human capital management.

Finally, having the distinction of being named a CKO of an organization requires an individual to represent all that is current in knowledge management. Thus, the CKO often acts as a symbol or icon that other organizational members look up to for guidance. In the end, a CKO's most important activity is to strategically leverage the knowledge an organization creates for sustainable competitive advantage.

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