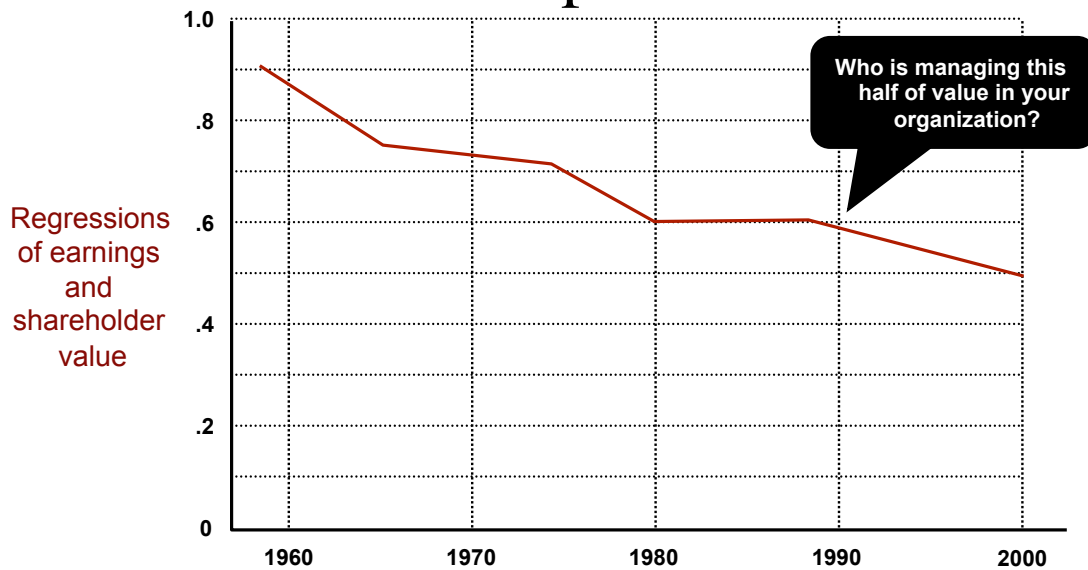


HR as Value Creators: Making Intangibles Tangible

Ever since Fortune Magazine's provocative "Let's Blow Up the HR Department" article in the 1980s, Human Resource professionals have been focused on demonstrating their value to organizations. HR departments have strategically been evolving their way up the "HR value chain" from roles as administrative experts to employee champions to change agents, and, for the most worthy, to strategic business partners. And yet, doubt still lingers – what is the return, really, for the investment organizations make in human resource practices?

Fresh perspectives on this question are emerging as a result of the growing awareness of the value of intangible assets. Baruch Lev, the author of *Intangibles: Management, Measurement and Reporting*, is a recognized thought leader in this field. His research shows that in the 1960s, a company's earnings accounted for almost 100% of its share price. Today, earnings account for only half. In other words, investors in the past based their confidence on a company's physical assets such as equipment, land and capital.

Earnings are a declining factor in share price

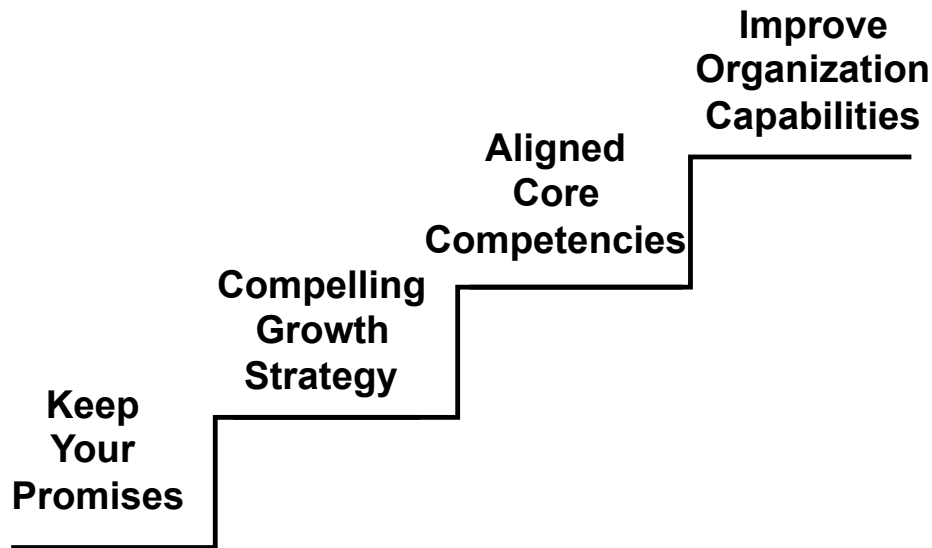


Source: Zarowin and Lev

Today's investors put their faith and money in companies that distinguish themselves with "intangible assets" such as culture, ability to execute strategy, and strength of customer relationships. You can certainly identify who in your company is managing the equipment, land and capital, but who is creating, maintaining and improving the

intangible assets? This is the land of opportunity for HR in partnership with the leaders in the company.

Architecture for building intangibles



Results Based Leadership led by David Ulrich and Norm Smallwood developed a four-step architecture for companies who want to strengthen their intangible assets. The “entrance price” or Step One to these assets is Keeping Your Promises. Your word must be your action in all that you commit to your customers, employees, investors and stakeholders. Then, when others believe you will do what you say you will do, you must put in place Step Two - a Compelling Growth Strategy. Which way will you grow your company – geographically, new products, capacity increases or customer relationships? Step Three is Aligning Your Core Competencies to the compelling vision to ensure resources are focused for highest leverage. Step Four is Improving Organizational Capabilities. Although HR can contribute to all four steps in this architecture, it is Step Four where HR can make the most significant impact.

There is no one “magic bullet” list of organization capabilities but most successful organizations will excel in as many as three of the following eleven organization capabilities: talent, speed, shared mindset, accountability, collaboration, learning, leadership, customer connectivity, strategic unity, innovation and efficiency. Through processes, policies, programs, training, consultation, communication and coaching, HR can support the organization in building the organization capabilities required for

business success. And a company that has built organization capabilities, according to market studies like that of Baruch Lev, will command a greater share price.

HR can be value creators – turning intangible assets in their organization into tangible results in the market place. In today's world, ROI means Return on Intangibles.

For more information, please contact Diane MacDonald at 403-225-1239 or diane@orgtransformation.com. You may also be interested in RBL's article "Capitalizing on Capabilities" in the June 2004 issue of Harvard Business Review.