

Adecco

better work, better life

The intrinsic link between human and relational capital

A key differentiator for today's leading knowledge economy companies.



What is relational capital?

Adecco, the world leader in workforce solutions, continuously explores and counsels organizations on the ever-changing and often complex realm of human capital. Adecco's most recent study, conducted in partnership with Dr. Theresa M. Welbourne of The University of Michigan Ross School of Business and eePulse, a measurement consultancy, unravels the dynamics around another layer of the value of human capital — "relational capital."



According to Adecco, relational capital is defined as:

An intangible asset that is based on developing, maintaining and nurturing high-quality relationships with any organization, individual or group that influences or impacts your business including: customers, suppliers, employees, governments, partners, other stakeholders and, sometimes, even competitors. An organization with strong relational capital has a wide network of these relationships which are managed well and consistently nurtured. In addition, this organization has healthy ties with all of its key stakeholders as opposed to focusing on just one stakeholder group. It is the strength of all the relationships that build a long-term competitive advantage that is difficult for competitors to replicate.

Why is relational capital important?

There are two primary reasons why Adecco explored the idea of relational capital:

1. Valuation

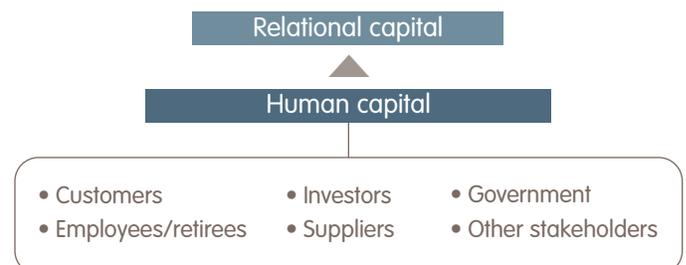
The non-financial (or intangible) assets of an organization make up 40 percent of a portfolio manager's decision making (Ernst & Young, IPO Survey 2004). To strengthen an organization's value, it is essential to define, understand and effectively communicate the success/strength of its intangible assets.

2. Performance

In today's knowledge economy, it is easy for competitors to purchase the same technology, develop a similar product, secure additional financing, etc. As a result, performance is increasingly being driven by sources of capital that are difficult for competitors to capture and replicate, such as relational capital.

How are human and relational capital linked?

Human and relational capital are intrinsically linked because it is the people within your organization that create, maintain and nurture the relationships that contribute to your performance everyday.



The intrinsic link between human and relational capital

The study.

Adecco partnered with Dr. Theresa M. Welbourne to conduct a study of more than 650 World Business Forum participants (business professionals from the C-suite to mid-level managers) to determine how this group of business leaders value human and relational capital within their organizations. We asked respondents to rate the degree to which 25 sources of capital have impacted their organization's performance to date and also how important they anticipate each will be for their organization's future performance. Following is a summary of our key findings.

Scale analysis.

Following are the 25 identified sources of capital used throughout the study, organized into six overall types of capital.

1. Type of capital: human

- Our employees
- Company's approach to employees
- Our ability to develop people
- Overall culture of the company
- The way employees are energized at work
- The way we reward top performers
- Our ability to attract top talent
- Management skills in the company

2. Type of capital: product

- Unique product characteristics
- Product differentiation
- Our company's technology
- Product market
- Our technical expertise

3. Type of capital: economic

- Cost of the product/service
- Our ability to control costs
- General economic conditions

4. Type of capital: leadership

- Our company's strategy
- Our approach to sales and marketing
- Our leadership team

5. Type of capital: niche

- Our level of customer service
- The quality of our offering
- Our ability to be flexible and change quickly

6. Type of capital: relational

- The quality of relationships we have with our clients
- The strength of relationships that managers have with employees
- The relationships we have with external firms, such as partners

Sources of capital.

The gap score chart on the next page depicts the 25 sources of capital along with the shift in respondents' answers. We calculate a gap score by subtracting scores on "how important the factor has been to date" from their scores on the question that asks "how important is this factor in the future." The mean gap scores were then calculated and are reported in the chart. Note that, of the top 5 factors that indicate high gaps, three are human/relational capital focused:

1. Cost of the product/service

2. Ability to be flexible and change quickly

3. The way we reward top performers

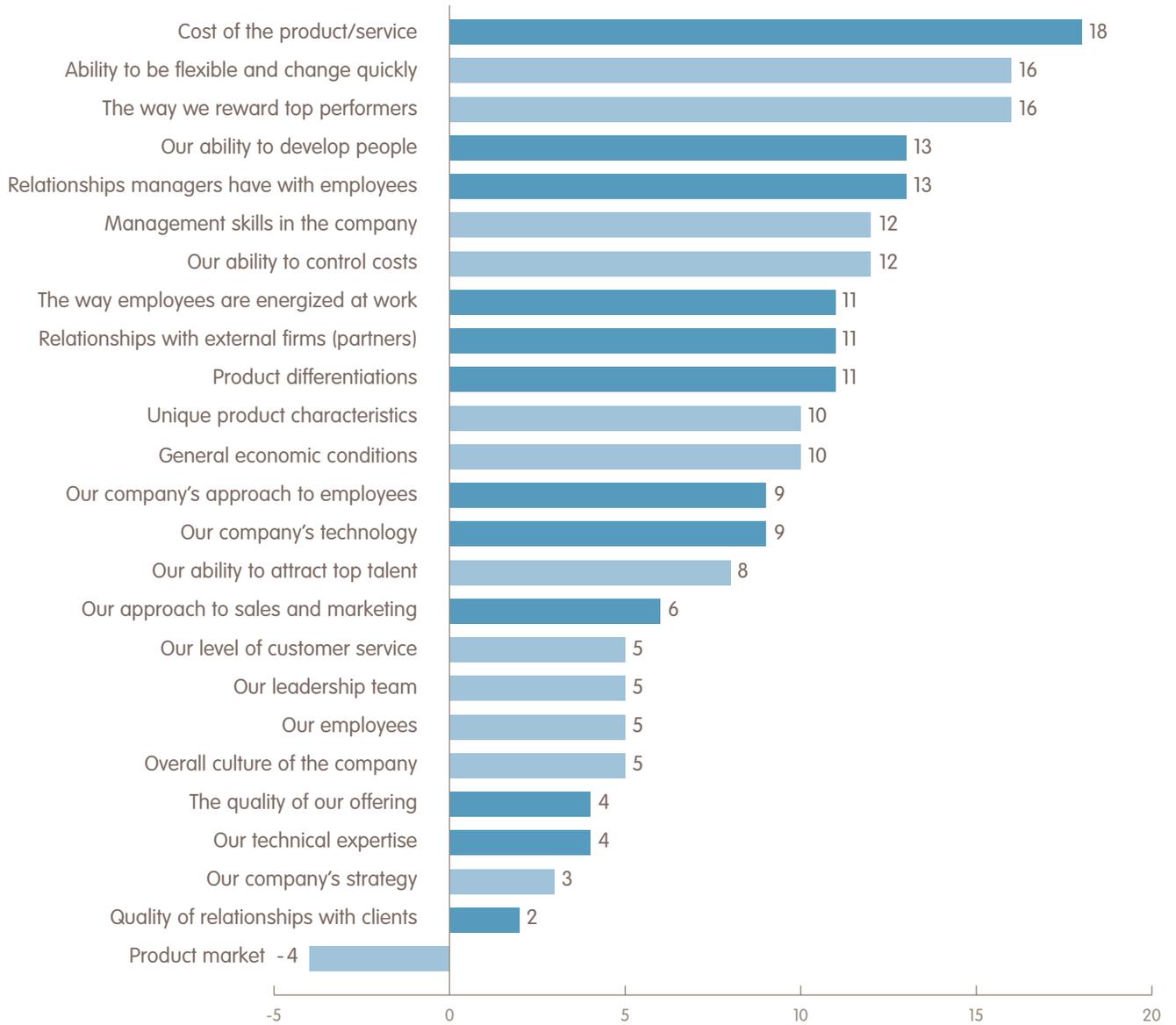
4. Our ability to develop people

5. Relationships managers have with employees

This means that the leaders responding to our study think that, in the near future, their need to work on human and relational capital will increase.



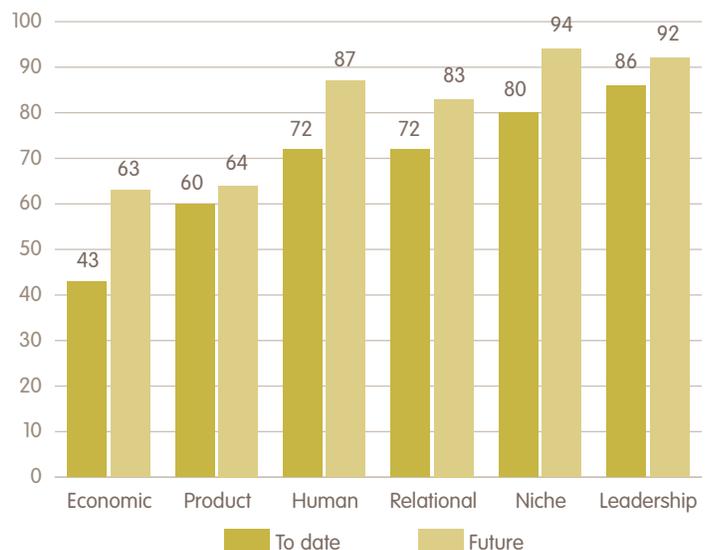
Gap score chart



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The most important sources of capital for the future.

This bar chart shows that, individually, the niche and leadership sources of capital are the most important. However, if you compare the increase in importance from "to date" to "future," you will find that business leaders reported a larger increase (26 percent) in the importance of human and relational capital combined, vs. niche and leadership (20 percent). Thus telling us that human and relational capital are increasing in importance as we plan ahead for the future.



Conclusion: relational capital directly impacts performance.

The most statistically significant predictor of the self ratings of performance is an interaction between the relational capital and rate of change. Our analyses showed a 32 point (statistically significant) difference between low and high relational capital firms when we isolated the sample to just those going through a high level of change. This means, as your firm's rate of change escalates you will experience higher overall performance if you have higher levels of relational capital. The bottom line: the strength of overall relationships (not just with employees, but also with customers and external firms you rely on) directly impacts your organization's performance.

Think of it — relationships, not just people, drive new sales and extended contracts. The relationships your employees carry with them on behalf of your organization, as well as their level of engagement and willingness to go above and beyond, are not easy to replicate. Your competitors can copy jobs, hire people and move their organizations to other countries where they pay less money to produce the same output, but they cannot create long-term, high quality relationships overnight.

Human and relational capital are inherently connected and can be a point of differentiation for your organization if you take the time to cultivate it. To help you get started consider >

Leadership

- Does our leadership team have the right skills to establish strategic and enduring relationships critical to our business?
 - Who is in charge of relational capital? In most organizations responsibility is spread out to various functional departments and the overall management is left to chance.
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Retention

- Do we know who the most important relational capital influencers are within our organization? Are we putting measures in place to retain them as they add this extra layer of value to our company?
 - Do we reward employees for establishing, maintaining and nurturing key relationships as a way to retain both the employees and that relational capital for our organization?
-

Best talent

- When we recruit, do we seek out candidates who can bring relational capital to our organization?
 - Do we try and identify candidates who have strong relational capital development skills in our recruiting efforts?
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Succession planning

- For key executive departures or changes, do we have plans in place to migrate essential relational capital?
 - Are our succession plan candidates able to manage the full set of relational capital held by the current executive?
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Outplacement

- If we are planning to downsize, layoff or restructure, do we have plans in place to manage the shift of relational capital?
 - Do we have controls in place to ensure relational capital is salvaged as people leave the organization?
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Measurement

- Do we measure our organization's relational capital and its impact?
- Do we understand that relational capital can change frequently and thus needs to be monitored regularly (in the same way firms monitor financial assets)?
- Do we know how to effectively articulate the value of our relational capital to key stakeholders?

Adecco Worldwide

Adecco S.A. is a Fortune Global 500 company and the world leader in workforce solutions. Adecco connects over 700,000 associates with business clients each day through its network of over 33,000 employees and 6,600 offices in over 70 countries and territories around the world. Registered in Switzerland, and managed by a multinational team with expertise in markets spanning the globe, Adecco delivers an unparalleled range of flexible staffing and career resources to corporate clients and qualified associates.

Adecco North America

Adecco is the workforce solutions leader in the United States and Canada, with a comprehensive service offering that includes temporary and contract staffing, permanent recruitment, outplacement and career services, recruitment process outsourcing, training and consulting.

In addition to its core competency in administrative, clerical and light industrial staffing, Adecco operates the following specialty divisions:

- Engineering & Technical
- Finance & Accounting
- Information Technology
- Medical & Science
- Legal
- Human Capital Solutions
- Government Solutions
- Transportation

For more information on how Adecco can help you more effectively manage your workforce, please contact us today.



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