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Human Capital Development and The Maximisation of Shareholder Value.

By Paul Dorrian

The forces of globalisation have made it compulsory for South African companies to become more competitive, both at home and in the international arena. Although it is argued by its proponents that free flowing capital, population migration, digitalisation and technology transfer constitute the main thrust of globalisation, more and more business organisations throughout the world have realised that there exists a strong correlation between global competitiveness and the development of human capital. Chi Hung Kwan, senior economist with the internationally acclaimed Nomura Research Institute, in examining economic and business competitiveness, has counselled that the single most important asset that requires nurturing is by far human capital. **[1].** His assertion is vigorously supported by Anthony Giddens, former Director of The London School of Economics who contends that ***" Human capital counts for far more than anything else in giving companies a competitive edge."*** **[2]** Any business organisation, especially one coming from a developing economy, that wishes to successfully compete within the established global order, ignores this fact at its peril.

Alongside the development of the modern global economy, there has emerged the new shareholder – driven model of capitalism, which has replaced the previous social market paradigm. Displaying a greater sense of ruthlessness, this form of capitalism is one in which the maximisation of shareholder value is paramount.

Yet this new form of capitalistic thinking can easily accommodate the interests of both a company's shareholders as well as its human capital. Their respective interests need not be mutually exclusive, but can easily co – exist within a win – win framework.

This paper explores one aspect of human capital development which is fundamental to such a relationship, namely that of encouraging and harnessing the mutually acceptable behaviour of company employees. The guidance of employees towards a greater understanding not only of their own achievements, but also of their actual destiny within their employing companies is fast becoming a corporate aphorism. Encouraging people to define (or redefine), and assert an accurate and pragmatic view of themselves within their company, as well as promoting the creative exploration of the corporate role(s) they play, can lead to spectacular improvements in company performance. The benefit for the employee is likely to depend on the individual's belief about the real intention of his or her employer. However, employees who have been involved in a typical programme designed and implemented by The Dorrian Consulting Group, have reported feeling a greater sense of achievement, job fulfilment and belonging. Participating companies have also recognised the contribution they have made to the welfare of their staff, with the concomitant benefits such as improved productivity, creative problem solving and improved customer loyalty. These are all contributory factors towards the maximisation of shareholder value.

How an organisation and its people view themselves is fundamental to everything they do, and to how competitive they perform in the marketplace. In 1960, Theodore Levitt, then a teacher at Harvard Business School, published what was to become one of the classic marketing articles of all time. In Marketing Myopia, Levitt advocated formulating the right kind of definition of one's business, so as not to restrict competitive thinking **[3].** Using examples such as Hollywood and the American railroads, Levitt postulated that having too narrow a definition of one's business limited one's ability to compete. It also made one's company vulnerable to more creatively minded competitors who were prepared to redefine and increase extant boundaries regarding customer satisfaction. This they would achieve by rethinking the definition they were giving to their business. Over the past forty years, legions of companies world-wide have used Levitt's teachings to re-define what business they believe themselves to be in, only to discover that there is often a gap between their chosen definition, and the kind of employee behaviour necessary to make that definition become a competitive reality.

Accurately defining one's business is imperative from a directional, and hence strategic viewpoint. It does guide one's thinking at this level, and it can creatively solve strategic problems. But on its own it does little to encourage the right kind of behaviour within a company's human resource base. It is at the behavioural level that real advantage lies, because it is employee behaviour which provides customers with their experience of the company. And that experience, as we know, is often the deciding factor for repeat business. Whilst everyone in the organisation may accept and understand the definition that company management have decided on, they may never give a second thought as to what it means to them. And even if management does try to ensure that as far as is realistically possible the definition becomes internalised throughout the organisation, applying the notion of "what business are we in?' to everyone's job is exceptionally difficult. A front line employee in a car rental company for example is unlikely to give a second thought as to whether his or her company is in the car rental, the transportation, the convenience, or whatever business management has decided upon. What the employee is concerned with is whether or not the customer has the best possible experience at that level of interaction. Moreover, customers are usually not all that interested in how a company defines itself. What they do want is a solution to their problem(s) and a good feeling at having that problem(s) resolved.

An effective means of ensuring that employee behaviour is aligned with the organisation's definition of its business is to take a twofold approach. Firstly, bring company employees into the process, and secondly encourage them to explore the all-important question of "How do I define the role(s) I play in my company?"

Take for example, the case of the division of a major South African packaging group. * When asked how the company should see itself in order to be more competitive, senior management replied that it was as a manufacturer and supplier of packaging for the personal care market. Research indicated that that was exactly how the company behaved. No more and no less. Everyone in the organisation instinctively saw the company in that light, because since its inception, generations of company employees had gone through the motions of making and delivering packaging to their customers. The result was that their behaviour, from both an individual as well as a collective perspective reflected that instinctive definition. Creativity had always been stifled, because management never really sought the suggestions of company employees. Moreover, successive management teams had never changed their view of the company to meet competitive conditions. They never really had to, as they enjoyed a near monopoly in their market. But globalisation soon changed all of that.

An important customer in the form of Lever Ponds threatened to use its global sourcing facilities in Europe to source better quality packaging at a better price. Indeed, a senior purchasing official had stated that whilst her company wished to do the right thing by an emerging South Africa, and keep the business with a local supplier, she was not prepared to compromise her employer's position in its marketplace because of poor supply. Moreover, the business development manager of a leading international brand moaned that his packaging supplier was nowhere near proactive enough in advising him about the latest packaging designs that were possible. In his view, this supplier was nothing more than an order taker. There was no value being added to the customer's business. Quite simply, the supplier had become complacent, and by global terms completely uncompetitive. Fortunately, management realised that if things continued the way they had done for decades, the company would be vulnerable to the vagaries of the global environment, especially since foreign competitors were beginning to eye South Africa as having potential good pickings.

Yet it had taken threats from major customers to bring home to this company the gravity of the situation. The problem was solved by firstly persuading management to think through how they saw themselves, the company and its role in the marketplace. After careful scrutiny, management reached the conclusion that their company was more than simply a manufacturer of packaging. They started to see it as providing a strategic component to the marketing plans of its customers. It was playing a vital role in assisting those customers to become more competitive in their respective marketplaces, both on the supermarket shelves and in the minds of the consumer. The problem was how to alter the behaviour of the employees in order to regulate that behaviour to reflect this strategic shift.

A series of workshops held initially at departmental level introduced all employees to the view that top management had of the business. Each department then established a working group(s) to reach agreement as to how the department ought to see itself in terms of the role it played within the new business definition. Once that had been achieved, each employee was asked (and where required given counselling) to provide an individualistic view as to how he or she saw the role that he or she played in making both the corporate as well the departmental view become a reality.

For example, the delivery people, in rethinking their view of themselves, and of the role they were playing in delivering the product to the customer, really got to grips with the negative impact of a late delivery. They studied this not only in terms of customers' production scheduling, but also with regard to the resultant problems in getting product on to supermarket shelves, and therefore in front of the consumer. They essentially saw themselves as a key component in keeping the customer's production and delivery cycles moving efficiently. By forging links with their opposite numbers in customers' receiving departments, they were able to create a more efficient delivery infrastructure. Under the old dispensation, they had seen themselves as picking up product from despatch and dropping it off at customers' premises. Now they were getting excited about the importance of their role within the company – customer interface.

Likewise the graphics department redefined their role to become the providers of solutions to those problems associated with the required image of the brand on the supermarket shelves. Previously, this department had simply taken designs provided by the customer's advertising agency, and adapted these to suite the cans the customer had deemed necessary. However, having changed the view that they had of themselves, they took a more proactive role in advising customers on the suitability of can design to the overall marketing effort behind the brand in question. Their liaison with customers' marketing people and advertising agencies took on a new dimension. Previously they would take instructions from customers and talk about delivery dates. After some deep introspection on the role they ought to be playing, they began to talk about and understand branding, shelf appeal, positioning and all the marketing terminology associated with what their customers try to accomplish. By re-defining themselves they had elevated their position not only within their own company, but also within their relationship with their customers. They were adding value to their customers' businesses and in the process developing customer loyalty, a key contributor to the maximisation of shareholder value.

These are but two examples of a process that was repeated throughout the entire company with devastatingly positive results.However, the key to success in an exercise of this nature lies in the extent to which management wishes to rethink the view it has of its business, and the extent to which it is prepared to bring its people into the process. In the above examples, subsequent organisational climate surveys indicated a greater feeling of achievement and job fulfilment within this organisation. Job satisfaction improved as did customer loyalty and, *ceteris paribus*, a contribution was being made to the maximisation of shareholder value, and a win – win relationship between these two elements of modern day capitalism.

References

1. Kwan, Chi Hung, The Rise of China and Asia's Flying Geese Pattern of Economic Development: An Empirical Analysis Based on US Import Statistics. *Nomura Research Institute, NRI Papers, No.52*, August 1, 2002. p1.
2. See Hutton, Will, and Giddens, Anthony, *On The Edge, Living with Global Capitalism*, London: Jonathan Cape, 2000, p24.
3. Levitt, Theodore, Marketing Myopia, *Harvard Business Review*, July – August 1960.

* The name of the company has not been divulged in order to protect its identity.

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Further Information

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Regards and best wishes,
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