The intrinsic link between human and relational capital

A key differentiator for today’s leading knowledge economy companies.
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.”

What is 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 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.
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 >
Adecco Worldwide
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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.