Intellectual Capital = Competence × Commitment

Dave Ulrich

This article provides a good overview of the concept of intellectual capital. The author begins by outlining six reasons why intellectual capital—which he defines as "the commitment and competence of workers"—has become a critical issue for managers. He then touches on how intellectual capital can be assessed and outlines five tools for increasing competence and three ways to foster commitment. By increasing competence and fostering commitment, he concludes, a company can make intellectual capital its "defining asset."

In the ongoing debate about where managers should focus their attention, something has been missing: a focus on intellectual capital. Intellectual capital—the commitment and competence of workers—is embedded in how each employee thinks about and does work and in how an organization creates policies and systems to get work done. It has become a critical issue for six reasons:

First, intellectual capital is a firm's only appreciable asset. Most other assets (building, plant, equipment, machinery, and so on) begin to depreciate the day they are acquired. Intellectual capital must grow if a firm is to prosper. A manager's job is to make knowledge productive, to turn intellectual capital into customer value.

Second, knowledge work is increasing, not decreasing. James Brian Quinn has observed that the service economy is growing directly in service industries such as retail, investments, information, and food and indirectly in traditional manufacturing industries like autos, durable goods, and equipment.¹ As the service economy grows, the importance of intellectual capital increases. Service generally comes from relationships founded on the competence and commitment of individuals.

Third, employees with the most intellectual capital have essentially become volunteers, because the best employees are likely to find work opportunities in a number of firms. This does not mean that employees work for free, but that they have choices about where they work and, therefore, essentially volunteer in a particular firm. Volunteers are committed because of their emotional bond to a firm; they are less interested in economic return than in the meaning of their work. Employees with this mind-set can easily leave for another firm.

Fourth, many managers ignore or depreciate intellectual capital. In the aftermath of downsizing, increased global competition, customers' higher requirements, fewer management layers, increased obligations, and pressures exacted from almost every other modern management practice, employees' work lives have not always changed for the better. In a recent workshop with sixty high-potential managers from a successful global company, we discussed careers. Of these managers (mostly in their thirties and early forties), 50 percent did not think that they would stay with the company long enough to retire, not because of lack of opportunity but because of the enormous stress and high demands. Within this group, 90 percent personally knew someone who had voluntarily left the company in the past six months because of the increased workload. When a group member shared these issues with an executive, he was told that a job at the company was a good one, there were backups for anyone who did not want to work hard, and discussions of work-life balance were not useful for business results.

Fifth, employees with the most intellectual capital are often the least appreciated. Some studies have correlated front-line employees' attitudes to a firm with customers' attitudes to the same firm. For example, my opinion of McDonald's, Sears, or Ford relates to the service I get at the local establishment. At a time when companies are investing millions to train executives to think strategically and act globally, my impressions are likely to come from employees who serve me when I buy food, clothes, or cars. In many firms, these employees are transient and not committed or competent to answer my questions or meet my needs. As a result, the overall image of the organization falls.

Sixth, current investments in intellectual capital are misfocused. Under the name "corporate citizenship," many senior executives talk about work-family issues. This seems to imply that after you have done all the real business, then you spend time on employees' citizenship concerns. Intellectual capital is the most important business issue. Douglas Iverster, president and COO of Coca-Cola, recently said, "People are our defining assets." He added that in leveraging human and intellectual capital, he staked his career on creating a learning culture throughout his company.
How do you increase intellectual capital without creating the perception that it's a social agenda not related to real business challenges? In this article, I offer tools for creating the competence and commitment that increase intellectual capital.

What Is Intellectual Capital?

While many agree that intellectual capital matters, few can explicitly quantify it. This lack of definition leaves the concept relevant, timely, and important—but vague. While there has been research on the concept, I propose a simple, yet measurable and useful definition: intellectual capital = competence \times commitment. This equation suggests that within a unit, employees' overall competence should rise but that competence alone does not secure intellectual capital. Firms with high competence but low commitment have talented employees who can't get things done. Firms with high commitment but low competence have less talented employees who get things done quickly. Both are dangerous. Intellectual capital requires both competence and commitment. Because the equation multiplies rather than adds, a low score on either competence or commitment significantly reduces overall intellectual capital.

We can assess competence and commitment at the firm, unit, or individual level. For example, a restaurant chain may measure the intellectual capital of each restaurant. It can derive such an establishment index from the average skill level of restaurant employees (competence) times the average retention of the same employees (commitment). This intellectual capital index would likely predict other positive outcomes, for example, customer loyalty, productivity, and profitability.

Or an employee might document his or her growth in intellectual capital by assessing the increase of knowledge, skill, or ability within a time frame and by evaluating commitment to the organization's goals and purposes. Such personal assessments can be accumulated into a collective assessment of the intellectual capital within a unit.

Tools for Increasing Competence

There are two primary challenges in increasing competence: First, competencies must align with business strategy. Competence in the absence of strategy is like acting without an audience. The audience gives the act focus and energy. Customers help a firm focus a strategy, then the firm aligns competencies to deliver strategy. Second, competencies need to be generated through more than one mechanism. There are five tools for increasing competence within a unit (firm, site, business, or plant): buy, build, borrow, bounce, and bind. Appropriately using all five ensures a stable flow of competence.
Buy

Managers can go outside the unit to replace current talent with higher quality talent. Buying involves staffing and selection from the entry level to the officer level. A classic example of buying to increase competence is similar to sports teams that pursue free agents and spend millions of dollars searching for new talent to lead them to victory.

Many executives seeking to rapidly transform their firms have relied on buying new talent. Larry Bossidy replaced 90 of the top 120 executives at Allied Signal by hiring some people from inside the company but many from outside. This signaled a shift in the firm's culture and direction. When Al Dunlop went to Sunbeam, he brought his own management team and completely replaced the previous one. Buying new talent brings new ideas, breaks old cultural roadblocks, and creates intellectual capital by shaking up the firm.

A buy strategy works when talent is available and accessible, but the risks are also great. The firm may not find external talent that is better or more qualified than internal talent. It may alienate qualified internal employees who resent management carpetbaggers. It may not integrate diverse external talent into a workable team that knows the business. Teams that invest in free agents often do not win championships in sports for which teamwork is required.

Build

By building, managers invest in the current workforce to make it stronger and better. As employees must find new ways to think about and do work, many firms, such as Motorola and General Electric, have invested heavily in helping them learn new technical and managerial skills. Some learning occurs in formal training programs and centers; much more occurs in structured on-the-job experiences. In either case, managers build intellectual capital by investing in employee learning in which inquiry is coupled with action, new ideas replace the old, and behavior changes.

A build strategy for intellectual capital works when senior managers ensure that development is more than an academic exercise, when training is tied to business results not theory, when action learning occurs, and when systemic learning from job experience occurs. The risk of a build strategy is in spending enormous money and time on training for its own sake, not for building intellectual capital.

Borrow

In borrowing, managers invest in outside vendors who bring in ideas, frameworks, and tools to make the organization stronger. Effectively used consultants or outsourcing partners may share knowledge, create new knowledge, and design work in ways that people too close to the work would not have done.
Many firms are learning to use consultants, not become dependent on them. This approach requires adapting, not adopting, consultants’ models, because each firm has different ways to apply those ideas. Knowledge must transfer into the client organization so that the consultants essentially “work themselves out of a job.” The firm must unravel the consultants’ processes and tools so that employees can replicate and deploy them afterward. Borrowing means less focus on studies and more on recrafting processes with consultant input. Successful use of a consultant means “leasing to own” the consultant’s knowledge versus renting.

Borrowing also has risks. It may mean spending large amounts of capital and time with little return. The firm may become dependent on a consultant without a transfer of knowledge into the firm. It may use answers from another setting without adaptation. However, appropriately used, borrowing competence is a viable way to secure intellectual capital.

**Bounce**

Managers must remove those individuals who fail to perform to standard. Sometimes people who were once qualified have failed to develop new skills and are unqualified for current work practices. At other times, individuals are simply incapable of changing, learning, and adapting. A firm should systematically and courageously remove the bottom percentiles in performance. Managers must make difficult personnel decisions decisively. Those who stay or leave should know why and what is expected of them. A fair, equitable process must meet legal requirements.

Bouncing also has risks. Downsizing may become a panacea. Bouncing may lose the wrong individuals and demoralize those who stay. Difficult personnel decisions may be based on perception, not fact, and management credibility will suffer as a result.

**Bind**

Retaining employees is critical at all levels. Keeping senior managers who have vision, direction, and competence is important, and retaining technical, operational, and hourly workers also matters because investments made in individual talent often take years to pay back.

A large bank was frustrated with its credit training program because, after three years of formal classroom training coupled with tailored job assignments, it often lost its loan officers to other banks. The bank had a buy-and-build strategy, but it was creating intellectual capital for competitors by not retaining those in whom it had invested.

Another firm facing high labor costs decided that instead of focusing on the 7 percent to 10 percent of employees it might have to let go, it would focus on the
20 percent to 25 percent it could not afford to let go. The managers began to identify the critical employees, interview them to find out how to keep them, and then shape individual contracts with them so they would not leave. The firm was able to retain the important employees and increase intellectual capital.

All managers use some version of buy, build, borrow, bounce, and bind. By selecting and integrating these tools, managers can increase competence. (See the sidebar, “Tools for Increasing Competence,” for a summary.)

<table>
<thead>
<tr>
<th>Tools for Increasing Competence</th>
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<tr>
<td><strong>Buy:</strong> Acquire new talent by hiring individuals from outside the firm or from elsewhere within the firm.</td>
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<tr>
<td><strong>Build:</strong> Train or develop talent through formal job training, job rotation, job assignment, and action learning.</td>
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<td><strong>Borrow:</strong> Form partnerships with people outside the firm (for example, consultants, vendors, customers, or suppliers) to find new ideas.</td>
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<td><strong>Bounce:</strong> Remove individuals with low or sub-par performance.</td>
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<td><strong>Bind:</strong> Retain the most talented employees.</td>
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Commitment Versus Burnout

One trap in creating intellectual capital is to focus only on competence. Just having more competent employees who are not committed to doing good work is like trying to win a team sport with an all-star team. While the individual players may be talented, they do not perform as a team.

Building commitment involves engaging employees' emotional energy and attention. It is reflected in how employees relate to each other and feel about a firm. In many cases, the competitive pressures that require more employee commitment actually reduce it. Competition demands more of employees; they must be more global, more customer responsive, more flexible, more learning-oriented, more team driven, more productive, and so on. These demands require committed employees who give their emotional, intellectual, and physical energy to the firm's success. Unfortunately, many managers do not deal with increased employee demands effectively. They continue to expect more and more of employees, creating not commitment but stress and burnout. Employees may become depressed and experience various symptoms. (See the sidebar, “Symptoms of Employee Burnout.”)
Symptoms of Employee Burnout

- Don't feel recognized or appreciated for their work; don't know how to celebrate success.
- Feel that their lives are out of balance, with too much energy focused on work and not enough on personal and family issues.
- Lament how good work used to be.
- Feel that no matter how much they do, it is never enough.
- Feel unable to control the amount or quality of work they are asked to do or the resources required to do it.
- Increased stress related health care costs.
- Feel that their bosses are out of touch with reality or don't care.
- Are embarrassed to discuss personal issues at work (hobbies, family, and so on).
- Become short tempered and argue about trivial issues.
- Have lowered morale and talk about being burned out by stress and pressure.
- Spend time thinking about protecting their own careers more than serving customers.
- Feel by merely following the rules and doing only what they are told.
- Talk about disagreements and concerns in informal settings rather than through formal channels of communication.
- Quit having fun at work and talk about how difficult work is; don't see what's in it for them to work harder.
- Have difficulty making commitments to get work done.
- Feel that they have little chance of real career progression or that their careers are out of their control.
- Feel caught in a rut or routine and overwhelmed by all they have to do just to keep up.
- Are cynical about new corporate initiatives and see programs as just another way to make them work harder.

Theory and research from literature on teenage depression provides a framework for understanding employee stress, burnout, or lack of commitment. Research has found that depression occurs when the social, physical, cognitive, and affective demands on teenagers exceed their resources to cope. These demands have comparable characteristics: First, they are inevitable and affect every adolescent regardless of social status. Trying to avoid them is impossible. Second, they cannot be denied or discounted. Third, the demands are cognitive; they are perceived in the expectations set by parents, teachers, peers, and themselves.
Figure 1. Teenage depression or employee lack of commitment

Resources are the energy-providing activities that help individuals cope with demands. At its simplest level, depression occurs when a teenager feels he or she just can’t cope with it all. It is not demand alone, but the inability to cope that causes the depression (see Figure 1). Many resources are available to increase the ability to cope with demands, for example, supportive parents or family, cognitive ability, success in some activities, and so on.

Like teenagers, employees may also feel that the demands on them exceed their resources or ability to cope. A lack of commitment does not come from the demands (because competitiveness requires that employee demands must be high) but from the imbalance of demands and resources. By listening to employees and having exit interviews, surveys, and employee activities, a company can find evidence of employee depression and lack of commitment. To reduce depression and increase commitment, the company needs to appropriately balance demands and resources, so aspirations (demands) slightly exceed resources. Once demands and resources are balanced, employees can contribute. They are committed to improve and competent enough to make the right improvements. Their intellectual capital increases.

How to Foster Commitment

A company can foster commitment in three ways. First, it can reduce demands. Employees can find ways to do less so that they stay in balance. Second, it can increase resources. Employees can find new resources to accomplish work. Third, it can turn demands into resources.
Reduce Demands

Employees have many demands of varying importance. Helping them separate legitimate from groundless demands and then removing the unnecessary ones may balance their lives.

Prioritize. Prioritization can eliminate some demands. The old adage, "Everything worth doing is worth doing well," may become, "Everything worth doing is worth overdoing," as Steve Kerr of GE notes. Some managers may think that if one high-performing team works best for decision A, then every employee should participate in high-performing teams for all decisions. Or, if a training program works for one group of employees, all employees must go through the program. These processes overwhelm employees. Setting priorities means that some activities are worth doing well; others should be let go.

At General Electric, a change effort, "Work Out," began by getting rid of work that did not add value. The assumption was that work accumulates like the clutter in closets or attics. Things just pile up without much rationale or reasoning. Cleaning closets means discarding items that you don't use anymore. Cleaning out work systems means discarding work processes that are not adding value. At GE, this meant filtering reports, approvals, procedures, measures, and meetings (the elements of bureaucracy) by asking: Is there a customer who gets value from this work? If not, we can discard the work. Some other questions for assessing the value of work are:

- Who uses the report? How is the information used to improve decision making? How accurate and up-to-date is it? How much time do people spend preparing the report?
- How often does someone not give approval for something? If someone always signs a requisition (for example, for a tuition waiver or travel approval under a certain amount), then the signature is more a bureaucratic requirement than an added value. Who is ultimately responsible? Does the approval process focus on this person?
- Who uses the measures tracked? Are the behaviors reinforced by measurement those we should increase? Are we measuring what is easy or what is important? How costly are the measures? Are we collecting lead or lag data?
- Why hold this meeting? What if we do not have this meeting? What is the return on the amount of time for those who attend? Are we using the meeting for communication or for decision making?
- How many steps are in this process? Can we streamline the steps and get things done more quickly?
Focus. Employee demands may be too high because they are unfocused. A company can encourage focus by ending many initiatives and doing only a few critical activities. Unfortunately, quality, innovation, empowerment, attention to customers, team building, productivity, and so on are all necessary. Who is willing to forgo innovation to accomplish productivity? High-demand organizations must win on many dimensions.

Focus requires weaving multiple initiatives into over-arching themes. In some ways, it matters less what the theme is and more that there is one. For example, George Fisher, CEO at Eastman Kodak, has selected quality as an important theme. CEO Arthur Martinez has concentrated on making Sears a compelling place to work, shop, and invest. Irv Hockaday, Hallmark CEO, has focused on product leadership. Steve Kerr of GE suggests that integrative themes are like locomotives pulling multiple, varied train cars. The individual box cars (initiatives) may change, but the locomotive pulls them together in the same direction.

Reengineer. There is much advice about how to reengineer work. In terms of employee commitment, reengineering processes reduces demands by streamlining, automating, and simplifying work. When complex processes are simplified, some employee demands are eliminated.

For Dale Carnegie management training programs, the process time from concept to delivery of a new program was about six months. After serious reengineering work during which managers examined the decision points for new programs, the steps for creating materials, and the necessary activities, they were able to reduce the cycle time for a new program to twenty days.

Camco, the General Electric Appliance business unit in Canada, reengineered its distribution system so that customer orders could immediately be turned into products. Instead of building to inventory, it began to build to order. This significantly reduced the inventory cost, removed many activities from the work process, and shifted employee focus to high-value-added work.

Even with priority setting, focusing, and reengineering, demands on employees will continue to increase. Regardless of how many demands are removed or reduced, competition continues.

Increase Resources

Not all demands can be reduced. Business demands accompany a firm’s desire to compete in tough markets. Walking away from competition would, in many cases, equate to failure. Demands will inevitably be high in globally competitive firms. Resources represent the values, practices, and actions the company takes to respond to demands. Certain resources may counterbalance demands. (See the sidebar, “Tools for Developing Commitment.”)
Tools for Developing Commitment

Control: Enable employees to control decisions on how they do their work.

Strategy or Vision: Offer employees a vision and direction that commits them to working hard.

Challenging Work: Provide employees with stimulating work that develops new skills.

Collaboration and Teamwork: Form teams to get work done.

Work Culture: Establish an environment of celebration, fun, excitement, and openness.

Shared Gains: Compensate employees for work accomplished.

Communication: Candidly and frequently share information with employees.

Concern for People: Ensure that each individual is treated with dignity and that differences are openly shared.

Technology: Give employees the technology to make their work easier.

Training and Development: Ensure that employees have the skills to do their work well.

Control. In a classic experiment, management gave employees a lever that controlled how fast they could operate an assembly line. Originally afraid that employees would take advantage of the situation and slow down the process, management was surprised that employees actually worked faster when they felt in control of their work.

Many companies have learned the value of sharing control with employees as a way to let them decide how to cope with increased demands. A hotel chain wanted each of its maids to clean nineteen rooms per day, an increase of one room per day. Rather than merely raising the standard, management experimented by creating high-performing work teams of five maids who were responsible for cleaning ninety-five rooms per day (the new standard). The hotel gave the team complete control over how it could organize to get the work done on time and within quality standards. The team members decided that four of them would go to work, while the fifth would stay home with the children of all five. This approach gave management what it wanted (increased productivity and continued quality) and employees what they wanted (flexibility and autonomy).

Control can involve work schedules. Flex-time and flex-hours have helped
many firms maintain employee commitment. Giving employees control over how to meet the demands partly led to Microsoft’s success. In its early days, the computer programmers faced enormous pressures and demands to prepare thousands of lines of code for the operating system. These programmers had no time clock and no one monitoring their work; they controlled their own schedules.

The location of work can also be an issue of control. Arthur Andersen Consulting lets employees live where they want as long as they can fly to meet with clients. Rather than traveling four days a week, then coming into the office for that day, the consultants may spend the fifth day working from home or wherever they choose. This autonomy and control does not mean standards are any less rigorous, merely that employees control where they work.

In sharing power and giving up control, managers implicitly trust that their employees have the skills and motivation to do a good job. Sharing control demonstrates trust and builds employee commitment. Managers may use control as a resource by creatively and flexibly answering: Where is work done? How is work done? What work is done? When is work done? Who does what work? As long as employees understand and are committed to the goals, they can share the way goals are accomplished.

**Strategy or Vision.** Employees who feel personally committed to a strategy or vision are more likely to work hard. If you ask employees to think of an occasion when they faced enormously high demands (tough schedule, demanding customer, and so on) and how they felt in working toward that goal, almost inevitably they discuss feeling committed from having a common vision. Employee commitment often comes from a leader who shares a clear vision that passionately communicates agenda and intent. Many executives articulate visions or directions that give employees resources and add to their resolve to cope with increased demand.

When George Fisher became chairman of Eastman Kodak, one employee commented that, while Kodak had been engaged in quality, improvement, and efficiency efforts for years, Fisher was really serious about it. This employee felt that, while the language was the same, the passion and dedication were new. He also reported that many employees were excited and energized by the new leadership dedication.

**Challenging Work.** Boring work is draining; lots of boring work is deadly. Asking employees to do increasing amounts of boring work is self-defeating. There are numerous ways to make work challenging.

Baxter Healthcare connects employees directly to customers. The criterion of effectiveness is customers’ perceptions of Baxter’s work. For example, Frank LaFasto, vice president of human resources, spends much time building teams
with hospitals that are Baxter customers. His hard work is immediately challenging and has direct customer payback.

Amgen, a leading biotech firm, is constantly searching for new genes and biotechnology to turn into products. It asks its scientists to do more work in research and applications and reduce product introduction time. The scientists are continually stimulated by extensive technical support, up-to-date laboratories, and extremely challenging work. They know they are working on cutting-edge research that will add value to science as well as to Amgen’s portfolio.

**Collaboration and Teamwork.** Teams often turn individual efforts into extraordinary successes. Studies and cases of high-performing teams show that teams can often leverage individual talents into collective achievements. When faced with high demands, teams solve problems better than isolated individuals can.

The demands for creating the Boeing 777 air frame were exceptional: it had to be completed (from design to delivery) in less time than previous models, be produced at less cost, meet customer needs, please pilots, and be more fuel efficient than any other aircraft. These demands were not easily met. More than 200 teams participated in the 777’s design, engineering, manufacture, and assembly. This program redefined not only the Boeing fleet but the process for delivering air frames.

Teams often are accused of slow decision making. In many cases, the opposite is true. In high-demand situations, in which solutions are not readily available, teams can focus and rapidly resolve an issue. For example, Hallmark faced increased competition from American Standard and other brands. Hallmark executives had to rethink how work was accomplished. Under the leadership of CEO Irv Hockaday, they developed a product leadership strategy in which they defined distinct brands and products distributed to its different, diverse outlets. Creating this strategy changed many assumptions and processes that already had been reengineered at Hallmark. Most important was the formation of the North American Management Team (NAMT) composed of nine senior executives. Meeting regularly, they struggled to make the strategy work. They exerted peer pressure and, under Hockaday’s leadership, made disciplined, rigorous, tough, and rapid decisions to execute the product leadership strategy. The NAMT improved both decision making and strategy implementation by being focused on the strategy and rigorous in decision making.

Teams can be formal corporate bodies such as Hallmark’s NAMT or task forces such as the hundreds of Boeing 777 teams. They can also be less formal support groups in which individuals find emotional and intellectual support. At Coopers & Lybrand, a host of informal, collegial teams helped employees find outlets for their demands and provided arenas for discussing problems and finding creative solutions outside the formal hierarchy. Support groups, clubs, social activities,
professional associations, minority groups, and other informal teams can often serve to increase resources for employees.

Finally, collaboration may take the form of formal and informal mentor relationships. In the U.S. Army, some younger officers from the Vietnam era were disillusioned about older officers’ lack of commitment to learning. The group formed a mentor program in which an officer who had previously held a position would observe the current officer in simulations or other settings. The preceding officer could not officially mentor those under his or her command, and comments—sometimes blunt, candid, off-the-record feedback on how to improve performance—were not officially recorded. This mentoring system has been credited with improving leadership quality and helping current officers cope with demands.¹¹

**Work Culture.** Imagine a competition that requires you to work very hard for a long time. Then imagine your feelings when you win an award. What if you could not celebrate your success but must quietly accept the award and then immediately prepare for the next round of competition? Does that sound like fun? Too many work settings have taken the fun out of winning. Establishing, striving for, and accomplishing goals should be energizing, exciting, and worthy of celebration.

Some companies have maintained a culture of fun. Southwest Airlines requires that employees be very serious about airline rules and regulations but also go out of their way to help passengers enjoy flying on Southwest.¹² Flight attendants sing, dance, climb into overhead bins, and entertain passengers while performing their required duties. Sam Walton’s hula on Wall Street after exceeding goals was fun for employees and also showed that he would go to great (and humorous) lengths for his employees if they delivered results.

Defining a work culture can encourage employees. Harley-Davidson employees frequently wear Harley T-shirts and Levis to work. They ride their bikes to rallies and join customers in the Harley experience. Hallmark encourages creative department staffers not only to innovate with their card designs but to decorate their workstations to show their creativity and personality.

**Shared Gains.** In a recent workshop, I spent two hours talking about all the exciting things happening in a particular company. The executives were articulating a vision, producing new and exciting products, reducing cycle times for product introduction, serving customers, and living the fantasy of the modern corporation. At the end of the discussion, a participant who had been listening quietly commented, “This is all well and good, but what’s in it for me?” Great question! People working hard must be rewarded personally. Most of us are not totally altruistic and want to touch, see, and feel the rewards from what we do. For most people, compensation becomes a scorecard for success.
Companies are learning that sharing the economic gains of reaching targets helps employees stay motivated to reach increasingly difficult goals. PepsiCo has a program called Sharepower in which all employees—500,000 workers in 195 countries—who work at least 1,500 hours a year and have been with PepsiCo for one year are given stock in the company. Such gain sharing is not altruistic but increases employees’ commitment. Pepsi employees try to please customers because they know the impact of customer service on future stock performance.13

When employees see that a particularly demanding project results in economic payback, they are likely to be more committed. When the line of sight between work and reward is clear, employees may cope better with increased demands.

**Communication.** Almost every employee attitude survey about communication suggests that there is not enough information sharing. Even after weeks and months of presentations on strategy, many employees do not always understand it. The fact that communication is difficult, however, does not undermine its importance as a resource.

If employees understand why a company is doing something, they will more readily accept it. Too often, managers focus on the what and not the why, making statements such as, “We are going to reorganize,” “We are going to reduce cycle times,” “We are going to increase quality,” or “We are going to re-engineer.” Employees may fail to grasp the principle behind the program. When employees have a knowledge of the business so that they can communicate goals to external stakeholders (for example, customers, investors, suppliers, potential employee groups, and so on), they see communication and information as resources.

When Hallmark introduced its reorganization, which would increase the demands and expectations on the entire workforce, the executive team diligently communicated to employees the changes’ intent and implications. The team members held meetings of all employees at which executives explained the new organization and goals and answered questions. They prepared press releases so extended family members could understand what was happening. They summarized executive remarks in briefings and newsletters and invited employees with further questions to contact their managers. The extensive communication plan was a major resource. Employees knew not only what was happening but why and how it would affect their jobs and careers.

Communication requires symbols and words. When Sears developed its vision of becoming a compelling place to shop, work, and invest, Barbara Lehman, director of public relations, and her staff created a triangular paperweight; at the base was the balanced scorecard Sears wanted to achieve (profitability, people, and preferred supplier). Each side represented a stakeholder
(customers, employees, and investors). At the chairman’s conference presenting the vision, each participant received the paperweight as a symbol of the new Sears. In addition, to represent the balance required among the three stakeholders, participants got a gyroscope. These gifts, which may seem somewhat trivial, symbolized the new strategy.

**Concern for People.** Being busy is not an option, but a given. People confront the challenge of limited time, forging a path through many activities, and dealing with endless lists of things to do. Some companies give employees resources to cope with the demands on their time. 3-Com has dedicated space in the corporate office for all the personal “errand” work that absorbs employee time. The company has leased space to a bank, laundromat, dry-cleaner, shoeshine stand, car repair (in the employee garage), travel agency, and other services. As employees use time before, during, and after work to accomplish errands more efficiently, they have more time to focus on the business. In some senior executive training programs, Cargill invites spouses and partners to candidly discuss the business’s challenges so they can more fully understand demands. These inclusive events help families become more committed.

Federal Express has institutionalized grievance procedures so employees know that if they have a conflict with their manager, senior managers will hear their viewpoints. Motorola ensures that it will not terminate anyone who has been employed by the company for at least ten years without a personal review by an executive committee member.

**Technology.** New technologies may be a demand (the requirement to learn how to do things differently) or a resource (the ability to do things differently). As a resource, technology can remove barriers by sharing information and simplifying work processes. Computers often can remove or replace routine, standardized transaction work. The resource of technology may also restructure work. In an internal study, AT&T found that a high percentage of work could be done remotely through telephone, fax, and modem connections. Instead of having to face traffic, parking, and coming to work every day, employees can telecommute, thus working from remote, distributed locations. Virtual offices where boundaries are not geography, but information, are occurring more frequently.

**Training and Development.** Many companies invest heavily in activities to help employees cope with increased demands. There are four types of such activities: First, a systematic management curriculum can help employees develop at each career level. General Electric’s Crotonville Development Center prepares courses for employees from entry level through company officer level to ensure that they have the necessary skills. Second, developmental experiences such as job assign-
ments, task forces, apprenticeships, or job rotation are based on the assumption that individuals learn from experience. Third, employees can gain competence from action learning, which occurs when teams attend training activities and work with a real problem. The result is a set of skills and the ability to apply tools and skills to a business problem. Finally, employees working in teams may enhance competencies by discussing business projects and teamwork.

**Turn Demands into Resources**

A company can turn a demand into a resource in several ways:

**Hold Exit Interviews.** Employees who are leaving may be the best source of information on what is really happening in the firm. When managers conduct exit interviews, they may see how company policies or management actions erode commitment. By collating information from exit interviews, they can change demands into commitment.

**Assimilate New Managers.** When managers arrive, demands on employees are often high. Employees reporting to the new manager may be unclear about his or her expectations, work style, and behavior, which raises the level of stress.

General Electric has a systematic assimilation process to help employees work with new managers. Employees and the manager participate in a half-day workshop. Employees list questions they have about the new manager (for example, background, work habits, expectations, and so on). The new manager answers questions openly and candidly and shares concerns and questions about working with the group. The group in turn shares expectations about work processes such as decision making, conflict resolution, goals, and roles. Investing time up front on these issues saves time and resources as the demand of leadership focuses on discussing work relationships.

**Consider Family Demands.** Managers can turn work demands into resources and increase commitment by considering extended family issues. Marriott Corporation and Cargill invite spouses or partners to participate in executive development experiences where they discuss business strategies and the personal and family implications of executing the strategies. Organizations can become family-friendly by (1) inviting spouses, partners, and children on interview trips to ensure that they are comfortable with relocation, (2) establishing adequate family leave policies to help relieve employee stress, (3) providing on-site or corporate-supported child care, and (4) instituting corporate-supported family vacations, outings, and extracurricular activities. In global firms, family training has assisted both the employee and family in relocating. While not useful for all workers, this array of corporate activities with a family focus may help employees
modify demands so that the family better understands and supports work requirements.

**Involve Employees in Important Decisions.** Companies can have employees participate in decisions that affect them by sharing the context and rationale for the decisions. Employees who participate fully in decision making—from framing, collecting information, generating alternatives, making recommendations, and implementing and acting on the decision — have an increased sense of control and commitment. In hiring decisions, if employees screen a potential supervisor, they become more committed to the supervisor eventually hired. In product decisions, when employees can give opinions on product introductions, they are more committed to the new product. In relocations, if employees have a voice in the placement of a new plant or facility, they will be more committed. When employees discuss strategy, they become more committed to implementing it.

Managers should decide who should receive information, who should be involved in task forces to generate information about a decision, who should help draft and implement recommendations, and who should follow up on decisions. All are important elements of involvement and can turn decisions that may be sources of employee demands into an engagement of resources.

Intellectual capital comes from employees’ competence and commitment. Both must exist together for intellectual capital to grow. Leaders interested in investing, leveraging, and expanding intellectual capital should raise standards, set high expectations, and demand more of employees. They must also provide resources to help employees meet high demands. Employees will become engaged and flourish, and the organization’s intellectual capital will become its defining asset.

**References**


7. S. Kerr, personal conversation.

8. Work Out has been described in a number of publications; this discussion is based on my experience and work with General Electric.


11. This example comes from a speech by Thurgood Marshall in 1992 on leadership in the military model that he presented to General Electric employees charged with developing GE leaders.


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