

Human capital and knowledge audit as the competitive advantage of companies

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ABSTRACT

The quality of available human resources is one of the key factors for economic development. Companies could increase their competitiveness by converting knowledge held by individuals into services and products. Knowledge of humans is an innovative resource of the corporate, which could be hardly followed by the concurrent. It has become a widely established fact that humans are unique resources of corporate, which both physical and intellectual way could create values, and his experience, skills and capabilities has crucial impact on company's success. Knowledge audit should be the first step in any Knowledge Management initiative. The goal is to develop action plans to facilitate the flow as well as stock of knowledge within an organization, to improve the efficiency of the use of external knowledge elements. Corporate intellectual resources can become real competitive edge only if management recognizes the importance of personal experiences, which impacts positively the present and the future: beyond the profit, they create additional intellectual and personal values. Knowledge audits could point out possible weak points, which - after correction- could increase the intellectual assets.

Keywords: Human capital, core processes, knowledge audit, knowledge map and flow, intellectual and human value.

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INTRODUCTION

Nowadays, it is more and more noticeable that there is a gap between the market value and the book value of companies. This difference can be traced back to a number of factors; however, the most recent explanation seems to be the presence of intellectual capital.

This study aims to identify the importance of intellectual capital with regards to the competitiveness of companies and to introduce the method of the knowledge audit, which is well suited for measuring intellectual capital (Stanfield, 1998).

In addition to the financial capital, a company's capital is also represented by intellectual and social capital. Intellectual capital consists of human capital and structural capital, and also of the capital of creativity. Intellectual capital also includes relationship capital such as customer capital, supplier relationship, and strategic alliance, even to the extent of public relation with government, trade associations, schools and community; or organizational social capital if you will.

Capital is something that is scarce and what is available is utilized. It is a resource expressed in the form of value that can be invested and when invested, pays off (Gábor, 2006).

Intellectual capital can be divided into two groups according to whether it can be sold by itself or merely a quasi asset that is inseparable from the company, but with appropriate management, shareholder value can be created with it (Stewart, 1990).

EXPLORATION AND RECOGNITION OF INTELLECTUAL CAPITAL VIA KNOWLEDGE AUDITS

In order to operate successfully, in all types of socio-economic environment, organizations are supported by different business models.

In the 70's and 80's, according to the strategy-oriented theories, companies - if they wanted to stay competitive –

had to adapt their strategies to the demands of the environment. The company which reacted appropriately to the environment was better than their competitors and was able to achieve above-the-average performance and took initiatives to gain competitive advantage. In these theories, internal factors had a role that was taken for granted (Gyökér, 2004).

In the nineties, we started to evaluate the internal assets of an organization in a different way. The attention turned to the company's so-called core competencies that differentiated them from their competitors and could become a source of sustained competitive advantage.

Today, the intellectual capital is the focus of attention. This new type of capital greatly contributes to the image of a company and beside the financial activities, quality management, environmental issues or occupational health-related certifications; intellectual and social certifications are becoming increasingly important (Edvinsson, 2002; Brooking, 1996).

The term "audit" derives from the Latin word "audience". In the Middle Ages, the audience meant "hearing". In other words, when a person filed for an audience, he was in for a hearing by the magistrate who would listen to his complaint, request or statement and then make a decision accordingly. In most cases, present-day audits also bear a similar meaning, although a little transformed according to some of today's requirements.

Today the term "audit" means "report" or "test". Generally, an operating system, a process or a product is examined thoroughly in order to establish the level it meets the expectations and standards.

There is a very large diversity of audits depending on who does it, purpose and the subject of the audit. For example, there are accounting audits, system audits, process audits, product audits, safety audits, documentation audits, but there are internal or external audits as well.

The most common meaning of the audit today is a tool for review and the qualification of an organization against the standards. The knowledge audit is used to assess the knowledge base of an organization, to examine the terms and conditions of knowledge creation. Its goal is to develop action plans that promote knowledge creation, storage and flows within the organization and to improve the efficiency of the use of external knowledge elements (Gyökér, 2004).

The importance of the knowledge audit cannot be overstated. Human resources are a specific asset of an organization since it generates value through physical and mental activities. A special feature of the human resources is that although it is not owned by the company which employs it, still, the working capacity and the skills of human resources have long-term influence on the objectives: human resources make decisions so that the organization can increase performance, but can also choose to separate itself from the organization.

Man is the only renewable resource of an organization;

therefore, he is the key factor in knowledge audits. The goods, assets or values generated by the work are partly of material nature, while others can be of intellectual property or assets independent of material. These assets - unlike products and technologies - are difficult to copy because they are rooted in the specific knowledge and abilities of the people and the organization, so they become sources of sustainable competitive advantage.

The methodology of the knowledge audit is best illustrated in Figure 1. During the knowledge audits, it is important to get an answer to the following question: "How can I obtain and pass on useful knowledge within the organization?"

Following the interpretation of the "mission", the "vision" and the organizational goals of the company, the most influential organizational processes that determine the basic operations of a company should clearly be defined and laid down. In setting up the priority of the processes, special attention should be paid to determine the exact measurement criteria. Quality is an essential factor for any company. Meeting the critical success criteria will ensure compliance with customer satisfaction.

The management of the company defines the key persons who will play a major role in identifying the knowledge base within the organization and in mapping "useful knowledge". It is important that during the audit, the management of the company provides a stable background for the employees. The key people should clearly understand and be aware that the goal of the audit is to improve the organization's intangible assets by identifying and correcting the non-conformities (Sveiby, 2001).

During the knowledge audit, a site-specific list of questions and personal interviews may help the work of the auditors to map the intra-organizational knowledge source, flow and stock, and work out a complete analysis within the company.

The collected useful knowledge can be presented in a final meeting with the management and the persons audited (Figure 2).

A detailed knowledge map (Figure 2) provides an accurate picture of the current state. Also, deficiencies can be revealed, and site or location-specific tasks can be defined. The management can also have an insight into how the knowledge audit can be the first step to initiating a knowledge management program. The company management and the associates can then develop a harmonious course of actions.

CURRENT AND FUTURE WORK TO DEMONSTRATE HOW HUMAN CAPITAL AND KNOWLEDGE AUDIT COULD BECOME SOURCES OF COMPETITIVE ADVANTAGE

Many organizations are familiar with managing their operations, marketing, finance, sales or even supply chain. However, it is far from adequate for them to win in

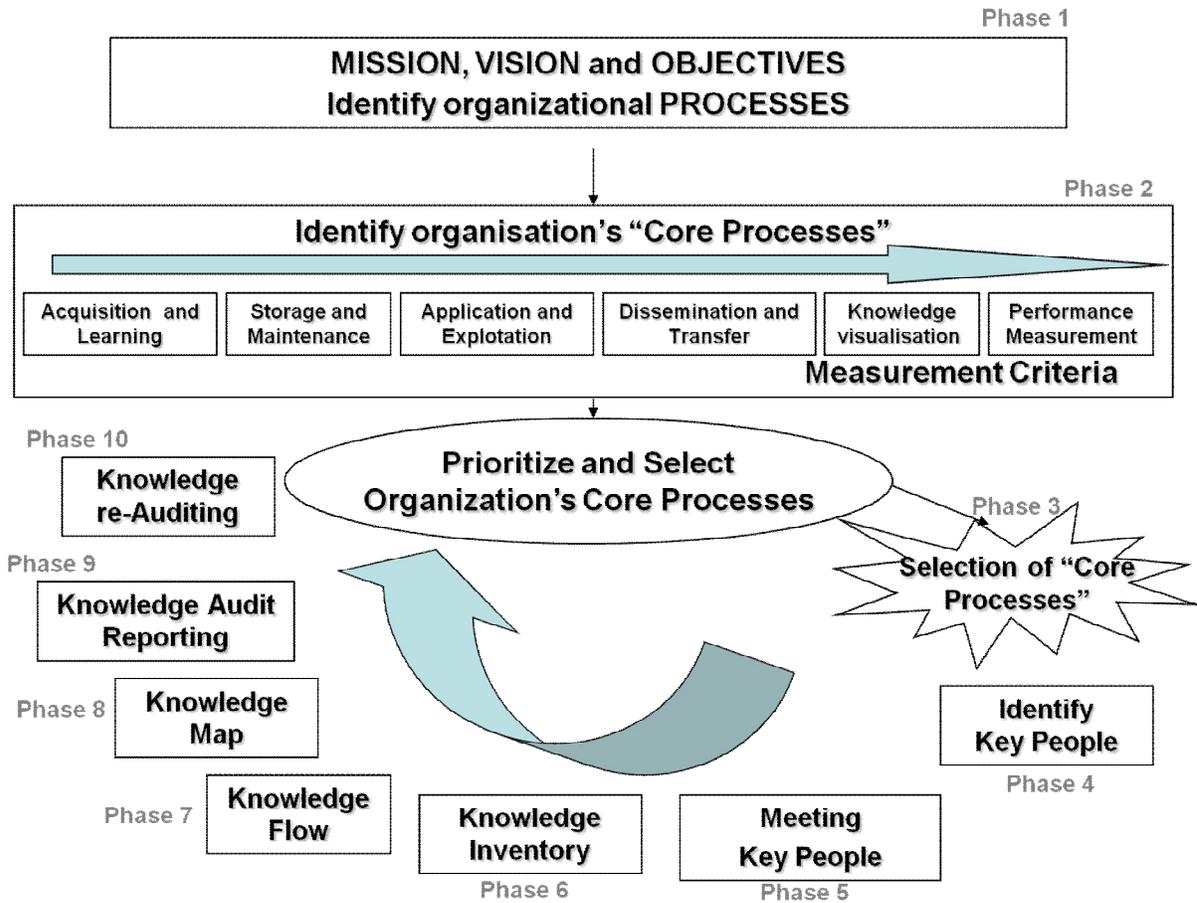


Figure 1. Methodology of knowledge audit.

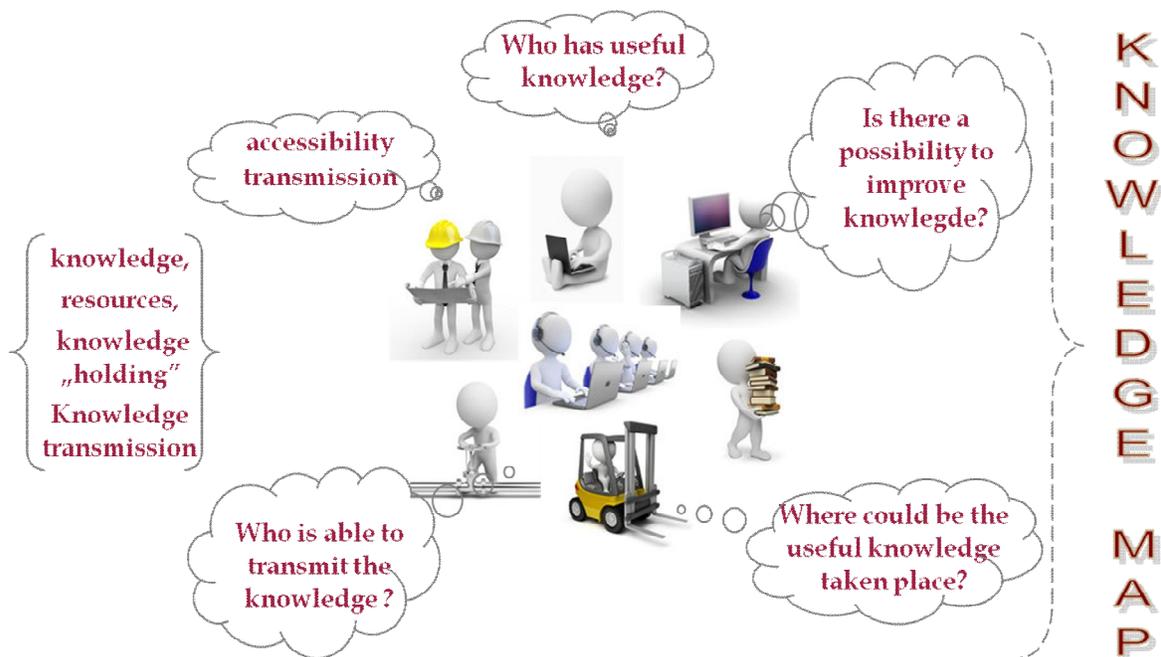


Figure 2. Knowledge map.

the very dynamic and highly competitive markets nowadays.

In face of such an arena, those that want to succeed must be innovative. Leveraging on organizational knowledge and personal human capital to create new knowledge and to demonstrate uniqueness in capability for innovations have become the critical strategic issue for organizations that capitalize on innovation. In recent years, many organizations have focused on knowledge management and human capital as well and used that as an enabler for such capabilities. It is found that if knowledge is managed well, organizations can leverage on their knowledge, internal and external, for creation of new knowledge and innovation. It thus helps them to create values to the organizations (Cheung et al., 2005).

Organizational and knowledge management criteria are considered to select core processes to be audited. This methodology suggests improvements of some absences found in other methodologies in literature. The knowledge audit methodology proposed recommends a suitable place where the knowledge audit and human ability are in an organization or area should be initiated. It suggests measurement criteria to verify the impact of core processes related to knowledge management processes, cyclically analyzes all the core processes until the finished auditing, permits the detection of opportunities early and then proposes some improvements to the organization related to knowledge management. Finally, applying this methodology entirely, it is possible to know if the organization has valuable assets, knowledge flow and an adequate organizational atmosphere to carry out a knowledge management initiative.

Nowadays, the exploratory questionnaire, depth-questionnaire, depth-interview and core process priority table are being developed. This methodology will be tested in a high level education institution in a specific department dedicated to international and institutional relationships. Implementing the methodology proposed, the expected organizational benefits will provide a formalized and evidence based accounting of knowledge that exists, embedded or moves through the organization; via the inventory details 'what knowledge exists in the organization and where it exists'; facilitates the identification of inefficiencies reflected in duplication of efforts, knowledge gaps, non-conformities and knowledge-bottlenecks; helps the organization to identify and chart the knowledge that is required to support its goals and the individual tasks and activities.

These benefits are expected to be accomplished because the methodology proposed details where the knowledge audit should be launched, establishes measurement criteria to verify the impact related to knowledge management processes, finally detect opportunities shortly to propose some improvements to the organization in relation to knowledge management (Cheung et al., 2005).

To evaluate and validate, its functionality will be compared with the outputs obtained against the expected in each stage; at least one knowledge management initiative should be in progress before the knowledge audit have been completed; managers need to be inquired to evaluate the anticipated organizational benefits and his expectative against the knowledge audit outputs.

Little changes to improve the phases are expected after the whole methodology has been tested. We expect to have the first results in a short time taking advantages of the knowledge audit methodology proposed within the multinational company providing "good examples" division by division.

CONCLUSIONS

Regardless of whether it is a service provider or a manufacturing company, an organization's intellectual resources and intellectual capital can only become a competitive advantage when management recognizes the importance of the experience of the individual, when the knowledge of an individual makes positive influence on the current and future developments. Apart from profits, they create added intellectual and human value to the company.

Management can accept and promote knowledge audits in order to discover non-conformities and improve intellectual capital of the company, which can be the means for further development.

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