

Knowledge and Relationships in corporations.

Over the last couple of years, ideas have changed of how organizations are run. We had TQM (Total Quality Management control), followed by BPR (Business Process Reengineering), and lately one speaks of Intellectual Capital or Knowledge economy as an idea provoking discussions in business and economics.

Despite the enormous perceived inefficiencies in Government Owned Companies, there is often one competitive edge these BUMNs have over other companies: "relationships". Those relationships can either lead to a competitive edge as I suggest, or lead to complete distortion of a price mechanism, say "clientelism" and/or "KKN". Corruption will lead to illegitimate and illegal "short term" windfalls, at the expense of the company and public at large. The same relationships can also lead to a favorable competition edge. Let me try to explain this more in detail:

The value of a company is constituted of (A) the Physical or Financial Capital which one finds on the balance sheet of the company and (B) the Intangible assets of a company which are usually described as "goodwill" on the balance sheet. A company's Intellectual Capital or Knowledge base is usually determined as the sum of its human capital (talent), structural capital (intellectual properties, methodologies, software, documents, and other knowledge artifacts), and customer capital (client relationships). These intangible assets or Intellectual Capital are to a high extent related to relationships with the customers and suppliers, and with the employees and partners of the company.

Obviously, not all BUMNs have a higher intellectual capital base than private organizations, but the power of their relationships is considerable: be it their loyal customers, their often monopolistic power through certain licenses (which is part of their temporary Structural Capital), or their loyal relationship with employees proud to work for a dominant company in the industry sector. These relationships and its effect on the 'bottom line' of the company should not be underestimated.

Again, whether BUMNs are public or will become private companies don't matter too much in terms of their Knowledge Base. What is important is to secure this base by focusing on those relationships which could bring value to the company and the stakeholders involved. I won't focus here on how to improve the Intellectual Capital – to be elaborated in another article – but I emphasize the relationship between this (a) Knowledge Base on one hand and (b) the (relations with the) Stakeholders on the other hand.

It is relationships rather than transactions that are becoming more and more the ultimate source of organizational wealth. A transaction involves a direct Quid pro Quo and could be a one-time occurrence, while relationship implies continuity and might involve on-going conflict, as well as collaborative cooperation.

Quite a number of the so called ethical dilemmas managers and owners face are related to solving the core strategic problem of understanding the firm's entire set of stakeholder relationships. These relationships are the essential assets that managers must manage, and they are the ultimate sources of organizational wealth. Moreover, I will argue against the adagium that the only goal of managers is to maximize the stockholders' value (it is the price of share) – hardly achieved anyway in most BUMNs. A firm cannot maximize its total value – tangible and intangible assets – if it ignores the interests of major

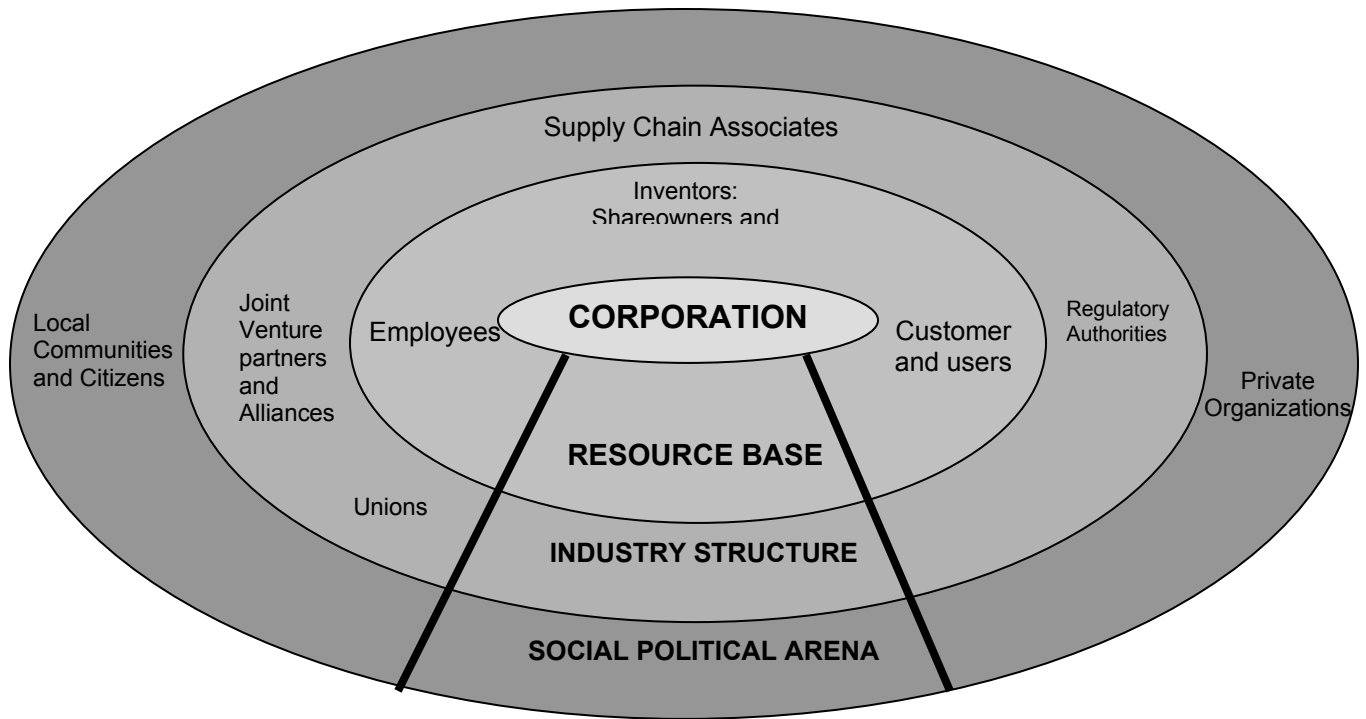
stakeholders (and not necessary shareholders) of the corporation. The Stakeholder model implies an often forgotten complex web of relationships. I here define stakeholders in a firm as individuals and constituencies that contribute, either voluntary or involuntary, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers.

I argue that the relationships with a corporation's critical stakeholders will determine the long-term value of a company. It will not only enhance the total value of the company, but it will sustain the wealth over time.

Interesting is the following overview of the different Stakeholders in my perception of the "extended corporation", focusing on "relationships":

Stakeholder Groups	Extended Enterprise Aspects /Characteristics	Roles and Impacts
RESOURCE BASE		
Investor : Shareowners and Lenders	Ownership; credit and financing networks; debt and equity markets	Sources of capital (debt/equity); capital cost and risk management
Employees	Recruitment and training; outsourcing; contracts and temporary employment	Development of human capital; team production; collaboration in the workplace
Customers/users	Downstream links and distribution; advertising	Reputation and brand loyalty; repeat purchase; collaborative problem-solving new products-services
INDUSTRY STRUCTURE		
Supply Chain Associates	Physical, informational, and financial links in the supply chain	Network efficiencies; collaborations on cost reduction and technology
Joint Venture partners and alliances	Collaborative ownership and management; information networks	Supplements firm's own capacity and resources; stabilizes firm market position
Regulatory Authorities	Interacts with units of the firm in multiple levels and roles	Creates collaborative and/or conflicting incentives and behaviors among diverse elements of the enterprise network
Unions	Agreements with numerous labor organizations (domestic and international); wages, hours, working conditions; diverse goals, levels, capabilities	Workforce stability and conflict resolutions; coordinate and mediate inter-union conflict
SOCIAL POLITICAL		
Governments	Operating within multiple jurisdictions; multiple issues of national sovereignty; Cooperation with United Nations agencies	Possibilities for adaptive integration and/or conflict
Communities/Citizens	Relationships with numerous and diverse constituencies	Mutual support and/or inter-jurisdictional conflict; "license to operate" in local venues
Private Organization (NGOs)	Relationships with numerous and diverse constituencies	Multiple opportunities for collaborations and/or conflict; reputation; voluntary standards (ISO 9000; UN Global Compact)

Source: POST. E. James; PRESTON Lee E. ; SACHS Sybille "Managing the Extended Enterprise: The New Stakeholder View" *California Management Review*, Vol. 45



If all those relationships would be properly managed, the value of the company will definitely increase. If however, those relationships are managed in such a way that only a few or a minority will benefit. When the agents (managers of the company) take advantage of their organizational power position to increase their own personal wealth instead of the principal's wealth (the organization), corruption occurs. Assuming now that all stakeholders would benefit from some unethical behavior by sharing the illegitimate obtained wealth with most stakeholders, the corrupt system could last for a long time. However, that would imply that all stakeholders act as unethical agents and do not care too much of their principal's wealth. No doubt, such a behavior would sap the energy of the company as such in longer term, and the company's reputation may be damaged. Reputation is one of the variables of structural capital, and such damaged reputation is hard to repair. Only properly managed relationships will benefit the corporation and its stakeholders, and thus all the individuals working there.

In other words, relationships can play both ways: (A) to increase the knowledge base and thus the potential wealth of the corporation or (B) to take advantage of those for personal gain (it is KKN). But at the end, only real care for genuine relationship to produce and deliver "superior" (in quality or cost-price) or differentiated services & products will prevail, and determine the overall value of the company. Properly managed and cared relationships increase the value of the intangible assets. And like in personal relationships, only genuine reciprocal, not purely selfish, relationships will last and will add value to all those involved. Up to the managers to choose for either the illegitimate short term windfalls or for long term wealth, created by genuinely taking care of the relationships with their stakeholders.

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