White Paper

An investigation into human capital management and the ambidextrous organisation

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Overview

How do we engage individuals to amplify and combine their talents to realise the full value of human capital to the organisation?

We all know that successfully doing two things at once requires both focus and co-ordination. The same is true in organisations. Sustainable performance needs organisations to exploit current knowledge at the same time as exploring new knowledge. The necessary focus and co-ordination results in what has been called organisational ambidexterity. It needs an environment that really engages people and helps them collaborate effectively. To realise the full value of human capital, that collaboration will encourage knowledge re-use where appropriate and innovation that both solves new challenges and improves efficiency.

Our research suggests a framework of factors for organisations seeking to become ambidextrous to explore. The triumvirate of line managers, knowledge managers and human resource managers needs to work together closely. Investment in people, in building relationships and in the structures and processes that support work all play a part in creating the right environment. Activities to stimulate knowledge re-use and knowledge creation simultaneously need deliberate focus. These are underpinned by extensive and continuing efforts to engage people at multiple levels.

This paper explores how organisations are moving towards ambidexterity. It examines five organisations with potentially interesting human capital-based approaches to achieving it. Case studies provide integrated examples of practice in the private and public sector.
Introduction

All organisations need to perform efficiently today to survive. At the same time they must maintain the capacity to evolve and adapt, because constant external changes (environment, customers, competitors etc) alter the way that success will be attained in the future. Consequently new knowledge creation must happen alongside the application of current knowledge.

At one level, this doesn’t seem that difficult. As individuals, we do this all the time. We use what we already know and learn from it, while trying out new things and deciding whether to pursue them. Personality, skills and aptitudes make us all different. Some of us are naturally detail conscious; some like to follow good practices designed to spread the use of what is known to work well. Others are naturally creative, always looking for new and better ways of doing things. Many of us are a mix of both and can adopt the right approach for the situation.

The problem arises when we come together in organisations. The argument has been made that organisations actually exist as a means to coordinate knowledge. They integrate different knowledge bases better than markets and convert it to something more valuable than any of the individual contributors could do alone [1, 2]. When the economic rationale for existence is better conversion of knowledge to value, then managing the challenges of knowledge work becomes a priority.

Coordinating and integrating the knowledge of many people to achieve best use of current knowledge is not necessarily compatible with the coordination and integration activities that stimulate new thinking and innovation [3]. The former is called knowledge exploitation and the latter knowledge exploration. Why are they incompatible? Because the well organised processes, systems and people management practices that encourage exploitation drive consistency, standardisation and compliance and may therefore tend to stifle creativity and block new knowledge creation. Conversely, flexible and fluid systems, processes and people management practices for stimulating creativity and the new knowledge creation necessary for innovation can ignore existing good practices and overlook efficiency. Then wheels get reinvented and organisational energy is wasted [4, 5].

Developing organisational ambidexterity

The term ‘organisational ambidexterity’ has been coined to describe the ability to reconcile internal tensions and conflicting demands, and in particular the capability to both exploit existing competencies and explore new opportunities [6]. The need for it has long been recognised as a challenge for sustainability. Various routes to achieving it are emerging. Historically the principle was to use structural mechanisms to accommodate different needs. Some approaches include:
The term ‘organisational ambidexterity’ has been coined to describe the ability to reconcile internal tensions and conflicting demands, and in particular the capability to both exploit existing competencies and explore new opportunities.

- Allowing different parts of the organisation to specialise in exploitation or exploration [7]. For example, manufacturing plants and routine activities require consistent delivery standards and cost control. They are deliberately set up to emphasise exploitation. Alongside this, activities like research and development and creative marketing are managed separately, to focus mainly on exploration. This form of ambidexterity leaves the tension between the two sets of activities for senior management to resolve. Alternatively, the tension sits in formal integration mechanisms like cross-functional projects or a matrix structures. The risk of inertia caused by un-reconciled differences, conflicting agendas or political manoeuvring is high [8].

- Sometimes the separation happens by outsourcing either exploration or exploitation activities to an outside agency [9]. This form of ambidexterity reduces the internal knowledge tensions, but increases challenges associated with managing productive external knowledge-based relationships.

- Rather than separating people (either internally or externally) into groups who specialise in exploration or exploitation, an alternative is to do one for a while and then the other [10]. This ‘punctuated equilibrium’ approach can feel uncomfortable. Everything gets thrown into confusion each time the focus changes, because all the accepted ways of doing things become temporarily ineffective. Increasingly, external volatility and turbulence demands that knowledge exploration is an ongoing activity, rather than being reserved for specific times.

Separation in time or space creates problems, though some organisations may be able to make it work. If ambidexterity cannot deliver properly by trading-off one activity against another, what is the answer? The suggested solution is ‘contextual ambidexterity,’ where organisations simultaneously achieve alignment and adaptability, exploring and exploiting knowledge at the same time.

Several large-scale empirical studies provide evidence of a positive association between organisational ambidexterity and performance:

- A study of 41 business units from various industries and countries showed that it is possible to achieve ambidexterity through contextual support and this is positively related to performance. Trade-offs between alignment and adaptability were overcome, rather they were achieved simultaneously by aligning around adaptability [11].

- A study of technological innovation in 206 manufacturing firms in Singapore and Malaysia showed that a balanced approach to exploration and exploitation positively influenced sales performance (conversely an imbalance between them had a negative impact) [12].

- A study of 139 small and medium-sized enterprises in the US found a correlation between the highest performance results and organisational contexts where simultaneous exploitation and exploration were at their highest. The level of ambidexterity was also directly correlated with what was described as the extent of behavioural integration of the top management team (represented by the degree of collaborative behaviour in the team, the quantity and quality of information exchanged and the emphasis on joint decision making) [13].
A detailed study of 122 firms in China compared the effect of trading-off exploration and exploitation against each other with the impact of optimising both [14]. Trade-off appears to work best in low growth environments and for smaller firms (less than 87 employees). Effectively, when resource constraints are tight, managers have no option but to concentrate on handling the trade-offs. However, optimising both (a combination strategy) is best for larger firms and for high growth industries. There was a positive correlation between firm performance and combination capability.

The challenges associated with achieving contextual ambidexterity are considerable. The discussion and research explores many dimensions. One approach has been to examine the characteristics managers and senior management teams need to manage the contradictions and conflicting goals. Key skills are engaging in paradoxical thinking, dealing with conflict, multitasking and refining and renewing their own knowledge and expertise [11, 15-17]. Other work emphasises the ‘relentless communication’ required for ambidexterity to succeed [18]. Research on 716 managers, in five different manufacturing and service industries, found individual managers forming more informal horizontal relationships to complement formal hierarchical structures actually fostered their personal ambidexterity [16].

More recent work (still to be proven empirically), suggests that:

- Organisations have a natural tendency to lean towards efficiency over time. This can be acceptable in relatively structured environments where refining routines improves performance over time. However, in more changeable environments, unpredictability demands that leaders proactively favour flexibility. Approaches that are thought to help them achieve this include using broad principles rather than detailed rules for decision making, regularly reviewing organisational structures to deliberately simplify them, and employing flexible structures like temporary assignments, alliances and future thinking teams [17].

- Human resource management practices play a key role in creating contextual ambidexterity. Two organisational architectures are recommended to handle the management, systems and process issues [19]:
  - Disciplined extrapolation – putting just enough processes in place to ensure that resources aren’t wasted, and combining that with people management practices that stimulate new thinking and knowledge creation.
  - Refined interpolation – overlaying people management practices designed to encourage current knowledge exploitation with flexible structures that stimulate new connections between ideas to support new knowledge creation.

The role of engagement in contextual ambidexterity

Contextual ambidexterity moves the organisational challenge of achieving both knowledge exploration and exploitation firmly in the direction of the way people do their work and what helps them do it. Knowledge workers, by definition, have more discretion in the way that they do their jobs. Research shows that jobs requiring ‘complex interactions that involve a high level of judgement,’ are growing three
times faster than other types of work [20]. When people have discretion and need to use judgement, the concept of engagement becomes more important. The most recent Gallup surveys make a direct link between employee engagement and organisational performance. They suggest that in world-class organisations, the ratio of engaged to actively disengaged employees is 9.57 to 1, whereas in average organisations it is only 1.83 to 1. Actively disengaged workers are estimated to cost US business more than $300 billion in low productivity alone [21]

Paying attention to engagement is now recognised as an essential activity. Engagement surveys are replacing employee attitude surveys in many organisations. Various initiatives are emerging to improve engagement levels. Some useful studies of engagement practices are available [22-24] and the Institute of Employment Studies’ definition of engagement [24] is helpful. This says engagement is:

‘A positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of business context and works with colleagues to improve performance within the job for the benefit of the organisation. The organisation must work to develop and nurture engagement, which requires a two-way relationship between employer and employee.’

Organisational Citizenship Behaviour (OCB) is a similar idea, describing the behaviour of employees that go beyond the direct remit of a job. It involves altruism (such as helping others with heavy workloads) and involvement (volunteering for things that are not absolutely necessary). A study of 519 employees in 28 workplaces in the UK found that OCB is directly affected by an individual’s perception of their job influence and the level of discretion they feel they have. Human resource management practices that promote development and clarity about career opportunities positively affect employees’ sense of job influence and directly impact OCB [25].

**What does Human Capital Management (HCM) have to do with ambidexterity?**

Human capital management recognises the central contribution of people to the performance of the organisation. The term is intended to encompass all activities related to people issues, not just those undertaken by HRM professionals [26]. For example, it includes leaders and managers considering people factors when shaping business strategies, as well as knowledge managers’ initiatives to develop the knowledge and skills of people in the organisation [27]. Various empirical studies have demonstrated a positive link between human capital management and performance and there is a growing recognition that ‘the knowledge perspective and HRM seem to be highly complementary perspectives’ [28].

**The research**

Although the connection between human capital management and contextual ambidexterity is intuitively obvious, there are few direct empirical studies relating the two and making measurable links to organisational performance. In the meantime, qualitative research can explore the key issues and themes to refine understanding.
Our research explored the human capital management factors that contribute to developing a supportive environment for contextual ambidexterity:

- How the environment is influenced by people management practices, relationship building initiatives and the structures, systems and processes that enable work to be performed.
- What stimulates employees to be engaged in their work.
- The priorities of functions with an interest in human capital management (human resource management and knowledge management) and how well these are integrated and aligned.

The focus of the research was formulated by a working group of knowledge managers and human resource managers from large private sector and public sector organisations. They met regularly over a six month period during 2010 to establish priorities and review findings in conjunction with the researchers from Henley Business School. In the first phase, 23 member organisations of the Henley Knowledge Management Forum provided data about their current knowledge exploration and exploitation activities and human capital management practices. Based on these results, five organisations were selected for further study in the second phase of the research: two public sector firms, one consultancy based private sector organisation, one utility provider and one research-driven manufacturer. Through interviews in each, the aim was to develop a picture of what worked and where the challenges lay.

Creating an environment where ambidexterity can flourish

Results suggest that organisations seeking ambidexterity are both shaping the environment through various structures and processes and recognising that employees need to be sufficiently engaged if they are to work effectively on both exploration and exploitation activities.

1 Science organisation – As a research oriented (knowledge exploration) organisation, it is deliberately introducing structures, processes and technologies to improve efficiency (knowledge exploitation). The mantra ‘standardised differentiation’ conveys the need to work with the tensions. The communities of practice are a major initiative to focus attention on mobilising knowledge for both re-use and innovation. A long term culture change programme is in place to build relationships, develop broader understanding of the organisation and create space for thinking about the future. The vision of the organisation and its declared purpose positively engage the workforce. 

Commentary: historically, the organisation has been structurally ambidextrous because it separated research and manufacturing activities. The current initiatives show a trend towards creating the right environment for contextual ambidexterity. The focus is on developing a more integrated organisation.
2 **Engineering services** – As a global engineering consultancy in the water industry, innovative thinking is at the core of the business proposition; yet cost efficiencies are essential in the industry. Managers made conscious efforts to promote both standardisation (using tools and templates for standard work) and innovation (posing deliberate challenges) and communicate the reasons to help people to work with the tensions. Knowledge communities are mature and embedded. The vision of the organisation and its declared social and environmental values engage employees.

*Commentary:* there is a sophisticated approach to contextual ambidexterity with HR, KM and line management practices all mutually reinforcing and supporting each other. The tensions are acknowledged explicitly and practices are deliberately designed to maintain attention to both knowledge exploration and knowledge exploitation simultaneously.

3 **Utility** – As a water utility for a region of the UK, it operates in a highly regulated environment. Maintaining quality standards and managing costs carefully are the main priorities. Consequently the organisation is predominantly orientated towards knowledge exploitation. However, the vision to raise overall performance significantly increases the drive for innovation. New behaviours are encouraged through the introduction of ‘lean’ as a management framework. The mantra ‘freedom in a framework’ is being used to explain how to balance structure with new thinking. Particular attention is being paid to employee engagement.

*Commentary:* the nature of the business makes this is a challenging environment to change. Leading HR practices are evident. Interesting initiatives are in place to improve employee engagement. A clearly communicated strategic vision and the ‘freedom in a framework’ principle, provide relevant reminders of the need to change. This foundation appears to offer the potential to develop an environment supportive of contextual ambidexterity.

4 **Public services** – The organisation recognises the need for a more balanced approach to knowledge exploitation and exploration to maintain current services and find new ways of working. This is a large and diverse organisation, making it difficult to standardise approaches to achieving this. Communities of interest and practice provide flexibility and ‘collaborative zones’ are being established to improve knowledge flows. Longer term planning is creating the challenge to think differently. Extensive communication is being used to address poor engagement survey ratings.

*Commentary:* Out of the five case studies, this is the most challenging organisational environment in which to bring about contextual ambidexterity. The size and diversity of the organisation makes change difficult. The broad approach is in line with the ‘refined interpolation’ model described earlier [19]. Communities of practice and other collaborative mechanisms are being used to provide more organic knowledge sharing within a fundamentally structured environment. Poor engagement due to the way previous change was implemented creates additional challenges.
5 Government dept – This central government ministry tends towards being better at knowledge exploration and innovation rather than the exploitation of current knowledge. Process and technology-based initiatives are in place to improve the retention and sharing of existing knowledge. Communication and improving line manager skills in managing people are priorities to support employee engagement.

Commentary: The organisation is characterised by very individualistic knowledge workers. The broad approach fits with the ‘disciplined extrapolation’ model described earlier [19] with structure (process and technology) being used to balance exploration tendencies.

Specific findings:

1 Engagement
All of the case study organisations were paying attention to employee engagement. Managers were being trained to support people in managing their own careers and expected to improve employees’ engagement with their work. They used mechanisms like:

- Extensive internal communication programmes.
- Setting and widely communicating a clear organisational vision and strategic goals.
- Active communities of practice / networks to allow people to contribute more widely and showcase their talents.
- Career profiling, career portals and career paths to help people manage their careers.
- Competency frameworks linked to career paths.
- Secondments and job swaps as development opportunities.
- Manager training in people management and change management practices.
- Engagement surveys and follow-up mechanisms to show action as a result of the feedback.
- Engagement coaches working with managers of teams with low engagement survey ratings.
- Toolkits of approaches for managers to use to improve engagement.
- Tracking country and industry norms for engagement and benchmarks for company results.
- Leader-led workshops to help people understand their contribution.
- Introducing collaboration technologies to encourage participation and involvement.

2 Exploiting and exploring knowledge
The various activities used in the case study organisations to exploit and explore knowledge are summarised in Table 1:
Table 1: Practices in the case study organisations to support the exploitation and exploration of knowledge.

<table>
<thead>
<tr>
<th>Knowledge exploration – leading to innovation</th>
<th>Knowledge exploitation – leading to efficiency</th>
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</thead>
<tbody>
<tr>
<td>Innovation was recognised as leading to new efficiencies, not detracting from it. Collaboration drives innovation.</td>
<td>An alumni network was created to retain access to knowledge.</td>
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<tr>
<td>A longer planning cycle gave people the scope to think differently.</td>
<td>Standardisation of core work processes allowed valuable intellectual resources to be used for more challenging tasks.</td>
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<tr>
<td>Secondments and job swaps brought in new ideas.</td>
<td>Local knowledge sharing advocates acted as a channel for more widespread knowledge sharing.</td>
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<tr>
<td>The way of evaluating different ways of doing the same thing was standardised.</td>
<td>Good document and records management practices underpinned knowledge exploitation, including open access and good search facilities.</td>
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<tr>
<td>Challenges were introduced to stimulate innovation.</td>
<td>Knowledge handovers were formalised in high turnover environments.</td>
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<tr>
<td>‘Smart’ managers were appointed to allow ‘mavericks’ to be creative and operate outside of usual practices.</td>
<td>Consistent access to data allowed consistent interpretation (information) and application (knowledge) to be derived from it.</td>
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<tr>
<td>A wiki was used to keep a record of the development of ideas as research was undertaken.</td>
<td>Learning was captured from projects and other activities in the form of recommendations for others.</td>
</tr>
<tr>
<td>Technology platforms such as ‘Innocentive’ were used internally and externally to find new solutions to challenging problems.</td>
<td>Knowledge sharing was rewarded, not knowledge possession.</td>
</tr>
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</table>

One manager, in the Engineering Services case study, described how he handled the balance between exploitation and exploration. He worked to focus people ‘on the end game. How best to deliver a solution for the client,’ so that re-use or innovation had the same driver.

Communities of practice / networks were widely viewed as an essential element of knowledge management practice. They can fulfil multiple purposes: enabling the re-use of good practices, giving people access to new ways of looking at things, stimulating new thinking, establishing relationships across organisational boundaries, helping people identify with others, and allowing them to make visible their knowledge and expertise supporting engagement and development.
Delivering value from human capital

We started with the research question:

How do we engage individuals to amplify and combine their talents to realise the full value of human capital to the organisation?

The answers that emerged were:

• Engagement leads people to amplify and combine knowledge. Engagement can happen at multiple levels. People engage with something, which may be their work, a community, local colleagues, or the purpose and vision of the organisation as a whole.

• Amplifying and combining knowledge happens through collaboration. This is encouraged and supported through leadership, through places and spaces where people can connect with others, and through technology that makes it easier to reach across geographies and time zones.

• Collaboration underpins innovation by giving access to new knowledge, stimulating new connections and prompting conversations about new solutions. Innovation can also identify ways to improve the efficiency with which current work is carried out.

• At the heart of the answer is the need for the triumvirate of managers, human resource practitioners and knowledge managers to work together. When their efforts are aligned, there is consistency in the message and the incentives. This makes it easier to coordinate and integrate both existing and new knowledge through relevant practices and to sustain employee engagement. Figure 1 illustrates the process.

Figure 1: Delivering sustainable organisational performance from human capital
The research also identified a number of challenges that the case study organisations are considering in order to progress:

- Continuing to deliver a good service in the midst of major change.
- Demographics – the specific needs of both mature people and young entrants to the workplace.
- Meeting local needs whilst being consistent across large and diverse organisations.
- The impact on the psychological contract of employees from major changes to benefits and pension provision in many countries.
- Extending knowledge networks to past employees and partner organisations.

Contextual ambidexterity means that these are not peripheral issues: the implications are significant and they can only be resolved in conversation with those involved. Knowledge managers and human resource managers are well placed to jointly lead a debate with managers and leaders in their organisations to resolve the dilemmas and find creative ways forward. The effort is worth it. If the issues are important to human capital management, then they are important to organisational performance, and possibly even survival.

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References


