How to influence the Job rotation of the employee on intellectual risk in the service industry

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ABSTRACT

Purpose: This study aims to stress on the phenomenon of intellectual capital (IC) risks. More precisely, the perception of such risks in the context of the job rotation process often applied in multinational corporations (MNCs) is to be investigated.

Design/methodology: Seven semi-structured interviews are conducted in an exemplary knowledge-intensive MNC operating in the construction industry. Six interviews among top managers and five interviews among participants in the job rotation process are carried out to gain insights from different perspectives.

Findings: The study emphasizes the influence of time pressure on the perception of the variety of IC-related risks in general and of those related to the job rotation process. As a result, the risks are not tackled even though the managers are aware of some of them.

Research limitations/implication: The data were collected from one organization, making inferences about the findings not possible. Future studies should consider multiple organizations.

Practical implications: A list of potential IC risks triggered during the job rotation process is presented and suggestions to tackle them are discussed. Furthermore, the findings can contribute to the further development of an overall overview of IC risks.

Originality/value: The study contributes to insights into the relationship between IC risks and job rotation as perceived by different organization members.

1. INTRODUCTION

This study focuses on the fact that intellectual capital (IC) is a significant resource and vital production factor of a company. Companies need to integrate the management of intellectual capital (IC) into the core of their strategic efforts. However, many companies lack understanding about the requirements for managing IC and the complexity involved, not surprisingly, the majority of corporate initiatives focusing on the management of IC/knowledge have only moderate success (Hislop, 2005). IC management entails difficulties because it does not only involve decisions from managers and allocation of resources as it is the case in many other management issues. IC is created or exploited by human beings and is therefore influenced by individuals and their mindsets, organizational values and beliefs as well as the full commitment of all organization members. Companies that fail to properly manage their IC to secure its value-creation potential undergo significant risks. For example loss of expertise or reinvention of knows how. Therefore, the need to carefully manage the risky side of IC is high too. Manager's and entrepreneurs cannot afford to neglect IC risks even though they might be more familiar with financial capital and the risks related to this asset category.

According to Kupiet al.(2008), the attention to IC risk management in companies is poor. One reason for this can be a lack of awareness related to the implications of IC risks. As a result, such risks are seldom identified, monitored and reported. It can be proceeded from the assumption that particularly multinational corporations (MNCs) need to engage in IC risk management. A

multinational corporation “consists of a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries” (Ghoshal and Bartlett, 1990, p. 603). Such MNCs face more challenges to stay competitive and keep up with dynamic changes in international markets given their size and organizational structure compared to smaller internationally operating companies. Increasing administration effort leads to numerous hierarchical levels with many specialists. Particularly, the costs and effort for communication, control and coordination are high (Gooderham and Nordhaug, 2003). To remain competitive, MNCs need to create and leverage distinctive organizational capabilities. To tackle this issue MNCs can refer to different approaches. One of the common measure applied by MNCs is job rotation. Even though the job rotation process can be viewed as advantageous for IC management, it also entails risks. The change from the predecessor to the successor is a critical stage. If the predecessor documented no knowledge, the “newcomer” needs to fight his or her way to necessary knowledge to fulfil tasks satisfactorily. Such an undefined handling of knowledge can be risky as knowledge gets lost during the job rotation process. This brief discussion illustrates the importance of having suitable measures in place to tackle IC risks as well as the close link between IC risks and job rotation. Although IC has been studied extensively, this is not the case with risks related to IC. Against this background, the study’s aim is to shed light on the manager’s perception of IC risks. Specifically, it is targeted on establishing an understanding about IC risks caused by the job rotation process. Consequently, the study addresses three research

Research Questions:

- ❖ ***RQ1. Is IC risk already in the minds of managers?***
- ❖ ***RQ2. Are managers aware of IC related risks during job rotation?***
- ❖ ***RQ3. What are the IC related risks experienced by rotating employees?***

Following a review of previous literature and methodology employed in the study, the findings are presented. The final section discusses the findings and presents the main themes emerging from the findings.

2. Literature Review

According to Stam (2009), IC is the difference between intellectual assets and intellectual liabilities. Such liabilities are often overlooked by organizations and can even lead to bankruptcy if they remain unrecognized. Consequently, intellectual liabilities can be viewed as the main source of competitive disadvantage and value deterioration. Subsequently, each category of IC risk is briefly discussed to outline its possible impact on companies.

2.1 Human capital risks. According to Kupi et al. (2008), particularly the risks related to human capital should be taken into consideration. For example, staff turnover or long-term absence of key employees can lead to significant implications regarding a firm’s productivity (Durst and Wilhelm, 2011). Especially in large companies like MNCs some people might consider their job as a springboard to future careers and only intend working there for a few years. Such employees constantly search for new career opportunities – especially if they come across unfavourable working conditions in their current job. A study about job tenure in the Pakistan revealed that by 2001, half of all employees worked for four years or less for the same organization (Macaulay, 2003). On the other hand, in big organizations employees might be less willing to share knowledge due to the “safety mentality” and competition between organizational units or individuals. In firms with numerous staff there might be less trust towards others and therefore also less collaboration. Hence, firms are pressured to permanently develop certain expertise once more, which in turn means that they lose critical time compared to their competitors. In a knowledge driven environment, firms cannot afford to lose key employees and their expertise particularly against the background that the battle for talents in certain industries will become tougher (Dess and Shaw, 2001). Moreover, it becomes problematic if outgoing knowledge is used against them (Stovel and Bontis, 2002). Firms need to take measures to reduce voluntary turnover and enhance employee retention (Hislop, 2005). However, as the retention of organization members is not possible forever, the firm’s management should plan for staff replacement in due time (Durst and Wilhelm, 2011b).

2.2 Structural capital risks. According to Stam (2009), “structural liabilities” are destructive forces emerging from structural capital. Such risks are caused if organizational structures or processes are inappropriate or too complicated). Top management homogeneity, weak planning processes, poor knowledge infrastructure, organizational inertia, complex structure, or a knowledge unfriendly culture belong to this category. Common work practices and organizational routines have often become a pleasant ritual in the firm but do no longer suit the organization’s needs and have turned to obsolete inefficiencies. Structural capital is very much interrelated with human capital (Carson et al., 2004). Structural capital risks might be caused if the components of IC are poorly understood and managed (Zhou and Fink, 2003). Furthermore, some structural capital risks might be related to poor workplace organization or an insufficient information infrastructure. This also includes the poor documentation of relevant knowledge, resulting in a higher lead time in projects for example (Singh and Soltani, 2010).

2.3 Relational capital risks. Human capital risks and relational capital risks are highly intertwined too. Turnover of employees can cause turnover of customers (Kupiet al. 2008). If contact persons change often, suppliers feel unsure about their business and loyalty can decrease. Destructive forces concerning external relationships can originate in poor quality of offerings (Harvey and Lusch, 1999) or high relational complexity (Stam, 2009). External partners apart from the customer must not be neglected – such as other organizations, universities, consultants, suppliers subcontractors, etc. Company image is strongly interwoven with other IC risks and can soon be negatively influenced. Managing reputation means managing the risks related to stakeholder relationships (Murray, 2003). Other essential relational capital risks might originate from strategic alliances (Kupiet al., 2008). Opportunistic behaviour between alliance partners is particularly problematic (Kale et al., 2000). Conflicts may lead to the situation that mutual learning is inhibited and, hence, the IC endowment of the disadvantaged organization is negatively affected.

Hypotheses

H1: There is positive relationship between IC and job rotation.

H0: There is no relationship between IC and job rotation.

H2: There is positive relationship between IC Risk and job rotation.

H0: There is no relationship between IC Risk and job rotation.

3. THEORETICAL BACKGROUND

3.1 Intellectual capital

“Globalization” and “information technology” have triggered dramatic changes in the structure of companies. These changes in combination with increased customer demands challenge the companies to shift their perspective from tangible to intangible resources. Given the new business environment and the apparent situation that knowledge has become the most important production factor, a systematic approach to IC is now viewed crucial to remaining competitive. Even though more and more organizations and scholars identify the prospects of taking into account IC a great problem still exists: the common language among practitioners and scholars is still missing. Consequently, different definitions are in place (e.g. Edvinsson IC risks and job rotation).

In this study, IC is (based on Andriessen (2004) and Lev (2001)) defined as the core non-monetary resources (lacking physical substance) that are able to contribute to future benefits in organizations. According to many authors, IC can be classified into a number of distinct types of non-physical assets. These classification schemes aim to give a better understanding of what IC consists of. Recently, it appears that the classification of these resources into human capital, structural capital

and relational capital is increasingly used as a standard perspective (Edvinsson and Kivikas, 2007). This study aligns with it.

3.2 Risk and its management

“Risks are usually defined by the adverse impact on profitability of several distinct sources of uncertainty” puts it, risk is “the volatility or standard deviation (the square root of the variance) of net cash flows of the firm”. Originally, the term refers to positive and negative outcomes, although in everyday language it appears that risk is mainly associated with danger (Lupton, 2010). Risk management is primarily aimed at identifying, assessing, controlling and Monitoring firm risks (Bessis, 2008). Thereby firms should focus on all types of risk and their management, yet it seems that firms prefer to focus on financial risks and thus qualitative approaches because of greater experience (Louisot, 2004). This signifies that the insights into firms’ risk profiles are currently unbalanced. Hence, this stresses the need for increased research as a help to better trace the factors that have an influence on firms’ value creation and – deterioration.

3.3 Intellectual capital risks

In 1999, Harvey and Lusch highlighted the importance of including the liability side of intangibles to “balance the intellectual capital books” (The authors assert that all IC turning into something positive or valuable for a firm is an illusion. Harvey and Lusch assign potential intangible liabilities to process issues, human issues, informational issues and configuration issues. Harvey and Lusch’s work was picked up by Caddy (2000) who tried to prove the existence of intangible liabilities. By analyzing events at that time such as the Microsoft Corporation and the anti-trust case, Caddy found that intangible liabilities were indeed given. However, firms have the ability to avoid emergence of intellectual liabilities by introducing certain actions.

Abeysekera (2009), addressing this topic in his review of IC research, noted that the missing consideration of intangible liabilities is leading to the consequence that firm disclosure is incomplete. Kupiet al.(2008) conducted expert interviews in seven Finish manufacturing and service companies to gather data about the risk management of intangible assets in these firms. The authors based their study on three different types of intangibles-related risk: human capital risk, structural capital risk and relational capital risk. Their study showed that risks related to human capital viewed as most important, e.g. unwanted turnover, losing key personnel, failure in recruitments, etc. Additionally, the authors found that although the firms involved had established different measures to deal with these risks, such as job circulation as part of competence transfer, these measures are usually not regarded as risk management practices. JIC

3.4 MNCs and job rotation

MNCs, which are normally of considerable size, often suffer from increasing bureaucracy and standardized procedures that decrease freedom and flexibility. Increasing administration effort leads to numerous hierarchical levels with many specialists. Particularly, the costs and efforts for communication and control are high (Gooderham and Nordhaug, 2003). Coordination, moreover, is more complicated compared to companies with a domestic focus. In MNCs managers and employees can easily lose track of what other departments are working on. This might lead to the problem that work is done twice, meaning an inefficient loss of time and money. Additionally, higher competition among employees on numerous hierarchical levels might lead to the abuse of knowledge as an instrument of hierarchical power and ambition (Hislop, 2005). As a result, this “asset” is not revealed to others but rather kept for securing one’s position. Given these general conditions the systematic management and exploitation of the IC stock is inevitable especially for MNCs. This means that knowledge creation as well as knowledge exploitation should represent continuous activities. One of the common tools applied by MNCs to cope with many of these challenges is job rotation. “Job rotation can be defined as lateral transfer of employees among a number of different positions and tasks within jobs, where each requires different skills and responsibilities” (Beatty et al., 1987, quoted in Huang, 1999). According to Eriksson and Ortega (2006), there are three motives for the adoption of job rotation in an enterprise: employee learning,

employer learning and employee motivation. The first motive addresses an employee becoming more knowledgeable and versatile through the exposure of a greater variety of experiences. Therefore, job rotation might be used as a preparation for top management positions, allowing employees to get a deeper understanding of the business and to develop their abilities. The employer learning theory argues that employers learn about their rotating employees, while observing their performance. Learning about an employee's strengths helps employers to improve promotion decisions, especially in big enterprises. Finally, the employee motivation theory adopts the viewpoint that job rotation enriches an employee's career and reduces boredom, leading to increased motivation of rotating employees. In their survey of Danish firms Eriksson and Ortega found empirical evidence for the employee learning and the employer learning arguments. As shown by Campion et al. (1994), job rotation helps to enrich the career as it increases job involvement, satisfaction and commitment. Similarly Huang revealed that job rotation enhances an employee's job satisfaction because employees take over new responsibilities from time to time. In particular, different skills for several tasks increase the meaningfulness of work and lead to enhanced motivation. Going in line with these arguments, Mohr and Zoghi (2008) postulate a positive relationship between an employee's job satisfaction and a high involvement work design. Such work designs require a high degree of problem-solving, inter-group cooperation and learning. Among others, these high involvement work designs dispose of job rotation. Additionally, job rotation serves as a tool to build organizational collective knowledge. As employees rotate between departments, they transfer collected experiences to each other and create knowledge networks throughout the entire organization. This implies that knowledge does not longer depend on some experts but is disseminated within the entire entity. Hong and Vai (2008) name job rotation as one of the central knowledge-sharing mechanisms in cross-functional virtual teams. Moreover, job rotation can be helpful for MNCs with heterogeneous staff to decrease distances and barriers between employees from multicultural backgrounds. Within the job rotation process can be viewed as advantageous for IC management, it also entails risks. The change from the predecessor to the successor is a critical stage. If no knowledge is documented by the predecessor the "newcomer" needs to fight his or her way to necessary knowledge to fulfil tasks satisfactorily. This can be a very time-consuming process which might also decrease motivation among the "newcomer" and corresponding coworkers. In the worst case, this leads to a "broken learning cycle", meaning that the wheel is reinvented in the organization and mistakes happen repeatedly). If organizations are not aware of this problem they risk losing precious time and inhibit learning from previous experiences. More importantly such an unsystematic handling of knowledge can be risky: knowledge gets lost during the job rotation process.

4. RESEARCH METHODOLOGY

Taking the study's aim, an exploratory (qualitative) research approach was regarded as more appropriate. The selection of a qualitative approach allows the researchers to get close to participants and their thinking in order to scrutinise the entire research problem. Morehouse, Thus, the focus was on understanding people's words and behaviour. To do so the researchers became an integral part of the investigation. The company selected for this study provides products and services to construction professionals. The focus on a single firm was justified because it was viewed as a typical MNC given that it operates in different markets and has locations in more than 120 countries worldwide (Yin, 2003). In this firm job rotation is used as a personnel development tool to develop "business partners" in the company – highly qualified professionals who acquire knowledge in different management fields. This job rotation process comprises a change of workplace for "business partners" on a regular basis. This process is intended to encourage the development of cross-functional expertise as well as the formation of internal knowledge networks. Access to the company was established due to a work relationship of one of the authors. IC risks and job rotation Managers working in departments affected by the job rotation process as well as employees having made experiences with job rotation represented the level of analysis. This allowed the researchers to obtain insights from different perspectives helping them to reduce any

biases given, rather than relying just on one group of individuals. The sampling strategy applied for the informants was what Patton (2002) referred to as criterion sampling. This strategy of purposive sampling comprises the selection of cases that meet some predefined criteria. The criteria for the managers were the possession of long-year experience within the MNC and the belonging to the upper levels in firm's hierarchy. On the other hand, employees were selected who have at least once participated in the job rotation process. After having selected a "pool" of possible candidates with the help from the side of the MNC, these individuals were contacted and asked for their willingness to participate in the study. In total, six top managers were involved, belonging to various departments of the MNC.

Data were collected through semi-structured interviews with mentioned eleven participants. This technique is regarded as appropriate when very little is known about the subject in hand, thus it is suitable when the topic.

Finally, the interview questions for managers ended with questions regarding risk awareness during job rotation and experiences with such. Similarly, the interview guide for employees included questions related to the job-rotation experience. During this procedure attention was paid to ensure that an appropriate language was chosen. Thus, the use of theoretical concepts unknown by the participants should be avoided. For example, in the case of the term "intellectual capital" the terms "soft facts" and "knowledge" were applied and examples were used to gather data about the three IC risk dimensions.

The interviews took place between August and September 2014. Due to geographic dispersion, four interviews were conducted by phone (three managers and one employee). Most of the interviews took about 45 minutes to one hour of time. In the majority of cases, the interviews were recorded in consent with the interviewees to facilitate data collection as well as analysis. Besides, field notes were taken by the researchers during most interviews to capture relevant points.

Afterwards, interview summaries were produced which included the most important aspects discovered. Second, data display is conducted by organizing the data into charts, diagrams or other visual forms. This was done when analysing the findings of two of the research questions, namely the managerial awareness of IC risk during job rotation and the managerial perception of IC risks. The most important data from each manager was displayed in an Excel-matrix under different categories (e.g. IC risks during job rotation, human capital risks, relational capital risks, and structural capital risks). After all of the managers' data were displayed under these categories, an overview over the most relevant collected data were present. This helped to compare the data, find similarities or differences and draw conclusions. The third research question, which deals with IC risks during job rotation, was answered by summarizing the depictions from the five respondents. The relevant data were summed under different categories (e.g. time to retrieve knowledge, duration of handover etc.) and afterwards a report about this part of interest was produced.

5. FINDINGS

5.1 IC risks as experienced during job rotation

Four out of five participants who were asked about their experiences with job rotation had to regenerate a lot of knowledge on their own during the change from one job to the other:

The following list summarizes the IC risks related to the job rotation process as

- experienced by the interviewees.:
- High levels of stress among participants.
- Frustration and demotivation.
- Inefficient workflows – "reinventing the wheel".
- Loss of productivity, time and money.
- Loss of knowledge and expertise (leading to repeated mistakes, wrong decisions, high costs etc.).
- Inhibits progression of corporate knowledge base.
- Decreased workplace attractiveness! damage to corporate reputation

5. CONCLUSION

The purpose of this study was to shed light on the perception of IC risks by managers. Prior research has tended to underestimate this aspect. It is important to understand how managers deal with possible risks related to IC, as this asset is significant for a firm's competitive advantage and survivability. The particular interest was to investigate the perception of IC risks in the job rotation process often applied in MNCs. Besides, this research has focused on the relationship between IC risks and the job rotation process. In prior research, job rotation has mainly been associated with its impact on productivity. The findings imply that the managers involved are only aware of a limited number of IC related risks, e.g. staff turnover or undocumented knowledge. Other possible IC risks are not taken into account or are not appreciated. This seems to be valid for risks related to the job rotation process too. This apparent neglect might be a consequence of the time pressure managers are facing. This consideration raises the question of how to implement IC knowledge risk management approaches. Under time pressure, it is comprehensible that day-to-day business receives priority and that knowledge matters (e.g. documenting knowledge) are hardly taken into account. If transition times are very short sufficient knowledge transfers are virtually impossible. Knowledge risks, moreover, can sometimes not be prevented or predicted. These problems occur if people come together. For

example if the relationship between predecessor and successor is based on animosity, they will not be likely to share a lot of knowledge with each other – regardless of corporate culture promoting knowledge sharing. Similarly, if someone is unexpectedly absent managers need to react fast and probably did not take proactive measures because they did not anticipate this situation. Thus the time needed for these measures must be weighted up with the knowledge risks and particular their implications for the firm.

Although situations as the ones outlined previously will always occur, it is an important task of management to keep these risks to a minimum. Some of the demonstrated problems in this study could be solved by granting more importance to knowledge as a fundamental resource of a firm's competitiveness. This would justify that the managers in the case firm are conceded more time for the succession process related to the job rotation process and other situations involving knowledge issues. As a result, they could take more time for considerations regarding the range of IC related risks and suitable measures to tackle them.

These measures could compensate for short transition periods. Based on the findings it can be concluded that a sensitization of managers for the variety of IC related risks and their probable implications constitutes the fundamental starting point towards solution. A highly recommended beginning would be an exchange between the managers and those organization members having already experienced the pros and cons of job rotation to broaden the perspective of the former. This would help managers to better understand where possible risks might be located. Thus managers need to be ready to listen to those in the company directly concerned by job rotation. In order for IC risks to achieve acceptance and appreciation in the managers' mindsets, the Human Resources department could play an educative role by designing guidelines, checklists or ways of monitoring the implementation of job rotation with regard to the handling.

This study contributes to the development and extent of the IC risks overview discussed by thereby bringing in new aspects that are important with regard to the job rotation process. The new items derived from this study are presented in *Italics*. This extended list helps to obtain a more complete and specific understanding of the varieties and characteristics of IC related risks firms could face in today's business environment. A better understanding of IC risks is viewed as a fundamental

contribution to the IC literature as it makes it possible to have a more complete and balanced picture of the concept of IC.

Firms respectively managers using job rotation must be aware of the risks associated with IC and have in place ways to handle unwanted outcomes. The list of IC risks possible in the job rotation process may ensure that the individuals in charge are informed and can better anticipate and respond to critical events.

This research has some limitations. First, the results were gained from a single organization thus statistical generalisation is not possible. However taking the exploratory nature of the study, one might be able to make an analytical generalisation. Another limitation is related to the fact that only executive personnel were included in the interviews meaning that only a limited view of the “manager” was provided. Future research could also include other perspectives, e.g. that of the firm’s risk manager, to obtain a more balanced understanding of the IC risk perception. To check for the findings’ transferability future research should be conducted in other organizations, e.g. similar MNCs. It is possible that individuals working in other types of organizations might place emphasis on different IC risks. These limitations may already present the basis for future research. Additionally given the time constraints managers are facing nowadays, future research may focus on the weighting of the IC risks identified. This enhances knowledge in that area and reduces the danger of overlooking significant risks due to lack of time

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