

# Financial Physical Human and Social Capital in Organizational Strategy

Posted on November 2, 2018

## Integrating Capital Through the Balanced Scorecard

Bethany McLean has rightly described the nature of capital. It causes integration so that not on the human and informational capital but the physical and the financial capital are combined in a way so that the strategic objectives of an organization can be achieved.

Capital in an organization shares many factors which cause it to perform in a better way. On the other hand, an organization where such coherence among all these types of capital is low becomes unable to efficiently communicate with the people of the organization about how they can align themselves to execute a strategy. Thus, the integration of capital is very important.

The term capital includes all its types, such as Financial, physical, human and social. Where financial capital is an economic resource of an organization, physical capital involves all the factors of production, such as machinery and buildings. It signifies all the paraphernalia required to produce a product that an organization requires. Moreover, human capital involves the knowledge and skill level of the human resource in an organization. These skills and knowledge are further required to generate economic output. Finally, the social capital is the networking of relationships among individuals within the society.

A Balance Scorecard is a very important tool for identifying the capital objectives of an organization. It helps an organization to enhance its learning and broaden its horizon along with the specific growth level. Some of the typical objectives that the organization incorporates are realizing the importance of integrating all the important types of capital for an organization, including providing customers better services by focusing on their needs and sharing knowledge among employees, as well as aligning them with the organization's goals and objectives. However, one important thing in this regard is that the management of any organization has to build the framework because a framework is particular to a specific organization. There is no general framework. The framework of one organization differs from the other due to the organizational settings it possesses.

The decisions made by the managers in the present time affect the business tomorrow and the organization's reliance on financial metrics, which can overemphasize the short-term. Thus, it ultimately tends to relax the nerves of the management for the long-term perspective. To win in the long run, an organization needs to take a more balanced view. The advantage the balanced scorecard

provides lies in its four perspectives, which it provides to measure the health of the company. The financial perspective helps to identify and work for the financial capital. The other perspective includes the customer perspective, which helps to work on the social capital by asking the question of whether the customers like the products and services of the company or not. Next is the internal perspective, which questions the adequate availability of the adequate level of human and physical capital to check if the company can efficiently deliver what the customers want. Finally, the balance score card provides a learning and growth perspective, it questions the utilization of a company's current human capital in order to sustain its social and financial capital.

## Example:

A semiconductor company applied this approach, it's financial objectives were to survive, succeed and prosper. To measure its financial objectives, it identified certain parameters, including return on investment, cash flow and quarterly sales growth. The goals of its customers were to develop innovative and tailored products. It also aimed to get its supplies to the market faster and to become a supplier of choice. To measure this, the company used the percentage of sales of new products, on-time delivery rate and popularity with key customers. From an internal perspective, the company prioritized its goals like excellent manufacturing processes, producing new designs and introducing new products. To achieve all this, the company used operational measures. For its learning and growth goals, it decided to produce new products. It helped the company to attain customer satisfaction and better shareholder returns.

## Explanation:

The example signifies that at each step, the balanced scorecard signifies the importance of each type of capital. The better shareholder returns signify the growth in the working capital. It not only satisfied the shareholders of the company but also helped the organization to achieve its own objectives. The customer perspective strengthens the need for social capital, and the learning and growth and internal perspective show the importance of human and physical capital in order to support the system. All these steps of BSC are interlinked and provide a boost to the capital requirements of an organization. For an organization to be successful, the presence and growth in all steps and a perfect balance on an ongoing basis are mandatory.

Moreover, the resource-based theory helps to understand the contribution of financial capital to accelerate the performance of the firm. It helps the organization to increase its physical capital by purchasing assets, either fixed or current, which are necessary to improve the working of the firm. For this, the company needs to enhance its human capital and social capital as well. These additional two factors shall play a complementary role because the skilled human resource shall be able to utilize the physical capital and shall be in a better position to perform learning and growth activities for the company, whereas the social capital facilitates the company by increasing its customer base

Elsenhardt and Martin (2000).

In the absence of a proper framework, it is difficult for an organization to utilize its full potential. The following figure highlights the use of the Balance Score Card in integrating the capital in an organization in order to manage objectives with the strategy and ultimately introduce changes in the organization.

The figure summarizes how value is created by integrating the capital and by incorporating the change in the behaviors. It shows that the objectives of the organization revolve around two categories. They involve behavioral changes such as exerting more attention toward the customers, being creative and focusing on delivering the results. In order to execute the strategy, certain further behaviors are identified as well, which include understanding the mission, vision and values of the organization so that every individual in the organization could be brought on to the same page, creating accountability, reducing communication gap and teamwork.

## Case Study: Application of Balance Scorecard:

Fulton County Schools worked for BSC development. It initially struggled to understand the strategy map. For instance, “student achievement,” in which quadrant should be placed and how must it be treated? Either it should be placed in the customer quadrant, or it should be dealt with from the financial perspective. However, it identified five goal areas or perspectives, such as student Achievement, the involvement of the customer, customer satisfaction and the efficiency and effectiveness of the processes, financial performance and finally, the learning and growth of staff. This was the first BSC draft for the school for which the school had to work. The areas that were identified were then broken down into further categories, such as the grade levels, subjects, student groups, staff types and further operational processes. This helped the school in identifying the direction.

## Entrepreneurial Process and the Capital

Further, research studies show that social and human capital affect the entrepreneurial process. It is because of the fact the entrepreneurship is a socio-economic process. An entrepreneur is an individual who belongs to a particular social context. Thus, this social context conditions the mind of the individual according to the environment in which he/she is living. The identification of opportunities is also influenced by the social context as well in which these individuals belong. An entrepreneur has to interact with people such as customers and suppliers; thus, it is treated as a social activity, thus the presence of social capital influences the nature of the business. The understanding about the fact that how social capital is influenced facilitates the entrepreneur in conducting his/her business efficiently and effectively. When an entrepreneur possesses an insight into the influences of the people he/she is catering to, he can make better and more informed

decisions. The human and social capital are both affected by the class position and the family. The reason is that an individual is a basic unit of society. Individuals form society, and these individuals, as human capital, take the role of entrepreneurs and operate in the same society. Thus, human and social capital affects the entrepreneurial process.

The financial capital also influences the process because it is required to initiate the business activity. Not only this, but the entrepreneurial process influences economic actions in a variety of ways (Gartner, 1988). According to Granovetter (1985), social factors constrain the behavior patterns of the individuals.

## Conclusion

In a nutshell, all types of capital are interlinked. Financial capital, which is an economic resource, cannot generate profit unless physical capital is available. The presence of physical capital is mandatory, along with financial capital, to attain an adequate level of efficiency. The human capital controls the first two types. It drives the financial and physical capital, and its presence is important for attaining the level of effectiveness. Finally, social capital, which encompasses all types discussed as the businesses cannot thrive in isolation. There must be an adequate level of networking among people who live in a particular society so that the effectiveness can be sustained.

## References

Anderson, A.R. and Miller, C.J., 2003. "Class matters": Human and social capital in the entrepreneurial process. *The Journal of Socio-Economics*, 32(1), pp.17-36.

Eisenhardt KM, Martin JA 2000. Dynamic capabilities: What are they? *Strategic Management J*, 21(1): 1105- 1121.

*Famous Quotes at BrainyQuote* <https://www.brainyquote.com/>

Fatoki, O.O., 2011. The impact of human, social and financial capital on the performance of small and medium-sized enterprises (SMEs) in South Africa. *Journal of Social Sciences*, 29(3), pp.193-204.

Gartner, W.B., 1988. Who is an Entrepreneur? Is the Wrong Question. *American Journal of Small Business*, 11-32.

Granovetter, M., 1973. The Strength of Weak Ties. *American Journal of Sociology* 78, 1360-1380.

Kaplan, R.S. and Norton, D.P., 1995. Putting the balanced scorecard to work. *Performance measurement, management, and appraisal sourcebook*, 66(17511), p.68.