

Human Capital Management: Leveraging Your Human Assets

Executive Summary

Managers have always intuitively believed that their employees generate value for the organization—but today, intuition is no longer enough. High-performing companies from a wide range of industry sectors now share the view that the skills, knowledge, and experience locked within their workforce are a significant part of their core assets. Maximizing the value of those assets is key to business success, which is why human capital management—the strategy of acquiring, retaining, managing, measuring, and leveraging human capital—is appearing on many boardroom agendas.

But developing and executing a human capital strategy is a major challenge, primarily because it represents an enormous leap from the traditional, administrative approach to managing human resources. Business leaders, HR practitioners, line managers, and employees themselves require both a new mind-set and new tools to help them meet these requirements.

This article examines some of those challenges to determine a practical, cost-effective way forward how companies can evolve an effective human capital management strategy and focuses on ways organizations can better leverage their organizations assets to drive value.

The key to successful human capital management is process efficiency, effective use of information, business intelligence and HR practitioner competency. Today's companies must use HR analytics, construct efficient HR administrative systems or fine-tune their existing HR management systems with technology to remain competitive in their people-related strategies. By starting with an understanding of the business challenges and then examining options open to them, organizations will be better able to find the practical and cost-effective answers they need.

Building a Human Capital Management Strategy

Introduction

Human capital management (HCM)—the strategy of acquiring, retaining, managing, measuring, and leveraging human capital—has far-reaching implications for the way that organizations do business. A philosophy that's gaining executive mind-share across industry, it recognizes how much value lies in employees' skills, experience, and knowledge, and it provides a framework for organizations to capitalize on that value. A substantial evolution from the transaction-oriented focus of traditional human resource management, it: Recognizes that employees are as important as customers in delivering value.

- Demands that managers treat key employees as assets rather than overhead.
- Complements financial metrics with techniques that focus on the value generated by people. Changes operational priorities.
- Focuses on every stage of the employee life cycle, from acquisition onward.
- Extends far beyond the HR department, embracing every part of every organization.

In short, human capital management brings about fundamental change at both a strategic and a day-to-day level.

Executing on a HCM strategy requires a flexible infrastructure geared toward identifying and unleashing workforce potential. Much of that infrastructure will already exist within a larger organization in the shape of its established business processes, trained HR staff, information

technology tools and CEO/board room “top down” support, but can be extremely fragmented or non-existent in smaller to medium sized businesses.

Success, therefore, rests in:

- Identifying existing infrastructure that can be better leveraged in areas where tactical investment will deliver real benefits.
- Re-structuring and/or creating infrastructures that deliver measurable ROI in human capital.

1. Driving Change Across the Enterprise

Most organizations recognize that regardless of economic conditions, attracting, retaining and maximizing the potential of quality employees is critical to business success. The skills, knowledge, and experience of an organization’s employee base affects every business process and remains true regardless of short or long term economic climate. As the population ages, demographic shifts will increase skills shortages and raise the pressure on organizations to find and keep their best talent.

In the past, value has typically been attached to those employees whose input or output is easiest to measure. Frontline sales staff, for example, can readily be measured on revenue earned, while the productivity of inbound call center employees can be simply determined by the volume of calls they successfully handle. An HCM approach, however, forces organizations to reappraise these approaches.

Organizations need to:

Recognize that every business process ultimately impacts the customer. It may do so directly, perhaps through good customer service. Or it may be indirect—a shortage of manufactured subcomponents will impact customer satisfaction if it delays delivery.

Adjust their measurement techniques. It may not be sufficient to measure sales employees on the basis of revenue. For example, the net profit generated by the products they sell is usually more important. Likewise, instead of call volume or duration in a service center, it may be better for employees to spend more time with customers and attempt to up sell.

Drive through organizational change. While senior management will typically set policy in areas such as compensation, line managers assume a lot of day-to-day responsibility within those constraints. The quality of employee management is therefore dependent on the effectiveness of each line manager, and the link between departmental goals and corporate objectives may be tangential.

In contrast, HCM, and HR Consult’s approach, takes an enterprise-wide perspective to employee management, cascading best practices down to line managers. This strategy focuses on:

- Standardizing and streamlining employee-related processes across the enterprise
- Providing enterprise-wide information about the workforce to help shape strategic decisions
- Using that strategy as a framework to align departmental employee initiatives

- Managing workgroups on the basis of corporate need, not departmental structures, often through collaborative teamwork
- Supporting the enterprise with cost effective, high touch, skilled human resource management, formally available only to large firms, to advise, support, administrate and execute both strategic and day-to-day HR efforts
- Arming line managers with the tools, skills and daily support to manage their employees according to best practices
- Acquiring, retaining, managing, measuring, and leveraging key employees

The breadth of this HCM challenge leads to significant changes in employee management responsibilities. At the board level, employee management becomes a core responsibility of every director. In turn, that responsibility cascades down to line managers, who develop their responsibilities within a structured framework.

The HR function, once viewed as a transaction-oriented function primarily focused on administration and compliance can, and should be, a central player in HCM strategy, supporting its execution at every stage.

2. The Infrastructure

A. Cost Control Versus Added Value

To adopt an enterprise-wide HCM strategy, organizations require an infrastructure that supports HCM efforts.

Infrastructure issues can be approached from two perspectives. In tough economic conditions, organizations tend to focus their efforts on cost reduction or containment, a priority reflected in an emphasis on generating savings through automation. This approach is valid, but it shouldn't be pursued in isolation because it ignores the positive role IT plays in creating value. As an example, employee self-service provides cost savings by reducing manual data entry; however, it also provides a platform for collaborative working practices and a vehicle for learning and communications.

The core components of an HCM infrastructure are examined in more detail below.

B. Process Management, Infrastructure, and HCM-Specific Applications

Effective process management remains the cornerstone of HCM. However advanced practitioners may be in their thinking and adoption of HCM metrics, the basics of human resource management still have to be carried out—people need to be paid, personnel details need to be processed, legislative requirements need to be met, and so forth.

Agility here is key: business processes and the IT infrastructure that supports them must be scalable and able to support rapid, ongoing change. The latest generation of Internet-based applications—built around a central server that's accessed through browser-capable devices—brings a new degree of flexibility to this infrastructure layer. In a pure Internet environment, the end user does not need to download or operate any application code at the device, which reduces IT maintenance costs and network traffic.

In addition to existing administrative software modules, new applications are emerging to tackle HCM priorities, including enterprise learning management, competency management applications and incentive management software. Many of these cost effective packages address long-standing employee-related issues and can replace homegrown, high maintenance ad hoc systems. These new breed of applications provide maximum effectiveness when tightly integrated across the organization.

C. Measuring Employee Value and Competencies

Just as effective customer management requires organizations to identify and focus on their top clients, effective Human Capital Management (HCM) is fundamentally about leveraging the full potential of key employees. To do so, HR requires tools and metrics that help define value in a standardized way across the enterprise. Value can typically be measured in terms of:

- Direct costs related to acquisition, retention, and attrition.
- The impact of the individual on business performance,
- Skills, knowledge, and experience of human capital.
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If they are measured at all, direct costs are typically assessed in relation to visible expenditures, such as advertising or agency fees for recruitment and initial training investment. True value measurement, however, goes further. One major financial institution recently embarked on an initiative to measure these costs, completing a model that incorporated the impact on productivity of an employee departing, not just as they worked out their notice, but also in the period prior to tendering their resignation when motivation levels inevitably slip.

Typically, this kind of model shows that companies invest heavily up front in recruitment and training costs, but overall employee value increases over time as productivity levels improve. By assessing a wide range of costs through the employee life cycle, companies can determine a break-even point—the moment where the company's investment in an employee matches the return they generate for the business. Attrition of key employees is then assessed against this model.

Combining these two metrics—direct costs and impact on business value—provides powerful insight into employee value, but it requires several important information and business process actions. An organization must:

- Understand the processes that underpin their operations and be able to cost them.
- Be able to pull data from a wide range of systems across the enterprise.
- Effectively distribute data across the organization.

The third element of the value equation, managing skills and experience, often falls under the banner of competency management and is closely linked to succession planning. This has long been a concern for effective HRC management and HR functions, partly because organizations have allowed the process to become overly complex. One pharmaceutical company, for example, spent two years developing a pilot program in just one European territory.

However, approached pragmatically, competency management provides valuable insight into skills and experience levels by department and aggregates data for workforce planning through a range of applications (such as enterprise learning and management systems that monitor training).

D. Acquiring Key Employees

Employee acquisition is usually considered and measured in terms of the recruitment process. Current automation through Internet-based applications brings tangible benefits where both internal and external vacancies need to be advertised. Value can be derived even in an environment where downsizing is prevalent as the volume of applications will be high in a downturn. Therefore, automating the basics of the selection process cuts administrative workloads, allows effective compliance monitoring and assists in skill screening.

As organizations adopt HCM strategies and automation, processes like recruitment will increasingly become the domain of line managers, supported by HR, rather than the reverse, freeing the HR professional to more fully concentrate in supporting line management in maximizing productivity. These automated systems also provide a force multiplier to HR management professionals and is HR Consult's core foundation in providing high touch HR management support on an outsourced or in-house basis.

Process automation however is only one part of the equation. To generate maximum value, recruitment and productivity should be linked to initiatives such as succession planning, competency management, organization structuring, culture change and training needs analysis, all of which help to outline the core skills, knowledge bases, experiences and needs that an organization requires going forward. Ultimately, modeling analytics that enable organizations to plan their workforce requirements strategically should also be considered. HR Consult, in conjunction with its strategic partners, provides this support

E. Retaining Key Employees

As previously stated, the value of motivated employees typically increases the longer they remain with the organization. Employee retention is therefore a cornerstone of effective HCM.

Surprisingly, a large number of companies do not address the issue. Recent market research found that less than half of respondents have a formal retention program in place. Core elements of retention—development, motivation, incentives, and rewards—are critical functions to an organization and to the HR efforts.

Development priorities are typically identified through formal appraisals and strategic workforce reviews that, in an integrated HCM environment, will be part of the competency assessment process previously. Using enterprise learning management systems, blending traditional classroom learning techniques with online “live” instruction and self-paced, Web-based modules, allow individuals to take courses at times of their choosing.

Motivation, as key factor in turnover, is, by contrast, a less automated activity and can be more effectively addressed by skill training, surveys and employee interviews. Over time, patterns also emerge that can provide signs of motivational issues before they explode into major problems. The key organizational failure here is most organizations fail to act in a timely manner to correct morale and motivation problems, when identified, and to address root causes, such as lack of management competency, structure and goal communication and feedback.

The final retention elements are incentive and reward, which are often undertaken in a relatively unsophisticated manner. At their most basic, effective incentive and compensation packages cut administration overhead, replacing inefficient, haphazard homegrown systems. But the real power of effective incentive and reward systems is the ability to model and plan, enabling managers to

understand the implications of any changes they seek to make for both the employee and the enterprise through:

- Incentive plans linked to corporate goals
- Rewards based on performance
- Plans that link incentive, achievement, and reward across the entire organization

Conclusion

Building Framework for Human Capital Management

A successful HCM strategy fundamentally rests on two factors: how thoroughly an organization understands what practices support effective HCM and how effectively it builds the business process and an information infrastructure to support it. Process efficiency, effective use of information, and business intelligence are critical to the execution of an HCM strategy.

For both HR practitioners and senior management, this represents a sizable challenge, but it also offers huge potential. In particular, existing HR functions, with HR Consult's support, can build a more critical profit role for itself at the heart of the organization, assisting the organization, from the board down, to develop and execute HCM strategies that deliver better operating performance enterprise-wide. For those firms unable to afford in-house HR staff, HR Consult can perform the complete range of HCM functions on an outsourced, transparent basis.

In conclusion, human capital management embraces the entire employee life cycle, from workforce planning to recruitment and retention.

HCM must:

- Support and assist in implementation of change across the enterprise, linking departments and employees in the process.
- Require organizations to standardize and improve their employee-related processes to ensure departmental activities are aligned with overall objectives.
- Address immediate pain points while building toward a longer-term integrated HCM infrastructure through assessing how existing investments can be better leveraged, then understanding how tactical investments can produce tangible results.
- Provide effective process management and administrative efficiency through cost effective automation as a foundation of employee management, reinforced by new applications tackling specific HCM priorities, such as enterprise learning and incentive management.
- Provide operational and strategic human analytics as the foundation for increased profits.

HR Consult can provide complete strategic and operational HCM services to assist your organization in maximizing human productivity while increasing the effectiveness of both HR related administration and compliance requirements.