

STRATEGIC HUMAN RESOURCE MANAGEMENT

A GUIDE TO ACTION

4TH EDITION

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London and Philadelphia

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Human capital management strategy

Human capital management (HCM) is concerned with obtaining, analysing and reporting on data that inform the direction of value-adding people management strategy. An HCM strategy is therefore closely associated with strategic HRM.

The defining characteristic of HCM is the use of metrics to guide an approach to managing people that regards them as assets. It emphasizes that competitive advantage is achieved by strategic investments in those assets through employee engagement and retention, talent management and learning and development programmes. HCM provides a bridge between HR and business strategy. It provides the basis for 'evidence-based human resource management'.

The Accounting for People Task Force report (2003) stated that HCM involves the systematic analysis, measurement and evaluation of how people policies and practices create value. The report defined HCM as 'an approach to people management that treats it as a high level strategic issue rather than an operational matter "to be left to the HR people"'. The task force expressed the view that HCM 'has been under-exploited as a way of gaining competitive edge'. As John Sunderland, task force member and executive chairman of Cadbury Schweppes plc, commented, 'An organization's success is the product of its people's competence. That link

between people and performance should be made visible and available to all stakeholders.'

Nalbantian *et al* (2004) highlight the purposeful measurement aspect of HCM. They define human capital as the 'stock of accumulated knowledge, skills, experience, creativity and other relevant workforce attributes' and suggest that human capital management involves 'putting into place the metrics to measure the value of these attributes and using that knowledge to effectively manage the organization'.

HCM is sometimes defined more broadly without the emphasis on measurement, and this approach makes it almost indistinguishable from strategic HRM. Chatzkel (2004) states that 'Human capital management is an integrated effort to manage and develop human capabilities to achieve significantly higher levels of performance.' And Kearns (2005) describes HCM as the 'total development of human potential expressed as organizational value'. He believes that 'HCM is about creating value through people' and that it is 'a people development philosophy, but the only development that means anything is that which is translated into value'.

AIMS OF HUMAN CAPITAL MANAGEMENT

The four fundamental objectives of HCM are:

1. to determine the impact of people on the business and their contribution to value;
2. to demonstrate that HR practices produce value for money in terms, for example, of return on investment;
3. to provide guidance on future HR and business strategies;
4. to provide data that will inform strategies and practices designed to improve the effectiveness of people management in the organization.

THE LINK BETWEEN HCM AND BUSINESS STRATEGY

It is often asserted that HCM and business strategy are closely linked and that an HCM approach provides guidance on both HR and business strategy. For example:

- By linking good HR practice and strategic management to human capital measurement, firms are able to make a number of better-informed decisions that will help to ensure long-term business success (Scarborough and Elias, 2002).

- The aim is to have a 'robust people strategy mapped to the business strategy' (Manocha, 2005).
- The prime purpose of human capital management is to establish 'an employment proposition that links the work of employees to strategy and profits' (Donkin, 2005).

The issue is to determine what this link is and how to make it work. A bland statement that HCM informs HR strategy, which in turn informs business strategy, tells us nothing about what is involved in practice. If we are not careful we are saying no more than that all business strategic plans for innovation, growth and price/cost leadership depend on people for their implementation. This is not a particularly profound or revealing statement and is in the same category as the discredited cliché 'Our people are our greatest asset.' We must try to be more specific; otherwise we are only doing things – more training, succession planning, performance management, performance-related pay and so on – in the hope rather than the expectation that they will improve business results.

One way of being more specific is to use HCM assessments of the impact of HR practices on performance to justify these practices and improve the likelihood that they will work. The future of HCM as a strategic management process largely depends on getting this done.

A second way of specifying the link is to explore in more detail the people implications of business strategy and, conversely, the business implications of HR strategy. This can be done by analysing the elements of the business strategy and the business drivers and deciding on the HR supporting activities and HCM data required, as illustrated in Table 8.1.

A third, and potentially the most productive way of linking HR and business strategy, is to relate business results to HR practices to determine how they can best contribute to improving performance.

DEVELOPING A HUMAN CAPITAL MANAGEMENT STRATEGY

The programme for introducing human capital management is illustrated in Figure 8.1.

The development programme starts with a definition of the aims of the strategy, for example to:

- obtain, analyse and report on data that inform the direction of HR strategies and processes;
- inform the development of business strategy;

Table 8.1 Analysis of business strategy and business drivers

	Content	HR Supporting Activities	Supporting Data Required
Business Strategy	Growth – revenue, profit.	Human resource planning.	Workforce composition.
	Maximize shareholder value.	Talent management.	Attrition rates.
	Growth through acquisitions or mergers.	Skills development.	Skills audit.
	Growth in production or servicing facilities.	Targeted recruitment.	Outcome of recruitment campaigns.
	Product development.	Retention policies.	Learning and development activity levels.
	Market development.	Leadership development.	Outcome of leadership surveys.
	Price/cost leadership.		
Business Drivers	Innovation.	Talent management.	Balanced scorecard data.
	Maximize added value.	Skills development.	Added-value ratios (eg added value per employee, added value per pound of employment cost).
	Productivity.	Total reward management.	Productivity ratios (eg sales revenue per employee, units produced or serviced per employee).
	Customer service.	Performance management.	Outcomes of general employee opinion survey and other surveys covering engagement and commitment, leadership, reward management and performance management.
	Quality.	Develop high-performance working.	Analysis of competence level assessments.
	Satisfy stakeholders – investors, shareholders, employees, elected representatives.	Enhance motivation, engagement and commitment.	Analysis of performance management assessments.
		Leadership development.	Analysis of customer surveys.
			Analysis of outcomes of total quality programmes.
			Return on investment from training activities.
			Internal promotion rate.
			Succession planning coverage.

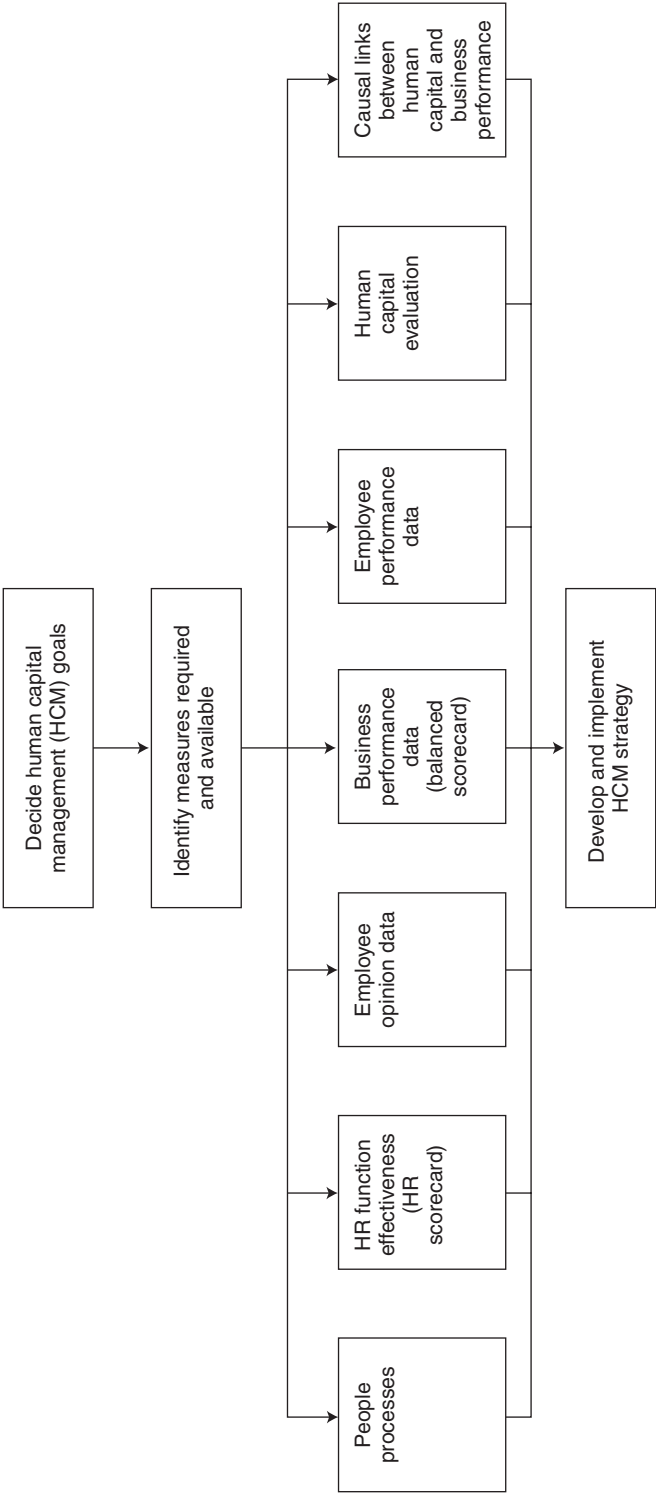


Figure 8.1 Developing an HCM strategy

- use measurements to prove that superior HRM strategies and processes deliver superior results;
- reinforce the belief that HRM strategies and processes create value through people;
- determine the impact of people on business results;
- assess the value of the organization's human capital;
- improve the effectiveness of HR;
- provide data on the performance of the organization's human capital for the operating and financial report;
- demonstrate that HR processes provide value for money.

The programme continues with the identification of possible measures and how they can be used, as set out in Table 8.2.

The analysis of possible measures leads to the development of a strategy for introducing and using them. It is often best to start with information that is readily available and extend the range of data as experience is gained. And it is important to remember that it is the quality of the information that counts, not the quantity.

Table 8.2 Possible HCM measures and their use

Possible Measures	Possible Use – Analysis Leading to Action
Workforce composition – gender, race, age, full-time, part-time.	Analyse the extent of diversity. Assess the implications of a preponderance of employees in different age groups, eg extent of losses through retirement. Assess the extent to which the organization is relying on part-time staff.
Length of service distribution.	Indicate level of success in retaining employees. Indicate preponderance of long- or short-serving employees. Enable analyses of performance of more experienced employees to be assessed.
Skills analysis and assessment – graduates, professionally or technically qualified, skilled workers.	Assess skill levels against requirements. Indicate where steps have to be taken to deal with shortfalls.
Attrition – employee turnover rates for different categories of management and employees.	Indicate areas where steps have to be taken to increase retention rates. Provide a basis for assessing levels of commitment.
Attrition – cost of.	Support business case for taking steps to reduce attrition.
Absenteeism and sickness rates.	Identify problems and need for more effective attendance management policies.
Average number of vacancies as a percentage of total workforce.	Identify potential shortfall problem areas.
Total payroll costs (pay and benefits).	Provide data for productivity analysis.

Possible Measures

Compa-ratio – actual rates of pay as a percentage of policy rates.

Percentage of employees in different categories of contingent pay or payment-by-result schemes.

Total pay review increases for different categories of employees as a percentage of pay.

Average bonuses or contingent pay awards as a percentage of base pay for different categories of managers and employees.

Outcome of equal pay reviews.

Personal development plans completed as a percentage of employees.

Training hours per employee.

Percentage of managers taking part in formal management development programmes.

Internal promotion rate (percentage of promotions filled from within).

Succession planning coverage (percentage of managerial jobs for which successors have been identified).

Percentage of employees taking part in formal performance reviews.

Distribution of performance ratings by category of staff and department.

Accident severity and frequency rates.

Cost savings and revenue increases resulting from employee suggestion schemes.

Measures of impact of HR practices.

Possible Use – Analysis Leading to Action

Enable control to be exercised over management of pay structure.

Demonstrate the extent to which the organization believes that pay should be related to contribution.

Compare actual with budgeted payroll increase costs. Benchmark pay increases.

Analyse cost of contingent pay. Compare actual and budgeted increases. Benchmark increases.

Reveal pay gap between male and female employees.

Indicate level of learning and development activity.

Indicate actual amount of training activity (note that this does not reveal the quality of training achieved or its impact).

Indicate level of learning and development activity.

Indicate extent to which talent management programmes are successful.

Indicate extent to which talent management programmes are successful.

Indicate level of performance management activity.

Indicate inconsistencies, questionable distributions and trends in assessments.

Assess health and safety programmes.

Measure the value created by employees.

Evaluation of effectiveness.

CONCLUSIONS: THE ROLE OF HUMAN CAPITAL MANAGEMENT STRATEGY

The whole area of human capital management presents both an opportunity and a challenge: an opportunity to recognize people as an asset that contributes directly to organizational performance, and a challenge to develop the skills necessary to identify, analyse and communicate that contribution and ensure it is recognized in business decision making. By developing strategies to generate better and more accurate information on human capital and communicating this information both internally and externally, organizations will not only improve their business decision making but also enable stakeholders to make more accurate assessments about the long-term future performance of the organization. There is evidence of a growing demand, from the investment community in particular, for better information to explain intangible value. Many organizations are beginning to understand that, in an increasingly knowledge-intensive environment, the key to good management lies in understanding the levers that can be manipulated to change employee behaviour and develop commitment and engagement. This in turn encourages individuals to deliver discretionary behaviour or willingly share their knowledge and skills to achieve organizational goals.

A human capital management strategy that includes the systematic collection and analysis of human capital data can help managers to begin to understand factors that will have a direct impact on the people they manage. It can also help executives to understand and identify areas in which there are issues regarding the effective management of staff and to design management development programmes to address these.