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**Let's get serious about human capital management!** The term seems to be everywhere and gaining in popularity: more and more human capital consultants are suddenly appearing from nowhere, human resource directors are becoming directors of human capital and numerous studies show a clear and direct link between effective human capital management and business performance.

**But what exactly is human capital management? Is it just another doomed fad? Is it HR under a different guise or does it herald a wholesale shift in how organisations manage their most precious assets?**

So what is it? The best definition I've found is that HCM is the "total development of human potential expressed as an organisation's value". This essentially means that the only HR practices that mean anything from an HCM perspective are those that can be translated into value for an organisation. The focus is much less on the HR practice itself and much more on the amount of added value that it brings. This challenges those self-righteous organisations that tout their 'world class HR practices' to pose the questions "what added value is being, or can be, created and how will it be measured?" In fact a whole industry has grown from HR benchmarking when there is really no point in trying to compare one organisation's approach with another in a simplistic comparison of numbers.

Benchmarking in itself adds no value to an organisation. Who's benchmark is it anyway?

Take recruitment as an example. Many organisations are content to benchmark themselves against measures such as cost of recruitment, time taken to fill a vacancy and so on. These might well flesh out issues relating to the efficiency of a recruitment process but tell us nothing about how effective it is and how much value it adds to the organisation. What if recruitment costs are contained but the performance level of new recruits falls short of what it should be? What if vacancies are filled quickly but with mediocre employees?

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Those who claim to be in the business of HCM need to be adept at determining a clear line of sight to added value that is measured using baseline and post-activity data. Added value measures that relate to being able to do more of something; doing what we do but at a reduced cost; charging more for what we do; and quality improvement are all conducive to HCM. Some people have argued that the four variables of

quantity, cost, price and quality are the only ones that can create value and, therefore, are the only ones that really matter from an HCM perspective. Returning to the recruitment example above better measures could be how much value new recruits generate in terms of sales, ideas or cost savings.

But implementing HCM is more than just measuring value. There are a number of factors that have the capacity to prevent organisations from realising the benefits of HCM and unless these roadblocks are removed there is little point in setting out on the HCM journey. Many of these will be obvious to most such as the lack of Board or senior executive support. If a Board, for example, is quite relaxed about its current market position and is not looking for significant value gains then they shouldn't travel down the HCM road.

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And if an organisation hasn't genuinely made the shift from regarding people as a cost/resource to seeing them as a real source of competitive advantage then attempts to implement HCM will be futile to say the least.

Some less obvious factors that are regarded as contra-indicators to HCM are found in the learning and development area. Measurement of the number of training days or target amounts of training hours per employee or, worse still, a fixed monetary amount each year, point to an organisation that is more concerned with training costs and time than applied learning. Rigid compensation and reward policies are normally reflective of an organisation that does not want to encourage maximum value or contribution. HCM works best in flexible, adaptable, mutually supportive organisations regardless of how the organisational chart is actually drawn. This means that our old friend the silo organisation is guilty as charged as are generic interventions, such as 'sheep dip' training, that treat people as a homogenous group rather than as a pool of individual talent waiting to be fully developed and translated into real value on the bottom line.

Another guilty party is 'command and control' leadership where all decisions are made at the top and managers are expected to enforce these decisions in the workplace. Very few organisations would openly confess to a command and control model but evidence to suggest otherwise is often quite thin on the ground. HCM means taking the reins off people and allowing decisions to be made at the lowest possible level using their detailed knowledge and judgement to do things that are in the best interests of generating value.

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Some HR practices are essential for HCM to flourish. All the talk about performance management must be finally made a reality; meaning that there needs to be a robust employee measurement system in place. How can organisations maximise human capital while passengers are on board and tolerated? On the

remuneration front there are really only two options: pay market rates and concentrate on engagement and retention strategies or take the lid off the reward policy for those who generate the most value.

Effective HR systems and processes are essential to make HCM work. Some of the most important ones are talent identification and development systems, learning systems, knowledge management, employee engagement, reward and recognition and, of course, a strong performance management system supplemented by the right coaching and development skills.

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One of the biggest immediate problems for consultants and HR departments is that HCM requires quite a different set of skills and competencies. The capacity to analyse a balance sheet and P&L is critical so that conclusions can be drawn concerning what is required from an HCM perspective. Financial acumen is therefore critical yet not a natural talent of many in human resources. Systems thinking and process analysis are also important so that HCM systems can be developed and monitored to ensure that what needs to happen happens and that inefficient processes are identified and redesigned. A detailed understanding of the value creation chain and how to influence it is essential. And finally knowledge of how to analyse and improve organisational structure will help identify when there are too many layers of management, remove interdepartmental barriers that need to be removed, result in clear reporting lines and ensure clarity of accountability. Another necessary strategy, therefore, is to develop these unique HCM skills.

Perhaps the most immediate practical step that can be taken is to start producing the sort of data that are needed for HCM. The emphasis needs to be on value not cost and on outputs not inputs. For example, move away from measuring staff turnover in terms of recruitment and training costs. Instead, measure lost revenue opportunities caused as a direct result of losing experienced people.

HCM represents tremendous opportunities and challenges as well as threats for the HR community. It provides a clear framework that enables HR to demonstrate that investing in people is directly linked to mainstream business performance indicators. But HCM is fundamentally different from HR in terms of focus, activities and skill set. More of the same from HR runs the risk of marginalising the function and creating a void that will inevitably be filled from elsewhere.