

# Developing HR Strategy

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## **Investing in the accumulation of human capital**

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### **Human capital and HCM**

Human capital is the combination of all the various qualities provided by employees and others associated with a particular company to that organisation. It includes things like diversity, agility, capability and engagement.

Whilst human capital is important at all times, it is particularly vital coming out of recession. Why? Firstly, because human capital is likely to have been expended and depleted during the last few years. And secondly, because human capital is a key ingredient of organisational capability, an increasingly important source of competitive advantage which exists inside an organisation (unlike the external 'positioning' approach to competitive strategy), and which is based largely on people and organisation design (rather than technologies and business process design as in the 'core competencies' approach to business strategy).

For organisational capability to provide competitive advantage, organisations need to select the form or forms of organisational capability that are going to make the difference for them. The appropriate form(s) may be one or more of speed, innovation, learning, innovation, collaboration or really anything else an organisation believes is going to lead to competitive success. The organisation then needs to grow the level of the required form(s) of human capital that is available to it.

This growth of human capital is central to my definition of strategic human capital management (HCM). This term is sometimes used to mean something about technology, or about measurement, or even just as another expression for talent management or strategic human resource management (HRM). But the words themselves suggest HCM should be seen to refer to the management of people for the accumulation of human capital. And if it is going to be worth using these words, they need to mean something significantly different to HRM.

### **HCM and HRM**

I believe the key difference between HCM and HRM is about the role and importance of people.



Whereas HRM treats people as resources that can be used to support achievement of existing business objectives, strategic HCM treats people as providers of human capital and the basis for setting new or more stretching business goals.

Strategic HCM does not replace, but needs to co-exist with, HRM. Organisations do need to use people as resources but they need to invest in them at the same time if they are going to grow human capital. This point was explained recently by Richard Boyatzis (Mercer, 2009) writing about human capital and long-term sustainable performance:

The problem is that most of the time when people think about managing talent they immediately go to, how do I motivate people? How do I get the maximum performance from people? That frames the problem in a very short-term context.

As a result, almost everybody who is trying to manage talent is actually liquidating it. What I mean is that they are expending most of their organisation's human capital on current performance....

My point is that we should approach the management of talent with the notion that you should manage human capital so it is greater at the end of the year than it was at the beginning of the year because you're investing in it.

## Human capital centrality

Strategic HCM delivers increases in human capital by putting people first. So rather than considering how people can deliver given business results, it looks at what can be achieved from a given group of people and their human capital. This human capital centric approach is also the core theme in Ed Lawler's recent book, *Talent* (2009). According to Lawler:

Companies that are truly competing on the performance of their people need to adopt a Human Capital or HC-centric approach to organising – simply doing better talent management is not sufficient. Rather, special attention needs to be given to implementing organisational structures, processes and systems that will help manage and support the performance of an organisation's human capital.

Some examples of talent- or human capital-centric processes, which are all being used in one or more organisations include:

- Talent shoring - basing a company where talent is rather than where customers are, or costs are less
- Communityship – for example, basing project based staff in communities and moving them across projects to provide broadly based performance feedback and to support career advancement
- Head farming – proactively searching for talent and building relationships in advance of recruitment (vs. head hunting)
- Job sculpting – creating jobs to fit talent rather than the other way around
- Dream making – discussing the individual's dreams and how these can be achieved at work rather than just looking at how the individual can help achieve the organisation's plans (as in traditional objective setting)
- Deal management – broadening out performance management to review the organisation's engagement of the employee as well as how the employee is performing for the organisation
- Career partnership – providing an employee with the opportunity to work over several discreet periods, gaining experience with other organisations in between these times.

Putting people first does not imply a return to the 'pink and fluffy', 'tea and sympathy' world of Personnel, but it does require a step back from the business focus of HRM. The reason I suggest this is that human capital does not just support the achievement of existing business objectives – it provides value in its own right. So whilst the use of human resources is a secondary activity

supporting an organisation's traditional value chain, HCM is a primary activity in a completely different value chain – the creation of human capital.

This means that although HR does provide value as part of the business leadership team, focusing on the traditional value chain, the function provides much more impact by focusing on the HCM value chain and the creation of the right form(s) of human capital leading to competitive advantage.

This shift in focus suggests that the future of HR, or at least the function responsible for people management (which Lawler suggests should be called the Organisational Effectiveness unit), is not to be yet another business function (as in the current call to be a business function first, HR function second) but for HR to pride itself in its focus on, and abilities to develop, human capital.

### **Tailored (best fit and personalised) processes**

The HR function develops human capital by designing people management processes and interventions that align with the particular form(s) of human capital an organisation requires. This implies a move away from a focus on best practice which is often the hallmark of HRM to one based on best fit – the identification of specific people management processes which will lead to particular forms of human capital.

This focus often leads to the development of unique and innovative people management processes – ones that will suit one particular firm but might not work at all elsewhere.

An HCM focus also often leads to the personalisation of people and line management processes – tailoring the way an individual experiences being managed according to their own unique needs and motivations.

The tailoring of people management processes to align with organisational capability can be best explained through the use of an example. In my consulting practice, I have supported several organisations to develop innovative, best fit and personalisable approaches to people management. However, one of the best current case studies for strategic HCM, which is better known in the US than the UK, is Zappos.

### **Case study: Zappos**

Zappos is a Las Vegas based online shoe retailer, now owned by Amazon. In a presentation at the Human Capital Institute (HCI)'s summit in Phoenix, Arizona, which I attended last year, Tony Hsieh, CEO of Zappos, explained that the company's organisational capability is a slightly weird, family and customer

service focused culture which is supported by a desire to increase happiness in employees, customers and others who come into contact with the company (for more of a feel on Zappos' unique culture, watch this video on Zappos' WOW! culture: <http://bit.ly/ZapposWOW>).

Zappos tailors its HR processes to develop the required human capital. For example, in order to ensure employees can relate to customers in a very human way, the company asks prospective recruits to describe how weird they are. (Zappos is looking for high but not extreme levels of weirdness in its candidates' responses.) The company considers the need for employees to be aligned with its organisational capability to be so important that it even offers newly inducted employees \$2,000 USD to leave the company if these people no longer believe that they will fit in the organisation.

Zappos also makes heavy use of social media tools like Twitter in order to help build more personal connections with employees and customers (you can follow Tony Hsieh's tweets at <http://twitter.com/zappos>).

Lastly, Zappos HR team is given accountability for ensuring alignment between organisational capability, people management processes and the people the company employs. So for example, recruiters are able to veto a candidate if they do not think the individual would fit in Zappos' culture, regardless of the hiring manager's opinions of the person's ability to do a particular job.

### **Human capital measurement**

The HCM value chain operates very differently to the traditional value chain, being much more subject to complexity rather than cause and effect relationships.

This fact means that although HCM is often associated with a measurement based approach to people management, measurements often have limited use in strategic HCM. However, where organisations do seek to measure their HCM activities, they will often find that qualitative and subjective measures are more useful than hard, objective and particularly financial metrics. Return on investment (ROI), in particular, has limited application. This is partly because human capital is intangible and hard to describe in financial terms. Also, as a result of complexity in the HCM value chain, it is often difficult to establish clear links between human capital and its financial consequences.

A more appropriate tool to measure HCM activities may be a strategy map supporting the HCM value chain, which links with the business strategy map supporting the balanced business scorecard (Kaplan and Norton, 2004).

In this strategy map, the 'learning and growth' perspective of the balanced scorecard is broken out into sections on 'input', 'activity' and 'outcome' (that is, human capital). And the 'business process', 'customer' and 'financial' perspectives of the balanced scorecard are collapsed down into one section marked 'business impact'.

The suggestion that HR functions should use this tool to measure their HCM activities is not meant to suggest that there will be clear and specific relationships between objectives and measures identified in the four sections of the HCM strategy map. This is unlikely to be the case. But the tool can help in identifying the linkages that are likely to exist, and also provides a framework to improve understanding of these relationships.

### **'Soft' vs. 'hard' management of people**

What is often more important than measurement is imagination - supported by creativity, ambition and intuition. Organisations wanting to compete through their people's human capital need to be able to visualise what may be very different ways of operating. And they need the courage to make changes which may mean moving away from established best practices. Intuition is useful as, rather than requiring logical analysis, HCM strategies often depend on having emotional connections with people, providing an understanding of how their passion can be liberated for the good of the business.

These suggestions may seem rather 'soft', particularly by HR functions currently aiming to become more 'hard', that is more concerned with the commercial and financial aspects of their organisations. But strategic HCM suggests that business performance is largely about people and relationships, and therefore, although there are 'hard' aspects to people management, the greatest value is in the 'soft'. It is also the 'soft' aspects of organisations which are often the hardest, that is the most difficult, to manage.

Therefore, rather than pretending that everything in people management can be 'hard', HR needs to become more comfortable operating in this new 'soft', complex and intangible environment. So while understanding of the business, and skills in using metrics and analytics are all important, abilities from areas such as psychology and sociology offer HR the greatest potential for substantially increasing its contribution.

HR also needs to educate the rest of the business to become more comfortable with this 'soft' way of managing as well. So rather than being so concerned about speaking the language of business, to support an HCM perspective, the function needs to convince its business colleagues to speak the language of people. HR, business leaders and line managers need to be able to talk about things like emotions, social relationships and engagement without these being

seen as unbusiness-like. They are not – they are central to the management of people for human capital, and therefore for competitive advantage.

## Summary

Strategic HCM provides HR with a significant opportunity to increase its credibility and enhance its contribution to business performance. Other approaches to strategic people management still place HR in a supporting role. These approaches may make HR a more proactive support function, but do little to reposition it as a true strategic driver of competitive advantage.

Following an HCM approach really does transform HR into a strategic business partner, but, as this article has made clear, it also requires a very different way of operating – see Table 1.

**Table 1: HCM vs. HRM ways of working**

	<b>Human resource management</b>	<b>Human capital management</b>
<b>Objective</b>	Using people as resources to support business objectives	Managing and developing people to accumulate human capital and provide competitive advantage
<b>Focus</b>	Business objectives, traditional business value chain	People and human capital, HCM value chain
<b>Processes</b>	Best practice, standardisation	Tailored, innovative, best fit, personalisation
<b>Measures</b>	Objective, metrics, analytics, using ROI	Subjective, qualitative, using strategy map
<b>HR function</b>	Hard, commercial, financially oriented	Soft, still commercial, but people (and human capital) oriented

All HR functions, particularly those which have already developed a business focus and increased their credibility, are encouraged to investigate the opportunities inherent in strategic HCM.

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