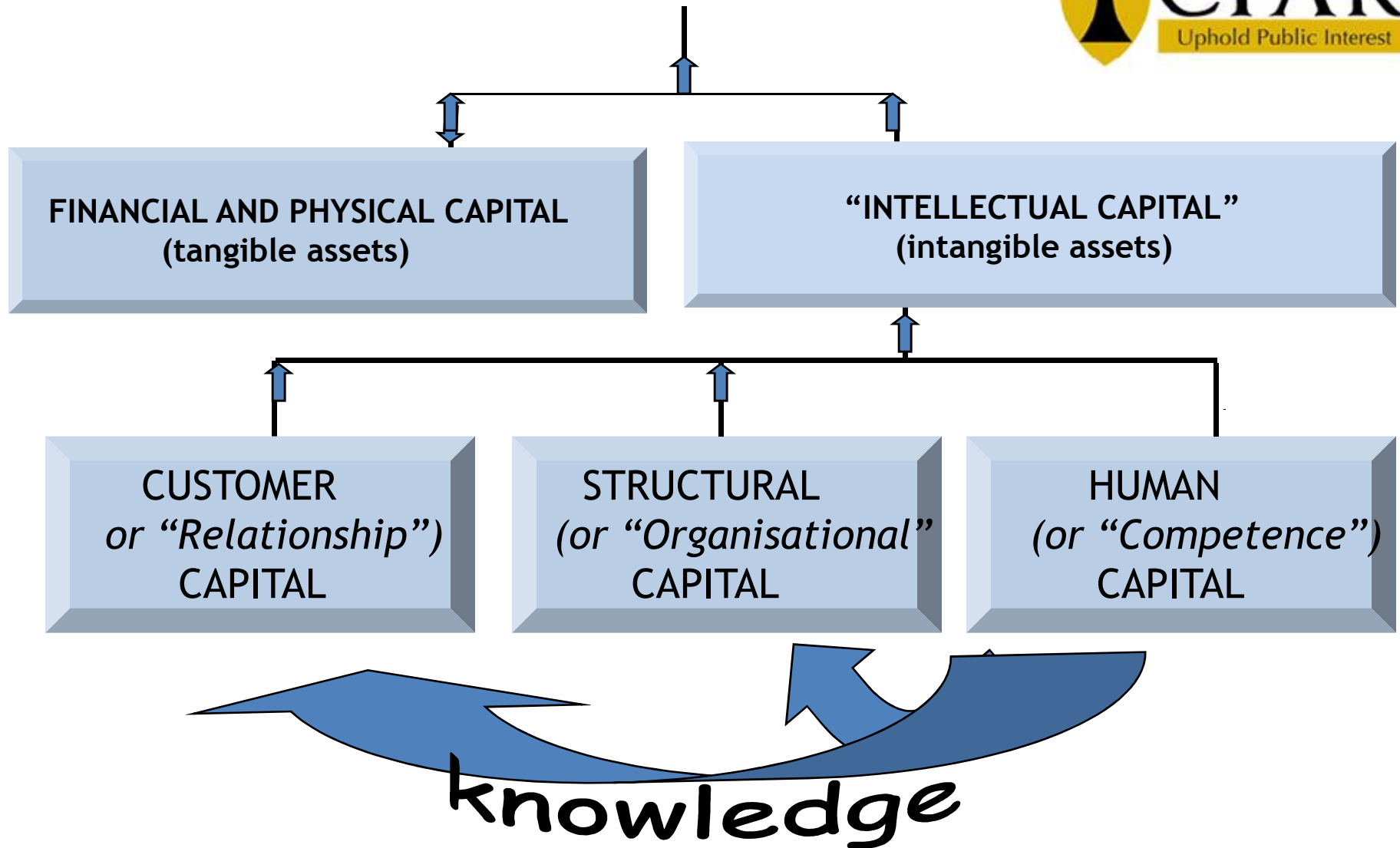


HUMAN CAPITAL MANAGEMENT

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The value of the organization



Definition



- HCM is concerned with obtaining, analysing and reporting on ***data*** that inform the direction of value-adding people management, strategic, investment and operational decisions at corporate level and at the level of front line management.
- **The defining characteristic of HCM is the use of metrics** to guide an approach to managing people that **regards them as assets and emphasizes that competitive advantage is achieved by strategic investments in those assets** through employee engagement and retention, talent management and learning and development programmes.

Aims of HCM



- To determine the impact of people on the business and their contribution to value;
- To demonstrate that HR practices produce value for money in terms (e.g. ROI).
- To provide guidance on future HR and business strategies.
- To provide data that will inform strategies and practices designed to improve the effectiveness of HRM in the organization.

Four measurement agendas for HR (often confused)



The HR Function

VALUE FOR MONEY

The effectiveness and contribution of the *HR function*

The RoI of specific HR initiatives

Human Capital

VALUE FOR
STAKEHOLDERS

Statistics and ratios about the workforce
(and any financial implications)

Linking the value, motivation and contribution of *people*

The latter is not dependant on an HR function. But a prime focus of HR's strategic contribution should be to maximise it.

Business Strategy and HCM



	Content	HR Supporting Activities	Supporting Data Required
Business Strategy	Growth – revenue, profit. Maximize shareholder value. Growth through acquisitions or mergers. Growth in production or servicing facilities. Product development. Market development. Price/cost leadership.	Human resource planning. Talent management. Skills development. Targeted recruitment. Retention policies. Leadership development.	Workforce composition. Attrition rates. Skills audit. Outcome of recruitment campaigns. Learning and development activity levels. Outcome of leadership surveys.

Business Drivers and HCM



Business Drivers

Innovation.
Maximize added value.
Productivity.
Customer service.
Quality.
Satisfy stakeholders – investors, shareholders, employees, elected representatives.

Talent management.
Skills development.
Total reward management.
Performance management.
Develop high-performance working.
Enhance motivation, engagement and commitment.
Leadership development.

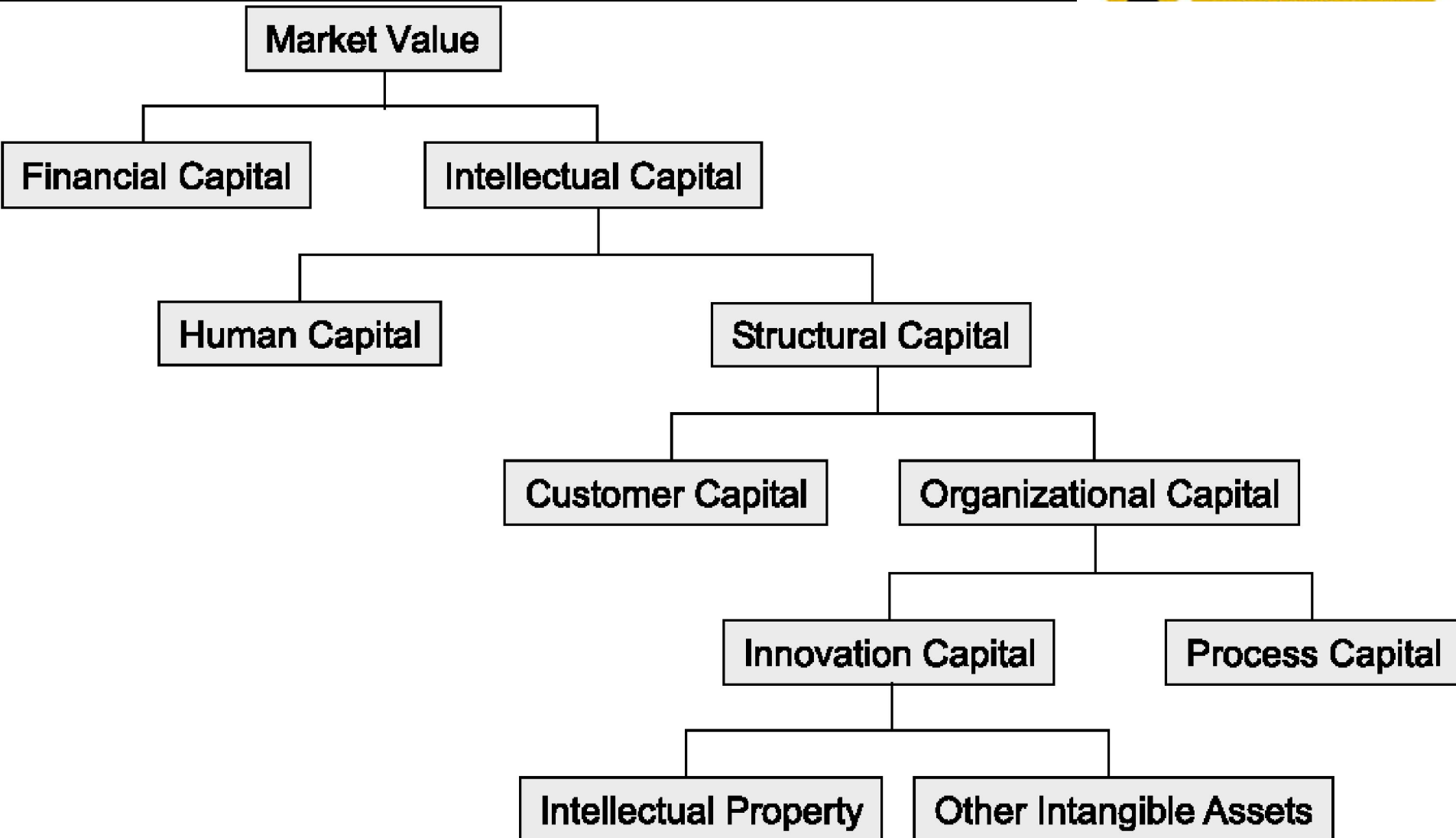
Balanced scorecard data.
Added-value ratios (eg added value per employee, added value per pound of employment cost).
Productivity ratios (eg sales revenue per employee, units produced or serviced per employee).
Outcomes of general employee opinion survey and other surveys covering engagement and commitment, leadership, reward management and performance management.
Analysis of competence level assessments.
Analysis of performance management assessments.
Analysis of customer surveys.
Analysis of outcomes of total quality programmes.
Return on investment from training activities.
Internal promotion rate.
Succession planning coverage.

Human Capital



- Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character.
- The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization.

Intellectual and Human Capital



Intellectual Capital



- The stocks and flows of knowledge available to an organization. These can be regarded as the intangible resources associated with people which, together with tangible resources (money and physical assets), comprise the market or total value of a business.
- Bontis (1998) defines intangible resources as the factors other than financial and physical assets that contribute to the value-generating processes of a firm and are under its control.

Social Capital



- It consists of the knowledge derived from networks of relationships within and outside the organization. The concept of social capital has been defined by Putnam (1996) as ‘the features of social life – **networks**, norms and **trust** – that enable participants to act together more effectively to pursue shared objectives’

Human Capital Advantage



- Sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals.

Questions on people management raised by human capital theory



- What are the key performance drivers that create value?
- What skills do we have?
- What skills do we need now and in the future to meet our strategic aims?
- How are we going to attract, develop and retain these skills?
- How can we develop a culture and environment in which organizational and individual learning takes place that meets both our needs and the needs of our employees?
- How can we provide for both the explicit and tacit knowledge created in our organization to be captured, recorded and used effectively?

Why measuring the value and impact of HCM is important



- Human capital constitutes a **key element of the market worth** of a company. A research study conducted in 2003 (CFO Research Studies) estimated that the value of human capital represented over 36 per cent of total revenue in a typical organization.
- People in organizations add value and there is a case for assessing this value **to provide a basis for HR planning and for monitoring the effectiveness and impact of HR policies and practices.**
- The process of identifying measures and collecting and analysing information relating to them will focus the attention of the organization on **what needs to be done to find, keep, develop and make the best use of its human capital.**
- Measurements can be used **to monitor progress in achieving strategic HR goals and generally to evaluate the effectiveness of HR practices.**
- **You cannot manage unless you measure.**

Main HCM data used for measurement



- **Basic workforce data** – demographic data (numbers by job category, sex, race, age, disability, working arrangements, absence and sickness, turnover and pay).
- **People development and performance data** – learning and development programmes, performance management/potential assessments, skills and qualifications.
- **Perceptual data** – attitude/opinion surveys, focus groups, exit interviews.
- **Performance data** – financial, operational and customer.

Approaches to measurement



- The Human Capital index
- The organizational performance model
- The Human Capital monitor

Human Capital Index



- Watson Wyatt (2002) identified four major categories of HR practice that could be linked to increases in shareholder value creation:
 - total rewards and accountability 16.5 %
 - collegial, flexible workforce 9.0 %
 - recruiting and retention excellence 7.9 %
 - communication integrity 7.1 %

The human capital summary enables us to.....



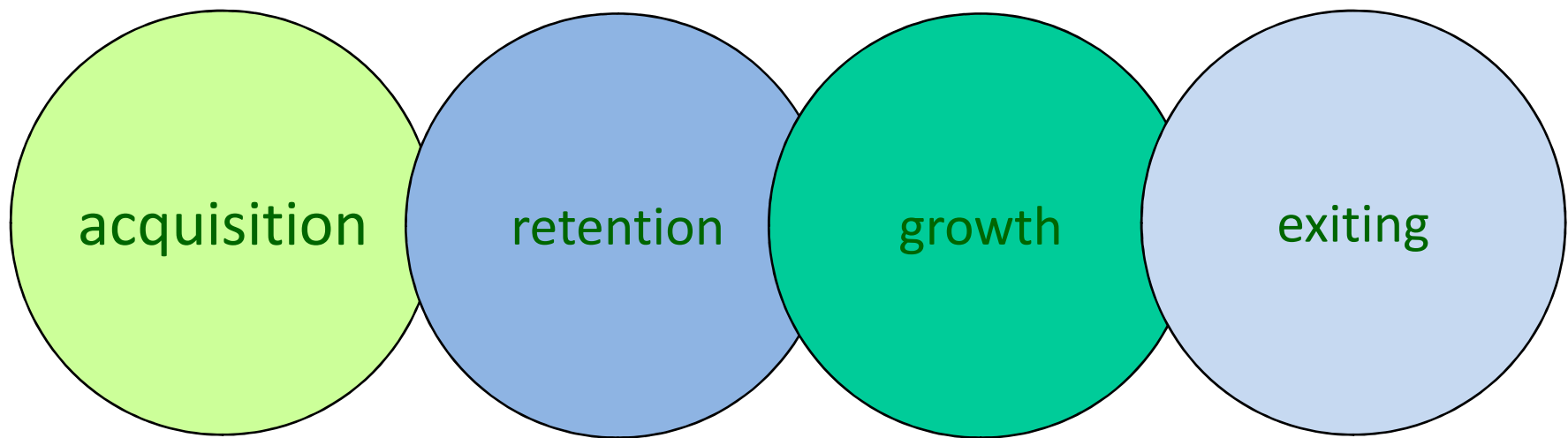
- Track the increase or decrease of our “human capital”
- Understand the value that is associated with an employee cost (within a group)
- Understand the relative value of individuals and teams
- Helps focus action towards increasing our human asset value
- Analyse the distribution of the factors that make people valuable to us

TRULY STRATEGIC!!

Maximizing Human Capital Value (= talent management)



For the four key processes of:



- What are the indicators of being successful? (“outputs”)
- What are the “drivers” of being successful? (“inputs”)

What is employee engagement?



An engaged employee:

- Is 100% committed to the achievement of “our” departments’ results
- Cares enough give “discretionary effort” (beyond the call of their contract) to the organisation
- Is unlikely to leave the organisation

The Towers Perrin model of engagement



Emotional Engagement

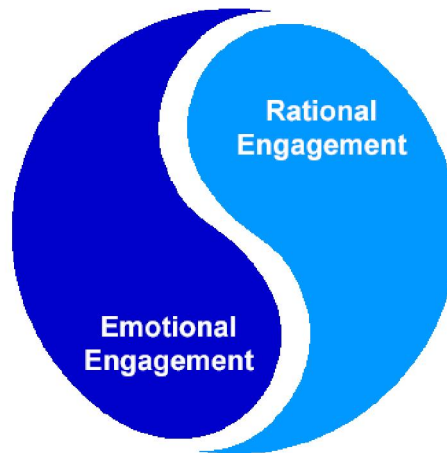
I would recommend my company to a friend as a good place to work

My company inspires me to do my best work

I am proud to tell others I work for my company

My job provides me with a sense of personal accomplishment

I really care about the future of my company



Rational Engagement

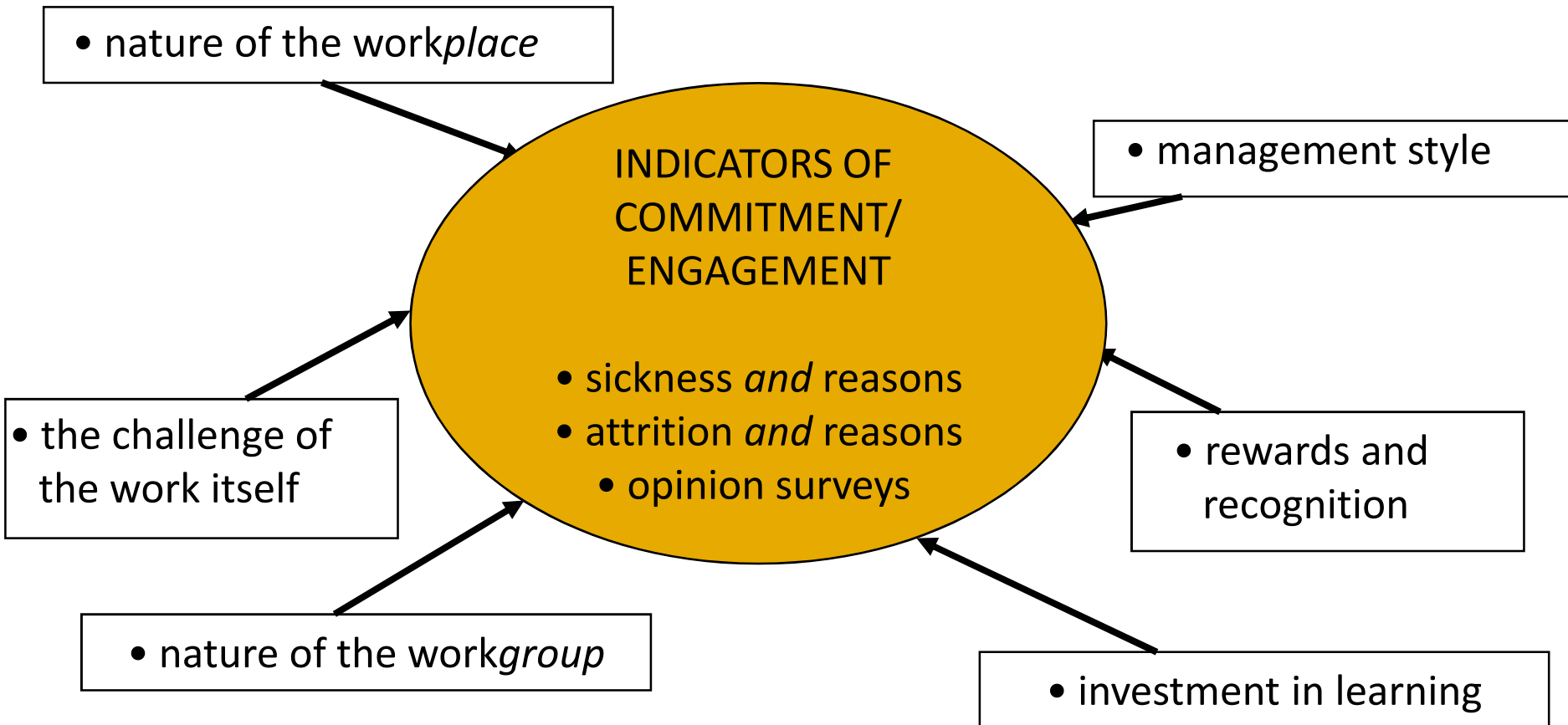
I understand how my unit contributes to the success of my company

I understand how my role is related to my company's overall goals, objectives, and direction

I am willing to put in a great deal of effort beyond what is normally expected to help my company succeed

I am personally motivated to help my company be successful

An environment which maximizes engagement – output and input indicators



12 questions needing a positive answer...



1. Do I know what is expected of me at work?
2. Do I have the materials and equipment I need to do my work right?
3. At work, do I have the opportunity to do what I do best every day?
4. In the last seven days have I received recognition or praise for good work?
5. Does my supervisor, or someone at work, seem to care about me as a person?
6. Is there someone at work who encourages my development?
7. At work, do my opinions count?
8. Does the mission/purpose of my company make me feel like my work is important?
9. Are my co-workers committed to doing quality work?
10. Do I have a best friend at work?
11. In the last six months have I talked to someone about my progress?
12. At work, have I had opportunities to learn and grow?

Having decided on our measures
we now need to integrate them,
correlate them, and understand
cause and effect

The organizational performance model



- People, work processes, management structure, information and knowledge, decision making and rewards plays out differently **within the context of the organization**, creating a unique DNA.
- If these elements have been developed piecemeal, as often happens, **the potential for misalignment is strong** and it is likely that human capital is not being optimized.
- ‘Internal Labour Market Analysis’: draws on the running record of employee and labour market data to analyse the actual experience of employees. Thus **gaps can be identified between what is required in the workforce to support business goals and what is actually being delivered.**

The human capital monitor



- Is to identify the human value of the enterprise or 'human asset worth': *employment cost × individual asset multiplier*.
- *Individual asset multiplier*: a weighted average assessment of capability, potential to grow, personal performance (contribution) and alignment to the organization's values set in the context of the workforce environment.
- Absolute figure isn't important: what does matter is to consider **whether human capital is sufficient, increasing, or decreasing, and highlights issues** to address.
- The most critical indicator for the value of human capital is the level of **expertise possessed** under the headings of identified organizational core competencies.

The People Monitor – Group XX



People as Assets

"GREAT PEOPLE"

The value of the people we have, using our chosen index

Maximising the value

Measures of human capital management processes – both inputs and success indicators

x

Commitment and engagement

IN A "GREAT PLACETO WORK"

Input measures

The factors that lead to engagement of this group

Success indicators

The measures of commitment and engagement

=

Contribution to added value

GREAT RESULTS

The measures of value for stakeholders or of productivity

In each of these focus on what is important, the "80%", that makes the most

The monitor is like a “human operating statement”



THE HUMAN CAPITAL BALANCE SHEET

ASSETS	LIABILITIES
<i>Factors on the Operating Statement that are at or ABOVE target</i>	<i>Factors on the Operating Statement that are BELOW target</i>
OUR PEOPLE	OUR PEOPLE
•	•
•	•
MOTIVATION/ENVIRONMENT	MOTIVATION/ENVIRONMENT
•	•
•	•
VALUE ADDED	VALUE ADDED
•	•
•	•

E.g., Assessing the value of customer service officers..



CSOs as Assets

- Business capabilities
- Competencies and behaviours
- Performance

MEASURES

- Set benchmarks
- Quarterly PM assessments
- Specific HR data
- Review
- Use interventions

CSO Motivation Drivers

- Task achievement
- Team/workgroup
- Customer service
- Recognition

MEASURES

- Set benchmarks
- Quarterly CSO surveys
- Specific HR data
- Review
- Use interventions

CSO Contributions to Added Value

- Change in CSO performance leading to....
- Improved service delivery on scorecard

MEASURES

- CARE surveys/complaints
- Observations of CSOs
- Mystery shoppers
- Review

HR Team-Manager Interventions

- Work on perception versus reality of good service
- Improve People Development focus of scorecard
- Improve management capability through coaching

Improves CSO Performance

Higher Employee Engagement Results in Less Shrinkage – Higher Profit



Credibility

Professionalism

Accountability