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5

Top
Priorities
For HRM

In The
Next

5

Years

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May 2007

The common denominator of all five HRM priorities outlined in this paper is *strategy*. HRM has already broadened its horizons far beyond the purely administrative functions it started out with. Now it is time for it to evolve further to play a more strategic role within the company it serves.

The first priority will thus be to make HRM more strategic. HRM cannot eternally rely on layoffs and other cost-cutting measures as its sole contribution to attaining corporate objectives. Raising top-line growth is always a more long-term approach, and this is where HRM should become increasingly active.

One means by which HRM can create competitive advantage is by hiring the right people for the job in question. As explained below, this does not always mean recruiting a star player from another company; sometimes it makes more sense to look out for potential talent that can be developed and nurtured to suit the company's specific environment and culture.

In its endeavours to hire the best people, HRM can no longer rely on superior monetary remuneration as a sure-fire signing incentive. Employees now increasingly expect a certain degree of work-life balance. In Europe, this tends to be regulated as a form of social responsibility; in the US, it still holds sway as a valid source of competitive advantage.

Another people-related issue of strategic significance is the increasing use of agency temps as opposed to hiring traditional employees. Although these are mostly used in functional positions, leaving the core workforce to concentrate on more strategic matters, the trend raises a number of important questions concerning the extent of HRM's influence over such "non-employees".

And finally, attracting and hiring the right people is all very well, but how can the HR department translate its contribution into hard-and-fast figures? The input that strategic HRM makes to business success can only be managed to the extent that it can be measured. There is therefore a need to quantify the importance of human capital in business performance.

1

Making HRM More Strategic

The traditional role of HRM is primarily an administrative one: managing employee data, salaries, grievance handling and recruitment. As such, personnel management within a company is a cost centre, designed to manage and control a company's major cost factor – its people. The concept of strategic HRM regards a company's workforce as assets, to be carefully deployed in pursuing the company's ultimate goal of achieving competitive advantage and thereby ensuring sustained growth.

Various models exist to describe the different functions of HRM. Dr John Sullivan, Head of the Human Resource Program at San Francisco State University, classifies HR's contribution to a company into five distinct levels, from the most basic to the most strategic¹. These levels are:

1. Managing information and basic transactions

This entails providing the most elementary of personnel-related services. All HR departments are responsible for providing general information on personnel-related matters, answering employees' and managers' questions and performing transactions at an operational level. They process the information on new recruits, payroll data, separations and benefits. They also provide answers to questions concerning policy, benefits and employment law.

2. Providing functional services

Most HR departments also perform many of the activities making up the standard functional areas in HR, such as staffing, compensation and benefits, employee relations and training. For example, they formulate processes and policies for hiring and firing, personal development and performance management.

3. Coordinating efforts to improve productivity

HR departments operating at this level take on a more tactical approach. Here, a coordinated effort is made to increase productivity, primarily by increasing the workforce or employee pro-

ductivity. This entails specific resources dedicated to improving productivity and the metrics for assessing productivity. It also means introducing initiatives to increase the value of employee output while lowering the average labour cost per unit. It may include developing strategies to retain key employees, introducing non-monetary incentive schemes and coordinated efforts in knowledge management. At this level, however, the functional role of HRM cannot claim to have much impact on overall productivity, with few of the functional units in HR even taking workforce productivity as a direct goal.

4. Using talent to create competitive advantage

This level represents a transition point towards strategic HRM. At this level, HR efforts look beyond the internal circumstances to also include the external environment. The goal here is to ensure that all key HR programmes and services compare favourably with those of the competition, the idea being to play on one's own strengths and exploit competitors' weaknesses, always within the context of the opportunities and threats prevailing in the external environment. At this level, HRM entails gathering competitive intelligence, making a competitive analysis of the competitors' employee programmes, as well as workforce planning and productivity forecasting.

5. Developing solutions to strategic business issues

This is the level at which HRM provides maximum strategic input. The issues here are far beyond increasing employee productivity and more about dealing with strategic business problems. This level will also have HR providing input in product design and development efforts, analysing the impact of personnel management on time-to-market and innovation, and getting involved in M&A planning at an early stage.

Giving HRM a strategic role means having to redefine who its customers are. The moment any function becomes strategic, there is no question that its customers are the company's end-customers: its purpose is to add value to the product or service ultimately supplied. Within the company itself, traditional HRM is more likely to regard the workforce it serves as its internal customers. However, a strategic HR department's internal customers must be the

¹ www.drjohnsullivan.com

other senior managers. This is because these are the ones who control resources and business divisions, and any strategic efforts will require their support. Managers at any other level have little, if any, strategic clout and are thus not capable of producing strategic results. It is for this reason that HR leaders aiming to take a strategic approach must seek to obtain a seat on the executive board. They need to identify management's business HR objectives and expectations and devise services and performance metrics that address these specific strategic goals.

When HRM becomes strategic, its goal is to produce results that impact business objectives. The strategic area in which HRM operates and in which it can thus make an impact is employee productivity. However, in order to be able to take the credit for its contribution to meeting the strategic business objectives, HR has to also take responsibility and ownership for people management.

In this respect, "people management" will not only be on a top-down basis: strategic HRM should also have a "managing-up" role in advising the CEO on people management issues with respect to the executive team.

Strategic HRM moves away from the traditional focus on cutting costs as a means of achieving bottom-line growth. When results are revised downwards and the outlook is not so rosy, one of the first things many firms do is cut the perks, halt training and start restructuring. This is a short-sighted option, and recent studies suggest that layoffs actually destroy shareholder value.² Other cost-cutting actions that may actually prove detrimental are:

- hiring less skilled people in key positions
- replacing top performers with cheaper, less-productive people
- ignoring market rates and underpaying salaries
- cutting training costs, thereby increasing the possibility of error

In the end, there are only so many options available before no more costs can be cut.

A more strategic approach is to look at ways in which HRM can help to increase reve-

nues and profitability, thereby raising top-line growth, while also keeping a check on labour costs. Short-term cost cutting may well improve short-term profits but, if done carelessly, could also harm a company's competitive advantage and image in the long term.

Finally, if HRM is to become more strategic, how should it manage all the routine chores involving personnel-related paperwork and the rules and regulations? One option for the future is not to do it at all, outsourcing these tasks to one of the many PEOs (professional employee organizations) that have sprung up in recent years. The average PEO has grown more than 20 percent per year for each of the last six years, according to a survey of members of the US National Association of Professional Employer Organizations (NAPEO).³ About 700 PEOs offering a wide array of employment services and benefits are operating today in all 50 US states. In Europe, too, the HR-Business Process Outsourcing market is expected to grow 4.5 percent in 2004 to 25 billion euros and, in the next three years, the growth will be even greater.⁴

Human resource outsourcing (HRO) is thus a trend that will free up in-house HR capacities to concentrate on some of the more strategic issues, such as people relations and developing talent. In this way, employees can be seen once again as assets rather than liabilities.✂

² "How's Your Return on People?", Harvard Business Review, March 2004

³ www.napeo.org

⁴ www.hroeurope.com

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The War for Talent Revisited

Back in 1998 – at the height of dotcom fervour – McKinsey & Co. published its seminal report “The War for Talent”, the results of a year-long study.⁵ The conclusion was that the most important corporate resource in the next 20 years would be talent: smart businessmen and women who are technologically savvy, globally astute and operationally flexible. The report pointed out that the industrialized world’s aging demographics would play a major role in the labour shortage, with 15% fewer Americans in the 35 to 45 age bracket over the next 15 years and the economy expected to grow at a rate of 3-4% p.a.

Six years ago, this certainly seemed to be a plausible scenario for the future. Not only were Internet start-ups skimming the cream of the crop, even some of the more traditional industries, like banking for instance, were offering signing bonuses of up to \$100,000 to recruit people to key sales management jobs. Many management and HR teams thought they could win the war for talent by throwing stock options and perks at their employees. In such an environment, it seemed that the only thing that mattered was talent – even above capital, strategy or R&D.

Now that the bubble that was the “new economy” has well and truly burst, the question is how relevant the war for talent remains today and in the next few years. Unemployment has surged throughout the developed world, peaking in the G7 nations around mid-2003, and many of those lucky enough not to be laid off are more concerned about keeping an existing job than seeking anything better. For three years, workers have put up with increasing workloads and dwindling pay increases, biding their time until the economy turned around... only to find themselves initially facing a so-called jobless recovery. But as the economy continues to pick up, the numbers of jobless are gradually falling. The latest figures from the US Bureau of Labor Statistics (May 2004) indi-

cate that, for the second month in a row, US firms have significantly expanded their payrolls, signalling that the economic recovery is finally reaching the labour market. This two-month gain of 625,000 jobs represents the strongest showing since April 2000. After a year long jobless recovery that followed the 1990-91 recession and gave way to vigorous job growth in 1992, voluntary departures surged. This time around, the war for talent could be even fiercer.⁶

Perhaps, but to some extent it could be said that it never went away. In 2003, Peter Weddle, a recruiter, HR consultant and business CEO turned author and commentator, published his redefinition of the war for talent in the Wall Street Journal⁷. According to Weddle, the labour shortage experienced from 1996 to 2000 should more accurately be called the “War for Any Talent”. While recruiters made every effort during this time to find and hire top candidates, they often found themselves prepared to hire less-than-suitable candidates for the position in question. Then the recession came and many thought that the war for talent was over. But it wasn’t: it had changed into a new conflict that Weddle calls the “War for the Best Talent”. And this is what will be the defining challenge in HRM for the coming decade or more. Now that the economy has cooled down, a company’s performance will depend on its ability to hire and retain people with the critical skills and capabilities. In other words, today’s war for talent is more about quality than quantity.

The type of quality that recruiters will be looking for this time around falls into two groups:

- The top performers: These are the people who make the greatest individual contribution to corporate success, and companies that hire the greatest share of these will have a major competitive advantage.
- Professionals with rare skills: If candidates do not have the particular skill set that employees need, many of the new jobs likely to be created in the coming years will go

⁵ Chambers, Libby et al, “The War for Talent”, The McKinsey Quarterly 1998, No. 3

⁶ “Coming Next: A War for Talent”, BusinessWeek, September 29, 2003

⁷ Weddle, Peter D. “Redefining the War: Revisionist History?” CareerJournal.com. Jan. 6, 2003

unfilled, for instance in nursing, engineering, IT.

McKinsey's second report on this topic, conducted in 2000 and aptly titled "The War for Talent, Part 2", also notes this subtle change in direction from quantity to quality.⁸ It too stresses the importance of having what it calls "A" players. According to the study, senior managers report that the best 20% or so of managers raise operational productivity, profit and sales revenue much more than average performers do. The researchers found that paying an additional 40% to hire an "A" player could yield an overall return of 100% or more in a single year.

In order to have a chance of winning this new war for talent, the second McKinsey report outlines the following seven "talent imperatives".⁹

1. Install a talent mindset at all levels of the organization, beginning with senior management

In essence, this means placing high-calibre people in the most value-creating jobs. However, it also means being able to deal quickly and firmly with the least effective performers.

2. Create an extreme EVP (employee value proposition) that delivers on your people's dreams

A company's EVP should comprise compelling reasons why a talented person would want to work there. The report names the four elements of the EVP as:

- a great company
- great leaders
- a great job
- attractive compensation.

In a similar vein, a recent survey conducted by the UK's Great Place to Work Institute¹⁰ found four broad themes running through the description of what makes for a good place to work:

- respect

- greater work-life balance
- a chance to advance in the job and develop new skills
- pride in the company.

3. Build a high-performance culture that combines a strong performance ethic with an open and trusting environment

The idea here is that a strong performance ethic combined with a more open environment drives satisfaction with culture, and financial performance too.

4. Recruit great talent continuously

The most aggressive companies are always on the lookout for specific talent at all levels of the organization.

5. Develop people to their full potential

Companies need to develop their employees with further training, as well as informal feedback, coaching and mentoring.

6. Make room for talent to grow

Essentially, this means moving the under-performers – either to a new position or out of the company – to allow the top performers to stay and develop.

7. Focus on retaining high performers

Companies must deliver on their EVP promises and let their people know that they are wanted.

It should be noted that the fourth talent imperative above does not necessarily mean recruiting "stars" from other companies. As recent research suggests, there is a strong argument in favour of hiring people with great potential, developing them and retaining them as far as possible, instead of recruiting other companies' star performers, whose lustre very often fades soon after transfer.¹¹

To conclude, the war for talent remains an issue today and in the years to come. Companies will always be in direct competition for hiring the best people they can afford (in terms of both skills and potential). Losing these people, the high achievers, is always costly. Winning the war for talent will call for a change in processes, in strategies and in tactics. Companies that manage to translate the above "talent imperatives" into concrete practices will establish a source of competitive advantage that is not easily shaken. ✨

⁸ "War for talent, part two", The McKinsey Quarterly 2001, No. 2

⁹ "War for Talent II: Seven Ways to Win", Fast Company, Issue 42, January 2001

¹⁰ FT Best Workplaces Supplement, Financial Times, April 28, 2004

¹¹ Groysberg, Boris "The Risky Business of Hiring Stars" Harvard Business Review, May 2004

3 Offering a Work-Life Balance

Work-life balance is more than a fashionable label. As already mentioned with respect to the war for talent, work-life balance is one of the main factors in what makes for a good place to work. It refers to the entire remuneration package of both monetary and non-monetary incentives that HR can offer to attract and retain quality employees. Work-life balance is achieved when the individual's right to a fulfilled life both inside and outside the company is accepted and respected as the norm, to the mutual benefit of the individual and the business.¹²

First of all: what can a company offer its people to help promote work-life balance? In essence, such efforts can be broken down into flexibility with respect to working hours and place of work and additional non-monetary perks.

For example, contractual working hours can be expressed as annualized hours, i.e. the total number of hours worked per year, allowing flexible patterns throughout the year. Such patterns, negotiable between employee and employer, allow employees to meet personal commitments during the working day as well as personal aspirations (e.g. by consolidating working hours into a 4-day week).

Other possibilities for greater flexibility in terms of working hours are career breaks, improved maternity or paternity provisions, part-time working, shift working, unpaid leave, emergency leave, job-sharing, time-in-lieu provisions and term-time contracts (where contractual hours are worked during school terms only). Aside from the annual paid holidays, companies may also offer employees the option of purchasing a limited number of additional days' holiday.

Employees can also be offered greater flexibility with respect to where they perform their work. Teleworking, or telecommuting, is the most obvious option here, allowing employees to work from home while maintaining

contact with their colleagues and central office. The 2003 American Interactive Consumer Survey conducted by the Dieringer Research Group found that the number of employed Americans who work from home during business hours at least one day per month increased by nearly 40% since 2001. The report also found that 42% of the employee teleworkers work from home at least one day a week, and 22% of the employees work at home daily or nearly every day.¹³

Other non-cash bonuses that a company can offer to attract prospective employees include: business and/or life coaching, discounts (e.g. shops, fitness clubs), concierge services, on-site childcare facilities, and private or subsidized healthcare or complementary therapies.

Companies that make such contributions to work-life balance are regularly ranked highly by the Great Place to Work Institute, whose annual lists are published in such notable publications as *Fortune* and *The Financial Times*. However, it is worth noting that work-life balance is the one significant area in which employees at Europe's 100 best workplaces rated their companies lower than the comparable list in the US.¹⁴ This is probably due to the fact that most big US-based companies have been seriously addressing work-life balance issues for more than a decade now, while it is a more recent issue in Europe.

A number of factors exist that tend to influence the introduction of such programmes in certain countries, e.g. changing demographics, rising costs of medical benefits, tax treatment of non-cash benefits, a pro-individual national culture, and a favourable regulatory environment.¹⁵

For example, in the US, it is the individual company that implements work-life balance programmes, with very little government intervention. Such "flex" has been popular in the US since the late 1970s. For American companies, offering work-life balance is seen as a competitive advantage, allowing them to recruit and potentially retain the best candidates. Today, leading-edge US companies are reinventing benefits in keeping with changing business

¹² www.EmployersForWork-lifeBalance.org.uk

¹³ www.telecommute.org

¹⁴ FT Best Workplaces Supplement, *Financial Times*, April 28, 2004

¹⁵ Hewitt Associates www.hewitt.com

strategies and new attitudes to the employment relationship.

In Europe, however, a variety of national and pan-EU regulations are imposed on employers in this respect, thereby reducing their flexibility in terms of holiday time, flexible working hours, telecommuting, etc. Work-life balance programmes therefore tend to be generalized and are regarded more as a social responsibility than in the US. In order for such programmes to create competitive advantage when it comes to recruiting in Europe, HR departments have to offer more progressive conditions than those stipulated by law.¹⁶

So, what does a company have to gain by offering greater work-life balance? As yet, very few hard numbers exist on the success or otherwise of such programmes. Nonetheless, a recent study conducted by Vanderbilt University and Hewitt Associates found that the companies on the official "Best Places to Work" list outperformed similar companies not on the list and also did better than the market, showing "substantial financial performance advantages".¹⁷

As work-life programmes form part of a company's compensation and culture, their benefits are most likely to be seen initially on the HR front, e.g. improved recruitment and retention. With all other factors equal, a prospective employee may well be swayed to join or stay with a company by virtue of the existence of, for example, family-friendly policies.

Also, effective work-life programmes help nurture the employer/employee relationship, leading therefore to mutual benefits. Satisfied employees are better able to meet the demands on their time, resulting in higher productivity, lower turnover rates, lower rates of absenteeism, and a stronger team spirit.

Furthermore, studies have also shown a direct correlation between work-life balance programmes and customer satisfaction ratings, even though much of the existing evidence in this respect is subjective and anecdotal in nature.¹⁸

The number of UK companies with such flex is relatively small but growing, and interest is high. The website of UK-based "employers for work-life balance"¹⁹ outlines a number of case studies to illustrate why and how work-life balance programmes have been introduced at some of the UK's leading employers. These include, for example:

- M&S: a large number of parents on the workforce
- BT: needed to develop a 24/7 culture for customers
- Royal Bank of Scotland: needed to retain business agility in an increasingly competitive market

Finally, demographics in the developed world mean the quest for work-life balance will not go away. According to Jim Bird, founder and CEO of Worklifebalance.com, an international work-life balance training and consulting company, it is the most important workplace issue in the US in the next 30 to 40 years.

At present, most programmes are based on what the employer can do for the employee. In the future, however, more emphasis will have to be placed on employees taking responsibility for adopting certain behaviours underpinning the programme. Also, a balance will have to be found between making this issue both a social responsibility and a competitive advantage. ✂

¹⁶ "Work-Life Balance... A Case of Social Responsibility or Competitive Advantage?" Human Resource Dept., Georgia Institute of Technology

¹⁷ *ibid.*

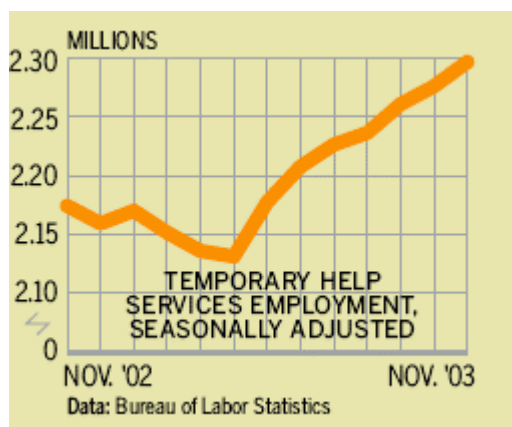
¹⁸ *ibid.*

¹⁹ www.EmployersForWork-lifeBalance.org.uk

4 The Issue of Non-Employees

A staggering number of people who work for organizations are no longer traditional employees of those organizations. In addition to the 8 to 10 million temporary (agency) workers placed worldwide each day, there are also the freelancers and consultants who work long-term within companies. However, these people are not employees, they are not on the official payroll, and they represent a considerable challenge for HRM when it comes to developing talent and raising productivity.²⁰

When the temping industry first started some 50 years ago, it mostly supplied low-level clerical and administrative staff. Nowadays, there are temp suppliers for all kinds of jobs, from entry level all the way up to CEO. The temporary help business is one of the fastest growing industries in the industrialized world. Since September 2003, temp workers increased by 87,000 to 2.4 million workers in the US, despite the fact that outsourcing has also limited the type of temp jobs available. And



things are expected to keep looking up for staffing firms. In the US, the Bureau of Labor Statistics predicts the temp industry will keep growing strong at least until 2006.²¹

In Europe, too, the number of temporary workers is steadily increasing. Already, even with significant restrictions to the temping sector throughout the region, about 1.5% of the EU's working population – a daily average of around 2.2 million workers – is employed through staffing companies, largely on short-term contracts ranging from one day to a year. The markets in both Italy and Spain, for example, have expanded enormously since the lifting of labour laws that restricted the temporary sector, about seven years ago. The Spanish staffing market is now worth over \$1bn. In the last few years, Japan too has slowly introduced temporary working into its industries with a very powerful impact.

There has also been an increase in the level of legislation concerning temporary workers. In Germany, for instance, the Federal Association of Staffing Services Companies (BZA) and the German Federation of Labour Unions (DGB) recently agreed on a blanket wage-rate contract, after five months of negotiations. Meanwhile, the European Parliament has incorporated amendments to the draft EC Agency Directive ("the Directive: Working Conditions for Temporary Workers"), which is currently being reviewed by the European Commission. The Directive will require employers to provide the same terms and conditions for temporary workers as for their permanent workers, subject to an exception for temporary workers who are on fixed-term contracts and are paid between placements. New rights include informing temporary workers about permanent job vacancies and to have access to social facilities and training.²² The two key points of contention are: defining pay for temps equal to permanent workers, and when, after commencing a job, equal pay should start.

One of the main advantages of using temporary workers is the flexibility they offer employers. Another is the simplification of the worker relationship, given the growing burden of rules and regulations for employees. The costs alone of adhering to these rules and regulations threaten to strangle small businesses, and many of these costs can be avoided altogether by retaining temporary workers instead of hiring traditional employees.

Another major reason for the rise of temporary workers is the specialized nature of knowl-

²⁰ Drucker, Peter F. "They're Not Employees, They're People", Harvard Business Review, February 2002

²¹ "How We Work" Special Report on www.msnbc.com

²² www.thehrportal.com (Adecco)

edge work. Some two-fifths of the workforce in industrialized nations are now knowledge workers. Also, using an agency temp allows a company to avoid the potentially risky strategy of working with consultants and contractors, who could possibly take the business away from it.

However, despite the many advantages, the growing use of staffing services presents a number of issues in terms of HRM.

HR policies still assume that most, if not all, of the people who work for a company are employees of that company. This is now increasingly not the case. If the HR department is supposed to take management responsibility for all the people on whose productivity and performance it relies, it will find itself facing a real lack of oversight when it comes to the temporary people. In a knowledge-based organization, it's the individual worker's productivity that makes the entire system successful. Therefore, when a company retains temporary workers in a knowledge-based position, the HR department has to decide to what extent it can or should try to improve their productivity. True, the host company is spared the mechanics of hiring, training and promoting, and even firing if things don't work out, but how can it motivate and incentivize such workers without an official employment relationship? Will temporary workers need in-house training to perform the assigned duties as well as permanent employees do, and will they lack dedication due to the transitory nature of their position?

Another question is how to treat temporary workers. In general, temporary workers should be treated as neither employees nor pariahs, but somewhere in the middle. The danger is the natural inclination to treat temps as employees. Imprimis Group, a placement agency based in Texas, advises companies and their HR departments to refrain from certain practices: don't train, don't negotiate pay rates or paid time off, don't include temps in company-only functions, etc.²³ What they say the host company *should* do is to make introductions, take the temp on a tour of the office, and provide the name of a contact for questions. Then get out of the way and let them do their job.

There is also the issue of deciding which types of work are suitable for such staffing solutions. In general, temporary workers are best suited to functional rather than strategic roles, e.g. discreet, project-oriented work. Temps can also be brought in for cyclical businesses, filling in during periods of peak demand. Almost 40% of all temporary positions are still clerical and office positions. The second largest category, with one-third of all placements, is those involving industrial work, such as shipping/receiving and assembly-line work. A third category, with just over 15% of all placements, consists of knowledge workers such as computer programmers, analysts, or engineers, and professional workers in the accounting, legal, sales and marketing, and management areas. This ranks among the fastest growing categories, with specially trained temps becoming an important resource for many firms.²⁴

Finally, a company retaining temporary workers needs to clarify who is actually the employer for legal purposes, e.g. in the case of employment discrimination. In the US, the agency and the company are very often "joint employers" with "joint liability" in such cases.

In times of a recovering economy, more and more firms turn to temporary staffing solutions as a means of raising productivity with minimum costs. However, this time around, many companies may well keep the same level of temporary people, particularly in functional positions, leaving the company's core employees more time to handle strategic issues. Such a trend raises a number of issues with respect to HR's handling of such non-employees within its walls.✂

²³ Freeman, Valerie "Tapping the Potential of Temporary Workers" BusinessWeek, April 21, 2004

²⁴ BuyerZone.com

5 Linking Human Capital to Business Performance

If, in the war for the best talent, HR departments are on the lookout for top performers, there has to be a reliable way of measuring the costs and effectiveness of human capital. The most cost-effective long-term solution to a talent shortfall lies in helping each person become more productive. The irony is that the only economic component that actually adds value by and in itself is the human component, and this is the one most difficult to evaluate. On the premise that we cannot manage what we cannot measure, the challenge now is to quantify the value added of human capital.

The term “human capital” was coined by Theodore Schulz, an economist interested in the plight of people in underdeveloped countries. In the business world today, human capital is used to refer to a combination of factors, such as:

- the traits a person brings to the job
- a person’s ability to learn
- a person’s motivation to share information and knowledge

Jac Fitz-Enz of the Saratoga Institute, California, see two aspects to human capital: philosophical and economic, with people’s productivity a by-product of how fulfilled they are in their work.²⁵ In the final analysis, an organization that makes work as fulfilling as possible will develop and retain the most productive workers and enjoy the most loyal customers.

When it comes to the metrics used for human capital’s contribution to business goals, Fitz-Enz thus takes two approaches: financial-based and human-based.

The traditional metric of “revenue per employee” is not only simplistic, it is out of date. With so many people now working part-time, the term employee in annual reports is now replaced by full-time equivalents (FTEs). In addition, this method fails to account for “con-

tingent” employees, i.e. the consultants and “rented” employees who are not officially on the payroll. Having redefined the starting point, Fitz-Enz presents several formulas for calculating the human economic value added (HEVA), the human capital cost factor (HCCF), the human capital value added (HCVA), human capital return on investment (HCROI) and human capital market value (HCMV).

These are balanced with a set of human-based metrics, with a view to working out the effectiveness of certain human-financial ratios. These metrics look at, for instance, the workforce demographics and movements, and employee development investment as the flip-side of the cost-management approach. The Human Capital Enterprise Scorecard is another possible approach to viewing a set of financial and human metrics.

Interestingly, this ties in with another recent work on the link between people, strategy and performance. In “The HR Scorecard”,²⁶ the authors build on Kaplan and Norton’s Balanced Scorecard to show how HR’s results can be linked to measures – such as profitability and shareholder value – that line managers and senior executives will understand and respect.

Once the value that people add can be measured in financial terms, a key issue is how to leverage human resources to get a better return on investment on human capital.

Management gurus Hamel and Prahalad claim that there are five fundamental ways of leveraging resources:²⁷

1. Concentrate resources on strategic goals more effectively
2. Accumulate resources more efficiently
3. Complement resources of one type with those of another to create higher-order values
4. Conserve resources wherever possible
5. Rapidly recover resources by minimizing the time between expenditure and payback.

²⁶ Brian E. Becker, Mark A. Huselid and Dave Ulrich “The HR Scorecard” Boston: Harvard Business School Press, 2001

²⁷ Gary Hamel and C. K. Prahalad “Competing for the Future” Boston: Harvard Business School Press, 1994

²⁵ Jack Fitz-Enz “The ROI of Human Capital” New York: Amacom, 2000

In HRM terms, this means focusing people-related policies on corporate goals, being efficient, combining other resources, maintaining and retaining people, and managing people to maximize ROI.

Another interesting approach to measuring the value added by the human factor is put forward by Andrew Mayo of the London Business School.²⁸ Starting on the basic premise of modern management theory that everything can be quantified, this work presents the Human Capital Monitor, which combines the value of people as assets with their motivation and commitment to determine their overall added-value contribution. This model, also based on the Balanced Scorecard, can be used for measuring and tracking three things:

- the intrinsic worth of people as individuals, examining what constitutes their worth and the challenge in defining levels of capability and potential
- their contribution to both financial and non-financial added value
- the environment in which they make that contribution

Measuring the intrinsic worth of a company's people means quantifying a) what they are worth to the company and b) what they are worth to others. This is an interesting concept, as there is evidence to suggest that some employees may be worth much more to the company in which they are currently employed than to another company.²⁹ This is where the environment in which they work becomes a factor in their worth.

The human capital will therefore be based on a combination of:

- social capital: the way people work together in teams
- emotional capital: people's motivation for the company
- relationship capital: the way employees interact with customers and others outside of the company

- knowledge capital: processing and learning from information.

When these individual components are taken together, it can be seen whether people are adding or subtracting stakeholder value, revealing whether the company has an asset or a liability in the area of human capital.

Maximizing human capital is another important aspect in this respect. Individuals come to a company with two types of assets: accumulated capabilities and the potential to improve. Mayo divides accumulated capabilities into six components: (i) personal behaviour, (ii) business and professional know-how, (iii) network of contacts, (iv) qualifications and experience, (v) attitudes, and (vi) values, each of which can again be broken down into sub-components and rated. An employee's potential to improve is something that has to be re-examined regularly, given that people change and develop. And once an employee's ability and potential have been quantified, HRM should work to maximize this human capital.

Finally, it is not only the employees' value to the company that should be measured, but also the value that a company creates for its employees, i.e. how much it nurtures human capital by motivating people and encouraging innovation and learning. One way of assessing motivation is by looking at attrition and absenteeism. Innovation and learning can be measured, for example, by tracking the number of employees that learn new skills and abilities.

Thus, whichever of the various approaches taken, the end result should be a quantified measurement of a company's human capital, expressed in the figures that can be used for benchmarking purposes and for evaluating the contributions of human resources to attaining corporate strategic goals. ✂

²⁸ Andrew Mayo "The Human Value of the Enterprise" London: Nicholas Brealey Publishing, 2001

²⁹ Groysberg, Boris et al. "The Risky Business of Hiring Stars" Harvard Business Review, May 2004

C ONCLUSION

The challenges that HRM faces in the years to come will be many. At a more operational level, some of its priorities will concern issues such as:

- How will IT affect HR operations in the future?
- How will HR deal with the pensions problem?
- What are the issues that HR will have to address as mass migration makes the workforce more diversified?
- How about AIDS among the workforce?
- And smoking in the workplace?
- What are the links between HRM and corporate governance?
- Should offshoring be seen as a problem or an opportunity?

Given the present scenario – a tentatively recovering economy, aging demographics, intense competition – the five HRM issues outlined in this paper will take overriding priority in the coming years. What is interesting is that, just as all business organizations, large and small, need some form of strategy, these strategy-based HRM issues are applicable to not only the largest of corporations but also, to a certain extent, SMEs with only a handful of people to manage.

HRM has come a long way since the days when it was devoted entirely to employment-related paperwork. The challenge for HRM in the years to come will be to continue this evolution: stepping up its input in other parts of the company, and taking a strategic approach to raising the value of its people, in turn driving sustainable increases in productivity, customer loyalty, growth and profitability.