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Strategies for Building Human Resource Capital

Human Resource and training professionals have never had a better opportunity to be positioned at the centre of organisational strategic thinking.

This is evident not only in the rhetoric about 'knowledge economies', 'brain drains' and 'virtual organisations' but also in economic and demographic trends. There is not room here for the proof of that statement but here are some oft-quoted statistics in support:

- Since 1990 service jobs have outnumbered manufacturing/production jobs in western economies. The margin is increasing

- More financial worth is traded each day than real goods are traded in a year

- The market value of US public companies exceeds the book value of assets by 40% and rising.

The premium referred to in the last statistic equates to the extra value represented by intellectual capital. It is real (even if it is not physically visible). In many organisations it is unmanaged. And in many cases it walks out of the door when staff go home or leave the company.

When these intellectual resources are well harnessed, they lead to significant strategic advantage. Where they are not harnessed, the organisation becomes highly vulnerable. David Ulrich, one of the leading HR writers and thinkers captured it well when he said that, in effect, an organisation is equal to:

The sum of the capabilities of people in the organisation
multiplied by
The effectiveness with which these capabilities are managed

Doesn't that express the challenge for strategic-minded Human Resource Development professionals in a nutshell? If something does not contribute either to *building* the capabilities of people or *leveraging its use*, then why do it?

Let us look at each of these areas in turn.

building capability

Here there are three basic tactics: buy, build or borrow.

The first tactic, *buy* relates recruitment. Smart job design, clear people specifications and rigorous, reliable selection procedures can help make sure that the right people are hired. But bear in mind that if you are recruiting merely to replace lost talent, you are not adding to capability. And in a market of scarcity, the cost to attract talent may be high.

Which leads us to the second tactic: *build*. This means identifying people with potential and investing in them. The investment may typically take the form of training, education, mentoring, job rotation, project work or secondment. Again there is a danger: if programmes to meet competency needs for current jobs exhaust the training budget, where is the capacity building? This is why HRD professionals need to be involved in strategic needs analysis and succession planning to ensure that sufficient *build* effort is directed towards the key people and capabilities that are needed for the future. It may

also be where organisations need to be more determined about removing under-performers – or at minimum, not frittering away scarce training resources on them for diminishing returns.

The third tactic is *borrow*. This may include partnering with customers, vendors or suppliers. It may also involve engaging in 'benchmarking ' clubs to learn from other organisations. A benchmark which just tells you how good you are is of limited value; research which tells you how to get better is an essential follow-on step.

Borrow is also where consultants and contractors come in. Consultants are no longer a luxury; they are a necessity to bridge gaps left by outsourcing or moves to focus on core business. They can also bring new ideas and technologies into an organisation to help it overcome problems and capitalise on opportunities.

Unfortunately many organisations use consultants as 'pairs of hands'. The capability comes with the consultant and it leaves with them when they go. Organisations (and HR professionals in particular) need to get smarter at making sure that consultants transfer learning to them – if necessary by paying them to do this as part of the contract.

capturing capabilities

It is not sufficient just to buy, build or borrow skilled people. Consider two more statistics:

- 90% of organisational knowledge is not written down anywhere

- 70% of what you learn you were never taught

The capabilities need to be captured by the organisation. This means that the expertise needs to be transferred from staff to the organisation in some way so that the capability remains even if they depart. Hamel and Pralahad said this in their landmark writing on 'core competencies'. They identified three key criteria for something to qualify as a core competence:

- the competency provides potential access to a variety of markets (ie has multiple applications)

- it makes a significant contribution to customer benefits (ie it is not just something that you are good at)

- it is difficult to imitate

'Difficult to imitate' is a key test. As long as the competency is vested in an individual, the organisation remains vulnerable to a poaching competitor or the proverbial 'falling under a bus' problem. Core competencies arise from the complex interrelationship between the skills sets of people to create novel combinations of ideas, processes, knowledge (etc) which do not depend on any one individual.

So, the HR challenges here include:

- Creating the culture and the packages of benefits which bind skilled people to the organisation, encouraging them to both stay and to perform. Increasingly, knowledge workers are not concerned purely with maximising the value of today's remuneration package, they are also looking to see how much their work is adding to their future employability. Thus learning, opportunity and experience are effectively also 'remuneration' issues now.

- Creating the organisational structures which maximise the interaction between skilled people. To an extent this means overcoming a natural resistance, both from experts and their managers. There is a natural tendency for experts to retreat into their areas of expertise and avoid 'wasting time' in other areas. HR people need to take the big

view and recognise that expertise belongs to the organisation and not to a particular job or function.

- Knowledge management. This means a lot more than the traditional *documentation and storage* of data and its manipulation into useful information. It means creating *knowledge networks* (eg knowledge sharing events, case write-ups, action learning sets). It also means creating *knowledge development* strategies to synthesise data/information into new combinations and to stimulate research. Finally it means *knowledge productivity* – providing the computing, Internet and other tools to allow people to access, use, edit, protect, update and manipulate data to maximise its value.

Interestingly, the American Society for Training and Development now recognises 'knowledge management' as one of the four key disciplines in workplace learning and performance (the other three, incidentally, are Training and Development, Career Development and Organisational Development). Don't leave knowledge management to the IT function alone; they are likely to concentrate on the tools and the data and ignore the people and the interaction.

efficient management of capability

Let's look at another of Ulrich's pithy little equations:

$$\text{Human Capital} = \text{employee capability} \times \text{employee commitment}$$

In other words, it is no use having the smartest people in the world if they just sit there! They need to be committed to apply themselves and they need to be aligned to what will be useful to the organisation.

Ways to maximise employee commitment include:

- Attractive work arrangements. This includes working conditions plus things like relieving experts of unnecessary administrative burdens. It may also entail new contractual and locational arrangements (increasingly there is a trend towards a separation of 'work' from 'workplace')

- Managerial efficiency. How skilled are managers at supporting people and at keeping out of their way so that they can perform? Do managers have the leadership skills to channel and inspire and the organisational authority to provide people with the resources and rewards they need? Managerial training and delegated authorities are key here.

- Involvement. At one level this means building a sense of community. At another it means apportioning work into complete packages rather than parts of a process.

- Growth opportunity and rewards. The whole array of HR functions (including remuneration, career development, succession planning, recruitment and training etc) must all be coordinated at a strategic level to bind good people to the organisation. Remember that scarce knowledge workers are highly marketable, so they need to be bound to the organisation. They need to stay because they want to stay, not because the pay is too good to leave.

The conclusions to be drawn from all of the above is that the Human Resource function has a critical and central role to play in the future of organisations: people and knowledge are going to be the only resources that really matter.

But it will not be that all people will matter equally. Increasingly there will be divergent strategies, policies and terms and conditions for different categories of people in the organisation. Part of the challenge will be to identify which groups will justify disproportionate amounts of HR attention and resource. A 'one size fits all' approach will

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leave opportunities for other organisations to poach. A secondary challenge will be how to manage the expectations of 'the rest'; the solid citizens and non-core staff who do a good job but who are not critical to establishing future advantage.

A related conclusion is that Training and Development professionals will need far closer integration with other HR specialisms than has been traditional in the past. They will need strategic skills, needs analysis skills, internal consulting skills, business skills, broad learning/development technologies and full involvement in the design of all human resource programmes and practices.

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