



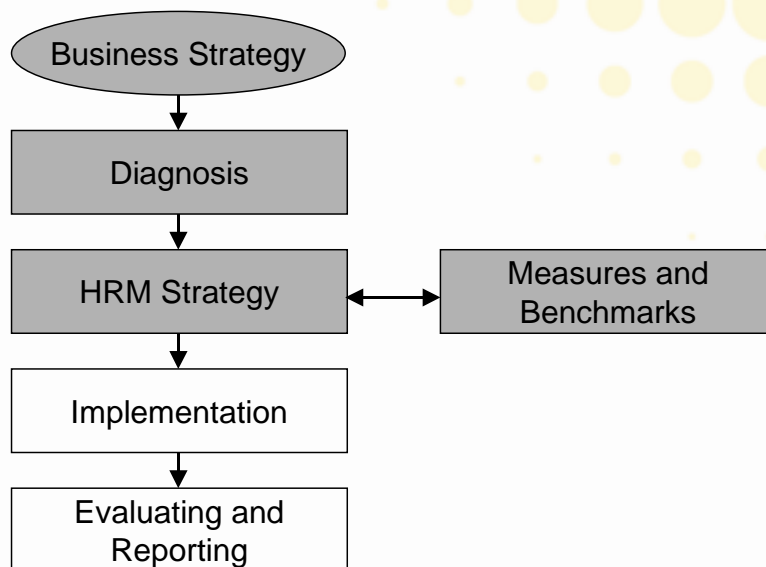
Developing a Human Capital Management Strategy

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1. Developing Human Resource Management Strategy

Human resource management (HRM) has already emerged as a separate discipline to personnel. In personnel management, people management strategy is developed through a process that is separate to the development of the business strategy and in which the primary focus of attention and effort is within the HR function and on the current state. In HRM, people management strategy links to and cascades from the business strategy. It looks forward from the current state, focusing on making incremental changes to the way people are currently managed in order to implement the objectives in the annual business plan.

The shaded areas in the following diagramme illustrate a typical process for developing HRM strategy:



The HRM strategy is developed based upon a diagnosis comparing the way people are currently being managed against the requirements of the new business plan. It deals with key issues about people management, such as whether the organisation should buy in or build its own talent. Once the strategy has been developed, these activities then need to be followed by implementation, and evaluation and reporting.

2. The Need for Human Capital Management

Moving up from personnel management to HRM strategy has served many organisations well. However, in today's business environment, organisations need to make transformational rather than incremental improvements in their products, services and the way they operate and manage their businesses. A strategic



approach to human capital management (HCM) responds to this requirement by focusing on people's current and potential skills and abilities as a source of human capital and organisational transformation.

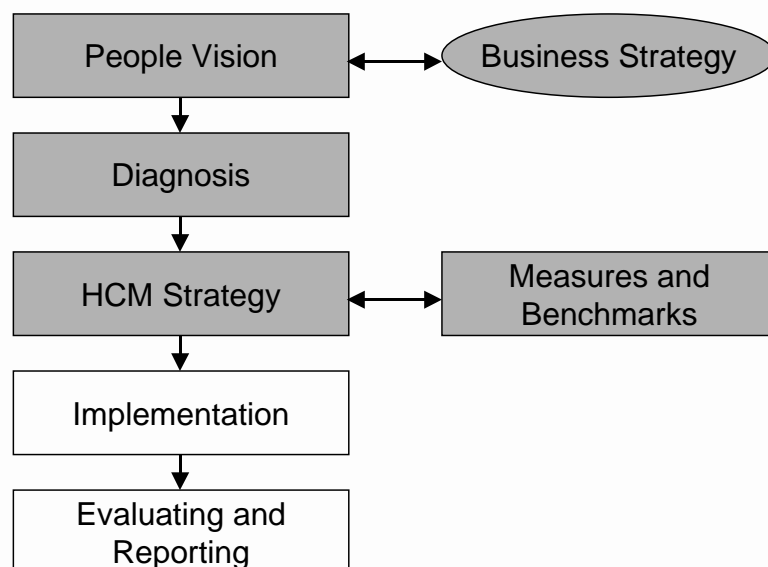
HCM goes beyond just adding value to the business by supporting the delivery of business objectives for today. Instead it is about creating value by developing capability which can sustain and transform an organisation over the longer term. This capability provides the basis for delighting an organisation's stakeholders, such as a company's investors, and which is the reason why a company's market worth can be so much more than just its book value.

The focus here is on the future state, looking at what needs to be different and then working backwards from this future position. This results in more transformational and innovative approaches to people management than HRM's focus on the current state.

So how does the development of HCM strategy differ from the process provided earlier for HRM?

3. A Methodology for Developing HCM Strategy

The following diagramme illustrates the main stages involved in developing an HCM strategy.



The key differences between this approach and the process used for developing HRM strategy are:

3.1 HCM Strategy starts with a People Vision, not just the Business Strategy

The people vision focuses on the future and describes what might be possible based



upon people's capability, or their potential capability.

The inputs into both the business strategy and the people vision include the organisation's mission, vision and values; the requirements of its customers, investors and other stakeholders; and any business trends, challenges and opportunities. Further inputs into the people vision include the current capability of the organisation; the capabilities of the organisation's competitors; workforce changes and opportunities; and line managers' and employees' perspectives about people and people management in the organisation. And as discussed in the following point, the business strategy and people vision are also informed by each other.

3.2 The Business Strategy and People Vision are tightly integrated with each other

HCM strategy development is tightly integrated with development of the business strategy. This ensures that the capability the organisation is developing is aligned with an organisation's needs: its vision, mission, values and strategy. But this requirement for integration does not just mean that the people management strategy should simply support and align with the business strategy. It also means that at least on some occasions and for at least some of the time, the business strategy should be informed by the people management strategy rather than solely the other way around.

3.3 Diagnosis is against the future state People Vision

In HRM, diagnosis compares current people management activities to what may be required to implement the business strategy. It is grounded in the current state. In HCM, diagnosis focuses on the potential capability of the people working in the organisation and the gap between this and their current capability. It is therefore focused on output rather than activity, and on the future, rather than the current state.

3.4 Innovative Strategy Development

HCM strategy deals with bigger and more strategic questions than within HRM. HCM requires innovative, unique, best fit approaches that go beyond current best practices to ensure human capital is developed in a way that is right for a particular organisation at a particular point in time. After all, investors are not going to pay for human capital that is the same as every other organisation's. They want to see capability linked to an organisation's particular strategy, its differentiation and its competitive advantage.

London Business School professor, Lynda Gratton, calls these innovative, best fit approaches, signature processes, or more appropriately, signature experiences (2007), and emphasises the additional benefits they have in helping people figure out what the organisation is about, and providing them with meaning in their work. One of her examples is BP's peer challenge / peer assist process which has helped bring five previously independent oil companies together. In this process, business unit



heads are required to exchange ideas and information with other heads within a peer group. To encourage this to happen, these managers' bonuses are paid depending upon the performance of the whole group.

It is important to note that another related change between the development of HRM and HCM strategy is that whilst HRM typically involves a very analytical, left brained approach, HCM strategy development requires the use of much more creative thinking. This can supply ideas and insights that linear, logical thinking cannot provide and it opens up new opportunities that lie outside existing mindsets. After all, when people think like they have always thought, they tend to get what they have always got.

4. Measurement in HCM Strategy Development

4.1 Setting Strategic Measures

Once an HCM strategy has been developed, measures can be selected to support the management of this strategy. These measures should refer to the nature and level of human capital within the organisation, but also to the other elements of the HCM value chain: the initial inputs and investments the organisation is making in HCM; the processes or activities which the organisation is implementing to develop its human capital; and the impacts of this development on an organisation's business processes, its customers and financial results.

A relevant example that is included in my book (Ingham, 2006) is the BBC's evaluation of its five year, £5,000 per head leadership development programme which is a compulsory requirement for the BBC's 7000 managers. The programme aims to develop an intangible capability: creative leadership, which will support the BBC's ongoing effectiveness during a period of dramatic change.

The programme blends a rich mix of development activities including 360 degree feedback, group sessions, real-life assignments, coaching, action learning and e-learning, including an online leadership wiki.

The BBC evaluates the programme at each level in the HCM value chain:

- Input: What is the programme delivering, when is being delivered, who is it being delivered to, how much is it costing?
- Activity: What is the reaction to the programme? Is it relevant to people's roles? Can people use it in their jobs?
- Output (human capital): Have skills and knowledge improved? Has there been observable behaviour change / performance improvement? What is the business climate for supporting transfer?
- Business impact: What is the change to business performance? What is the change to organisation culture?

4.2 Benchmarking

Benchmarking helps ensure that measures have been set to be appropriately



stretching, and can also generate new ideas and innovations. One type of benchmarking focuses on metrics measuring the effectiveness and efficiency of people management processes, and the other type focuses on the processes themselves.

Metrics based benchmarking focuses on 'what' other companies have achieved. Knowing this can help raise aspirations about what might be possible and it provides objective data that can be useful in convincing sceptics of the need to change.

However, potentially more value can be obtained by focusing on 'how' other organisations have achieved their results. In this process-based approach, organisations can benchmark their own approach to HCM with that of another organisation. Most often, this involves benchmarking a particular process with the same process in one or more benchmark organisations within the same sector. More risk but potentially greater benefits are involved in benchmarking against the same process in a different sector, or against a different process.

Process benchmarking is often done on a reciprocal basis but it can be done covertly too. At one client I was involved with, the client wanted to study the recruitment processes of five other leading companies it had already identified. We identified people we knew who had previously worked in one of these organisations or had otherwise been touched by their recruitment processes, for example having unsuccessfully applied to join. We were able to uncover a lot of information about the five companies' processes.

5. The Methodology in Practice

To be effective, HCM strategy development needs to involve a broad spectrum of business leaders. One useful approach for doing this is a three-day, large-scale, facilitated event in which highly energised collaboration can take place.

The event consists of a large group planning meeting that brings together a diverse group of stakeholders who are concerned with the way people provide value to an organisation. Participants could include the CEO; other Board members; the leadership team; HR, Finance, IT and other functions; line managers; core talent representatives; other talent pools especially young people to balance what is likely to be a fairly senior group; customers and key shareholders; preferred suppliers of people management services, outsourcing partners and thought leaders connected with the organisation.

HR professionals are facilitators of the process, not owners of all of the results.

5.1 First day: Understanding

The objective on the first day is to build a common database where everyone has had the same sort of information and has had the chance to discuss and question this information with people from other stakeholder groups. As much as possible, data should focus on the future. Anticipated customer and labour market trends are



likely to be more useful than analysis of historic trends within the organisation. Information should also balance metrics and benchmarks with anecdotes and stories. These can be gathered from across the organisation before the event, and may be presented as video diaries and in other emotionally rich forms. External speakers may also be used. Information should include the business' and its competitors' strategies; existing people and organisational capability; the external customer, investor and talent marketplaces; and broader people issues including demographic trends and cultural changes.

5.2 Second day: Creating a People Vision

The objective of the second day is to think creatively about future possibilities. It is useful to start with some creative thinking exercises. The main part of the day can consist of an open-space forum in which people are able to suggest the areas they want to work on to meet the challenges discussed on the first day. The only constraint on these groups is that they have to help in imagining the capabilities the organisation will need about five to ten years into the future. Groups can generate ideas and examples about their chosen future; and the barriers and enablers that may be encountered in the journey of getting there.

At the end of the day, people come back together to share the ideas that have been generated. After small group discussions, people prioritise the ideas, using post-its to note down what they agree and disagree with, and what questions they still have. Senior managers take these notes away for some evening work and come back the next day ready to present their conclusions about the final people vision they have agreed to.

5.3 Third day: Strategy Development

At the start of the third day, managers present their conclusions, answer questions and respond to areas of disagreement. Measures are identified for the human capital and other outputs making up the people vision, and for the potential business impacts of these outputs.

People then get into groups to work on the areas they are most interested in. Each group is tasked with creating a multi-mind mind map in which the central theme focuses on an aspect of the people vision. Some of the branches will relate to the impacts of these outputs, that is what the organisation will be able to do differently as a result of these capabilities, and other branches will relate to the actions that the organisation needs to execute to develop these capabilities. Measures for activities and inputs also need to be identified.

The final stage in the process is preparing each of the programs for communication. Each mind map needs to be unpacked into an HCM value matrix (Ingham, 2006) and visual and compelling communications prepared to cascade the strategy to the rest of the organisation.



6. Conclusion

HCM strategy is best developed through a facilitated and creative process which starts with the development of a people vision and leads on, through diagnosis, to the development of the strategy and associated measures and benchmarks. This HCM strategy extends well beyond HR's current agenda and provides a basis for creating value through people and providing ongoing competitive advantage.

References

Ingham, J. (2006). *Strategic Human Capital Management: Creating Value through People*. Butterworth Heinemann.

About the Author

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