Tactical Human Resources Evolves into Strategic Human Capital Management
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Given the examples of the changes in *human resource* (HR) management discussed in Thou Shalt Manage Human Capital Better, and the mushrooming number of point solution providers, many enterprises have realized the significant shortcomings of traditional HR (in terms of technology, beliefs, processes, and practices) that require a strategic-level mind-set change. This is particularly relevant during times of economic sluggishness and low investment capacity (which typically translates into layoffs or hire freezes, cost containment, and stalled innovation), when most enterprises and their employees are left wondering if they can (or should) rely on each other for their future.

Part two of the series *Thou Shalt Manage Human Capital Better*.

In the early 2000s, with the economy in a downturn, HR administration delivered some organizational value by outsourcing an increasing number of HR business processes, either wholly or in part. In many cases, outsourcing to some trusted technology vendors that have already demonstrated their HR domain expertise may help companies achieve additional efficiencies and functionality, reduce head count, and cut costs.

Of the many solutions in the HR realm, the most predominantly outsourced have been payroll processing, employee assistance programs, payroll tax filing, and background screening. The most appealing and achievable benefits of outsourcing are streamlined operations, access to better HR capabilities and industry expertise (when it is not a core competency of the user enterprise), freeing up of internal staff, reduced labor costs, and accurate and predictable monthly costs.

However, the returns from layoffs (often undertaken without much thought to who should really go, potentially resulting in the hasty release of the lynchpins of the enterprise's ongoing performance) and relentless cost-cutting have proved to have only a limited (if not negative) effect. While some organizations have tried to cut labor costs to be competitive in their markets, the most progressive companies have embraced their labor forces and used them as a strategic differentiator.

As products and technologies become commoditized in this information-based economy, companies are beginning to realize that the best way to differentiate themselves and create long-term strategic advantages over their competitors might be through their people. It is no longer what one owns that counts, but rather what one knows, which is particularly critical in *information technology* (IT) and similar *professional services organizations*(PSOs), because it is the technical expertise and experience of knowledgeable staff that means the difference between success and failure.

In fact, according to **Forrester Research**, more than 85 percent of the market value of a typical **Standard & Poor's** (S&P) 500 company today is the result of intangible assets. For many companies, the bulk of these intangible assets is their people (or human capital), and such companies spend as much as two-thirds of their overall costs on labor. Thus, they should focus on business processes, using technology to more effectively manage employees and improve their productivity. Combining training, incentive management, and compensation management tools delivered through a role-based dashboard, emerging people-centric software category aims to transform each individual in the workforce into an enterprise asset.

Best-of-breed HR Technologies

The most progressive of companies have been using best-of-breed HR technologies for attracting, hiring, training, motivating, and managing their people. Software applications are becoming more and more sophisticated to help companies with these tasks, and as these solutions continue to evolve and communicate with one another, user companies will have a more seamless access to methods and data for managing their employees throughout the employee life cycle.

On the other hand, the laggard companies that do not embrace these technologies will likely fall behind in their quest for market dominance. For instance, by implementing a holistic employee performance management process across the enterprise, corporate strategy can be aligned (and properly communicated) with individual goals and objectives, whereby actual performance against those goals can have ramifications for individual compensation and rewards. This should drive behavior and attitude toward executing on the corporate strategy, with improved employee satisfaction and loyalty as a result.

This certainly comes in handy when the economic downturn ends, when employees begin to feel that they have more employment choices. Enterprises will again need clear, credible, and reliable strategic sourcing strategies and management in order to plan for and engage the competencies (people and companies) needed to accomplish their business strategy (by building the required effectiveness and increasing efficiency). For instance, with the economy improving and IT budgets rising, competition for IT talent—especially in key skill areas—is bound to intensify. At the same time, an improved hiring picture in IT will most likely mean higher turnover, as many unhappy IT staffers who saw workloads increase while compensation and benefits stagnated (during the economic downturn of the early 2000s) will put even more pressure on IT management.

Hence, there is a true need for much tighter integration between performance management and compensation (regardless of the economic milieu), so that exemplary employees can be rewarded more often (and feel truly special to the enterprise), as opposed to the outmoded, blanket-regulated, across-the-board annual basis (which typically produces mediocrity).

Analyzing the workforce and strategically managing the company's human capital has become the focus of *human resource management systems* (HRMS), as a way to transform these from dull functions to those that greatly affect corporate performance. Integrated business information warehouses, to that end, enable multidimensional analysis on information aggregated from internal and external resources (salary survey, for example), performance indicators (as in turnover), and views on strategic HR information with powerful drill-down features. Some surveys indicate that almost a third of businesses are already using data warehouses, a quarter of them are using workforce performance management or analytics, and one-eighth of them are using workforce planning.

Workforce analytics have become a core of talent management systems. This is because they focus not just on "time" (or who has clocked in and who has not), but also on such strategic business issues as overtime and turnover trends that impact a business's bottom line profit, *equal employment opportunity* (EEO) or ethnicity-based hiring trends, compensation patterns, relative recruitment effectiveness and sourcing costs, cost per hire, etc..

Human Capital Management

This brings us to the notion of *human capital management* (HCM), or talent management, which **Gartner** defines as a set of HR practices that focus on acquisition, management, and optimization of the enterprise workforce. These practices include such processes as competency and skills management, succession planning, and team management. The key tenet of HCM is that companies must change the mind-set of viewing employees as an administrative cost, and instead see them as a strategic investment and a key enterprise asset, with a resulting focus on aligning workforce capabilities with business strategy. This more strategic view of the workforce will gradually become less an HR function and more a management discipline.

HCM should be about value and not cost, since people should be regarded as value-adders, and not overheads and liability. It should measure organizational outputs (such as profit, revenue, and service levels) related to better management of people rather than focusing on input measures (such as recruitment costs) and the HR "best practices" of earlier days.

According to studies by the **Brookings Institute**, in the early 1980s, tangible assets amounted to over 60 percent of firms' total assets. This ratio has now been reversed, with over 80 percent of assets being intangible, most of which is represented by human capital. Yet, while decades have been spent investing in automation technologies for better use of tangible assets, only recently have enterprises begun to invest in optimizing human capital.

Moreover, many non-HR business processes can benefit from leveraging HCM strategies, such as project portfolio management (PPM) processes (see Project Portfolio Management for Service Organizations: Bridging the Gap between Project Management and Operations), which can be improved via incorporating competency and skills data and by leveraging the team management capabilities of HCM applications. Similar examples of business processes that should benefit from "picking the HCM brains" include production planning, job costing, scheduling, training, compliance, budgeting, and field service. In fact, any people-centric business process should benefit from integration to HCM, whereas traditional administrative HR applications and processes will hardly support this integration at all.

This leads us to a broader notion of *employee relationship management* (ERM), *business-to-employee* (B2E) management, or whatever the *three-letter acronym* (TLA) *du jour* might be (see BLM—Buzzword Lifecycle Management). In any case, these acronyms try to depict a business discipline that focuses on optimizing the employee's total employment experience—including both the human and technology aspects of that experience.

ERM espouses a comprehensive and unified view of the processes and technologies that support the workforce and their workplace, including manager-employee interactions, the formal business tasks required to manage employee relationships, and the technology used to manage the employee experience. To that end, ERM encompasses the full suite of B2E services needed by employees, managers, and others, including knowledge management, e-learning, self-services, community and collaboration support, *travel and expense* (T&E) management, indirect procurement, and so on. Thus, ERM is most closely aligned with the HCM focus area of workforce management.

While traditional HR and payroll management may not seem to provide a significant competitive advantage in the same respect that the aforementioned emerging technologies do, some ERM systems, like Extensity or Apptricity, help reduce cost, simplify administration, and promote a more connected company-employee relationship. What *customer relationship management* (CRM) solutions do for customer intimacy, today's ERM packages (replete with employee self-service and manager self-service functions) do for employee intimacy—provide all concerned parties (executives, managers, employees, government, and so forth) with immediate access to a wide array of vital information.