



Human Capital Strategy – a New Angle on HR

By Galit Caspi and Tal Toibin

Increasing the value of your organization by developing human resources

In recent years, increasing numbers of CEOs have been quoted as highlighting “the importance of human capital in the organization”, expressing a desire to “develop and retain human capital” or “the need for management of talent” at their company.

The common factor behind these statements is a general demand for top-notch employees and outstanding managers to meet the corporation’s objectives and enhance its business performance.

While many organizations focus on business strategy and means to achieve growth, few think about the characteristics of the human capital

required to realize their strategy and growth objectives.

We asked a diverse range of senior managers in the market about the „human resources strategy“ in their organizations. It seems that most organizations tend to concentrate on current management of employees and administrative support activities. The managers surveyed referred to the operational concept of the human resources outfit, to the organizational structure and to the HR management processes that support the business strategy. In this article we aim to expand how HR is perceived and to highlight its importance as a strategic value-generating position through the application of a Human Capital Strategy.

So what exactly is a human capital strategy?

A human capital strategy is the definition of the corporation's modus operandi in relation to the human resources in its ranks, aligned to fit in with the vision, strategy and objectives of the company.

The aim of the human capital strategy is to transform human resources into a more tangible asset, and to plan and to match up the personnel in the organization to the firm's strategic needs. The process aims to answer the question of how to prioritize investment in human resources and to build a differential strategy based on the various employee groups found in the company.

Who and what is affected by the human capital strategy?

The process impacts on all employees and managers in the organization, from the definition of roles, to the corporate culture and employee management processes:

The human capital strategy defines not only the role and profile of the managers themselves but also dictates how managers should handle employee development and prepare staff for their duties. Indeed, it governs human resources management over the entire employee life cycle – from specifying which employees need to be recruited, to subsequent training, career path management in the organization and, ultimately, retirement. This strategy can significantly affect the organization's image as an employer, to existing staff but also to other interested parties, such as prospective candidates, competitors, customers etc.

Where do we start?

Before leaping into the definition of a human capital strategy, it is vital to ascertain how committed the management tier is to this move. The following factors are crucial:

- Availability and effort made to examine the issues raised for discussion: top management must set aside time and energy to think about and discuss strategic issues, in order to enable long-range decisions to be planned and taken.
- Providing solutions to „difficult questions“ and reaching a consensus where there are differences of opinion. Management's ability to reach agreement and compromise in complex areas or in areas that have major implications, such as the need to replace employees or managers, is vital. In addition, the readiness of management to look with fortitude at the price that the organization is paying in the present situation, and openness to change, are key prerequisites for kicking off the process.
- Willingness to apply the strategic recommendations until they are fully implemented – rolling out the strategic process sets off ripples in the organization, a mixture of fear of the unknown and keen anticipation of the changes. Regularly communicating the process to both employees and managers, from the diagnostics stage through to the recommendations, with maximum transparency, ensures that objections are brought out in the open, and that internal undercurrents in the organization are addressed and resolved. Management's willingness to implement the strategic recommendations and to deal with the objections and difficulties, even in the face of a heavy financial burden, sends a determined message to employees of a firm belief in the way and the process, of respect for the past and confidence in the future.

How do we do it?

An organization is a complex entity that includes a wide range of office holders, activities and processes.

The first real step in the process is to define who to focus on. Choose the employee groups you want to focus on, and group occupation types that have shared characteristics, in order to comply with the 80/20 principle, namely, to provide a solution for 80 % of the employees in the organization and attend to the 20 % of the employee groups that require in-depth scrutiny.

An employee group can be defined along several axes according to the prevailing characteristics in the organization. Some of which are generic, including occupation, profession, education and experience, and some of which are unique, such as management level, demographic and sector characteristics.

A human capital strategy is initially defined by taking a top-down view of the organization, examining its vision, business strategy, directions for development and growth, as well as assets and corporate culture.

The challenge is then to derive meaningful information for the human capital strategy from the vision, strategy or values of the organization. For example, service-based companies aim to provide their customers with a „positive service experience“. To ensure that the employees hired by the company fit in with this vision, they need to be highly service oriented, polite, patient etc. Development and training in the organization must also focus on the value that good service provides to the company. Other companies may rely on the size of their organization and their reputation as a major employer. This type of business profits from bringing up in-house personnel through the ranks, and by growth and development of junior employees.



It is also important to take a „bottom-up“ look at the organization and to observe specific employee groups. This could focus on the following factors:

- **Knowledge and exclusivity:** identify groups which have needed to complete lengthy training and gather great expertise for their jobs. This could be a development expert in a hi-tech company specializing in a futuristic product, such as brain-computer technology. The unique knowledge accrued over the years in this field is of unmeasurable value. It would take a very long time to train a replacement employee for this job. Therefore, it is well worthwhile planning the management of a career path for this expert, ensuring that this valuable employee remains in the company in the long run.

■ **Competitive edge:** identify employee groups which directly and significantly influence the company's competitiveness. Company's which depend on brand strength as the main factor differentiating them from the competition rely on the skills of their marketing managers. Agreement should be reached on a desirable profile for them that will bring about innovations in marketing; a career path should be built for them in the organization, and the duration of their tenure in each role agreed upon, in order to preserve and strengthen the organization's competitive edge.

The second step in the process is to define what to focus on for each employee group concerned.

a) We first need to establish the aspects to be included in the strategy and the courses of action to be taken for the relevant occupation group. This includes an in-depth internal and external examination of the elements that brought the group into focus (whether these are from the organization's strategy, corporate culture or the group's cost).

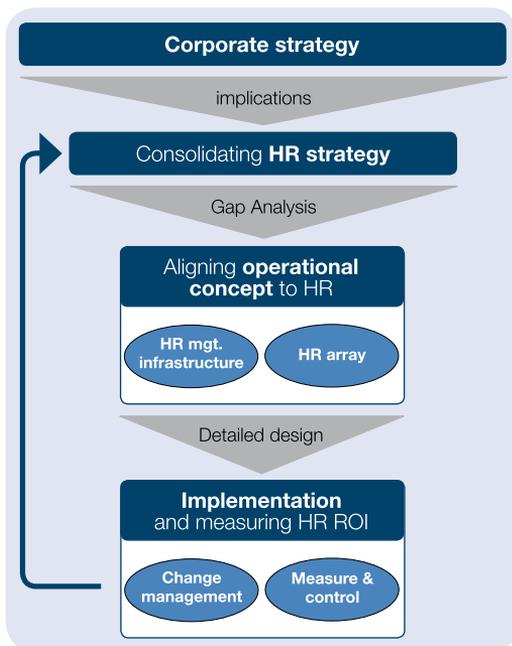
After becoming acquainted with the characteristics of the occupation group and comparing them with other organizations, hypotheses should be brought to the table in order to start mapping the aspects to be included in the group strategy, such as required profile, skills and the orientation for the role (professional, managerial, operational) etc.

If we take the example of an occupation present in most organizations, the marketing manager, the main hypotheses might be as follows:

- A marketing manager must be an expert in marketing communications, advertising, market research, and be familiar with the market's characteristics, with the products, and with sales promotion.
- A marketing manager must be a manager with a business vision and background who knows how to operate a P&L, who understands the overall financial and operational impact accompanying every marketing decision taken, from purchasing costs, to production costs, to distribution costs.

b) It is now time to find out "how" to realize the courses of action. After defining the hypotheses, these need to be put into practice. What is required from the organization and/or from the employee to realize each hypothesis? Do you need to hire or move additional workers to the role? Do you need to just improve the management of existing human resources or make radical changes to the resources themselves in order to realize the hypothesis? What are the costs of these alternatives?

Before action can be taken, it is also crucial to identify "enablers", either within the organization or occupation group, to ensure that implementation of strategy is truly viable. Enablers include a suitable organizational structure, centralized management etc. At this stage, we can also filter out any hypotheses which are not feasible, thereby narrowing down the options, in the run-up to reaching a decision.



If we return to our example of the marketing manager, we now know what his profile should include but need to define “how” to achieve this profile. For example:

- What educational background does the marketing manager need to have? What are his previous roles and experience? Which employees can be moved within the organization to this role under each of the hypotheses? What development must be invested in employees to advance them in future to the role of marketing manager?

The third and final step in the process is selection. When selecting which courses of action to implement, keep in mind the proverb “grasp all, lose all”. Focus on how courses of action can be integrated, so that only those options which are realistically implementable and manageable are kept.

The recommendations formulated for the various occupation groups need to be coordinated in a

unified and prioritized work plan, based on the complexity of the implementation, and on the impact that the recommended action would have on the organization.

When developing a strategy, the issues placed on the table are only the starting point of a long process. In order to reap the fruits and benefit from the performance of the human capital in the organization, “implementation of the doctrine” must be ongoing.

In conclusion, formulation and realization of a human capital strategy is a process that has a decisive impact on the organization’s results and the sustainability of the company’s value. The human capital strategy plays a key role in achievement of the organization’s overall business strategy, resulting in greater competitiveness, excellence and innovation.

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