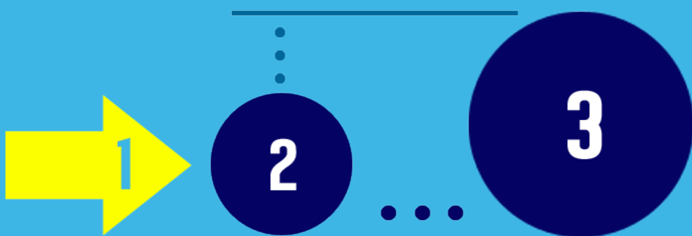
Human Capital Investment > Talent > Performance > Execution > Value



Human Capital Strategy: Improving Performance Through Human Capital Investments in Education, Training, and Employee Development

By Tab Edwards

In today's environment, leading organizations consider their workforce as they do other capital assets in which they make investments in hopes of generating a return on that investment. In this context, they consider their employees 'human capital', and the return they expect from their human capital investment is improved job performance leading to strategy execution, sustainable competitive advantage, and value delivery,

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From 'Knowledge Worker' to 'Human Capital'

In 1959, professor, writer, and management consultant Peter Drucker—praised by *BusinessWeek* as "the man who invented management," described a 'knowledge worker' as one who works primarily with information or who develops and uses knowledge in the workplace. Drucker also argued that, because knowledge, by definition, makes itself obsolete every few years, knowledge workers must go back to school and continue to be educated and trained to avoid becoming obsolescent.

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In recent years, what Drucker referred to as 'knowledge workers' are now being considered return-generating assets and factors of production not unlike other assets an organization accumulates. In this sense, employees' human labor or work product can be considered 'capital'.

'Human capital' is not simply an organization's employee, but rather, it is the proficiency, value, or *capital* that the (human) employee brings to bear on her/his job resulting in a return back to the firm. And an organization's decision to invest in human capital (e.g., providing tuition assistance or paying for training and education) is similar to the process followed when making investment decisions about other capital assets: organization leaders expect to get a return on their capital investment, whether in the form of productivity gains, improved performance, improved earnings, or other desired ends.

Human Capital Strategy and Organizational Performance

Organizational performance is facilitated when there is unity of direction within the organization; aligning goals and their subordinate objectives throughout the organization will improve organizational performance

Organizational performance is a function of the effective execution of the strategic plan (i.e. strategy) defined by the organization for the purpose of, among other things, improving performance, delivering value, and creating a sustainable competitive advantage.

A strategy fundamentally expresses an organization's desired future condition and the as-of-today requirements to get there. An organization will define a long-term vision of what it wants to be or become in some future, multi-year time frame. To fulfill this vision, the organization must develop a plan for how it will get there, a plan consisting of shorter-term targets and milestones referred to as goals and objectives, and a supporting action plan to achieve said goals and objectives.

Organizational performance is facilitated when there is unity of direction within the organization; aligning goals and their subordinate objectives throughout the organization will improve organizational performance. For this reason, I believe that all managers in an organization (and, as appropriate, non-managers, too) should participate in the strategic planning process to improve plan execution.

If, for instance, an organization defined a strategy to *improve overall efficiency* (however it defines 'efficiency'), then each supporting business unit and functional area should define supporting plans that align with the organizational strategy, thereby contributing to the successful accomplishment or the organization's goal to improve overall efficiency; the marketing, finance, sales, client care & support, operations, and human resources should all develop plans for how they contribute to the organization's efficiency goals.

Organizations that wish to give themselves the best chance of being successful must develop a Human Capital Strategy

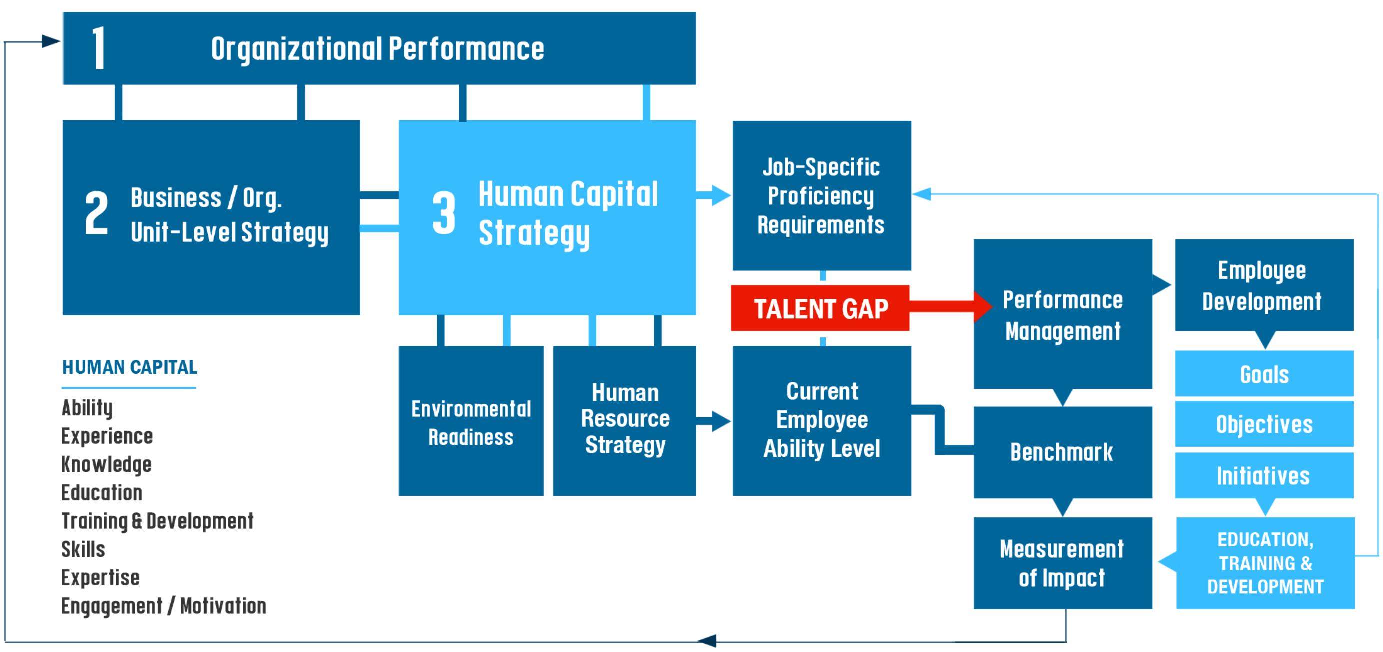
The most important aspect of a strategic plan or strategy is *execution*—successfully performing the activities necessary to deliver the desired outcomes of the plan. Within organizations, people and their human capital are the drivers of strategy execution. Therefore, organizations that wish to give themselves the best chance of being successful (as determined by the accomplishment of the goals and objectives defined in their strategy) must develop a *Human Capital Strategy* to ensure that the necessary proficiencies are appropriately brought to bear by the right people in the right quantities in the right roles, thereby increasing the likelihood that the business unit's and, ultimately, the organization's strategies are successfully executed.

Human Capital Strategy and Human Resource Strategy

A Human Capital Strategy supports and complements a business-unit-level strategy. Unlike a Human Resources strategy—which is a system of practices aligned with the human capital strategy and interrelate toward improvement in employee performance enabling them to contribute to the organization's goals and objectives—a human capital strategy is a plan for how human capital will impact the organization's talent, internal environment, and strategies, with the support of the system of H/R practices.

As illustrated in the diagram below, the business-unit-level (or organizational-unit-level) strategy defines the necessary goals and objectives for performance improvement, and the human capital strategy defines how the organization's talent will execute it and what is needed for their successful execution of the strategy.

The Relationship Between Education, Training & Development, Human Capital, and Organization Performance



Clarifying 'Human Capital'

In some literature, human capital is seemingly synonymous with 'employee' or 'worker' or some other description of an organization's human resources. In practice, however, human capital is more a collective of attributes possessed by the employee or worker, including:

- The associates' ability;
- The associates' qualifications and knowledge (acquired through formal education);
- The associates' skill, competency, and expertise (acquired through on-the-job training); and
- The associates' motivation and level of engagement.

In most organizations, certain job functions require a degree of proficiency and ability that may not be immediately available in its employee population. These organizations, however, believe that they do have associates who—with additional education, training, and development—can become a perfect fit to fill the jobs in question. In such cases, the organization's leaders may make the decision to invest in their human capital toward that end.

Such an investment in human capital will become part of the organization's human capital strategy that considers:
The business-unit-level or organization-unit-level strategy with which the human capital strategy supports and is aligned
The goals, objectives, and desired outcomes including value-delivery of a human capital strategy
The talent required to fill the positions required to execute the organization's strategies
The proficiencies required for each position
The talent available within the organizations employee population (may require an assessment)
The gap between the talent available and the talent required (may require an assessment)
The development of gap-closure initiatives (e.g., education, development, training)
Execution and measurement of the plan's impact
Leadership support
Environmental readiness (is the organization positioned to support a human capital strategy?)

The Relationship Between Human Capital Strategy and Employee Job Performance

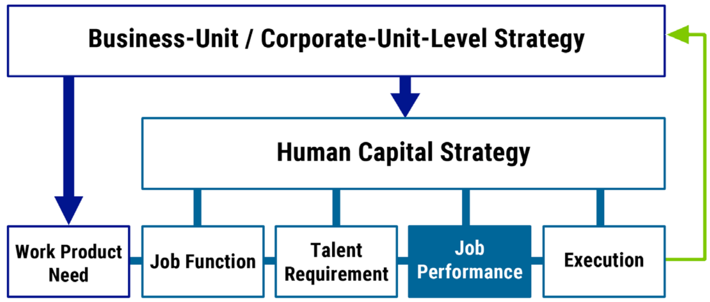
An employee's job performance ultimately relates to observable behavior that supports the accomplishment of specific goals and the achievement of defined objectives

In a previous section I described the relationship between human capital strategy and organization performance. An organization is a body of people performing various roles and jobs in pursuit of a collective goal.

A 'job' is a set of related tasks, responsibilities, and actions to be taken toward some desired end. An employee's job performance ultimately relates to observable behavior that supports the accomplishment of specific goals and the achievement of defined objectives that are part of the human capital strategy. It refers to the successful accomplishment of a given task, initiative, or function measured against predetermined standards of quality, such as accuracy, completeness, time-to-completion, and cost; it is what an employee is hired to do.

In this sense, job performance is relative, because different organizations will establish goals and objectives that require different standards of quality to determine how effectively an individual performs his or her job. Therefore, organizations will need differentiated workforce talent to perform the functions necessary to execute their strategies. And once the expectations of particular job functions are defined, the talent needed to perform the jobs effectively will also be defined.

Workers are needed to perform job functions; proficient job performance is needed to implement and execute strategy; human capital strategy ensures the availability of qualified talent required to perform job functions proficiently and execute strategy.



It is at this point that organizations take inventory of the human capital they need and the pool of talent available to them to fill the jobs. Any mismatch or ‘gap’ between the talent required to perform a job effectively and the talent available reduces the organization’s likelihood of executing its strategy, accomplishing its desired goals, and improving performance.

Talent Gap

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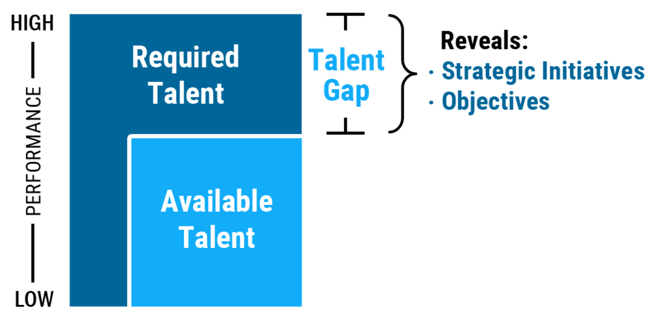
The success of an organization’s strategy is a function of the talent available within the organization to implement and execute the strategy. As illustrated previously, the human capital strategy should align with the business-unit-level strategy and ensure that the roles and job functions required to run the operation and execute the strategy are staffed with people who possess the requisite proficiency to be successful. It often becomes a matter of “what skills and capabilities do/will we need to be successful?” and “what skills and capabilities do we have?” The difference between these two states is a *talent gap.*



A talent gap begs the question: What are the gaps, how significant or critical are they, and how can we close the gap through sourcing, staffing, and training & development efforts?

Benchmarking: Identifying the Talent Gaps

The first step toward improving employee performance is measuring it; if you can’t measure it, you can’t improve it

The first step toward improving employee performance is measuring it. After the current benchmark state of performance is measured, the next step is assessing the measurement data to identify areas of non-compliance with expectations. An assessment is the process of systematically gathering evidence on how well current performance matches expectations and standards. It involves analyzing and interpreting the evidence that results from the data-gathering effort, and using the resulting information to document, explain, and improve performance.

The assessment—as it relates to job performance—can also be called a 'gap analysis' through which some desired state is compared against a current benchmark state, identifying the 'gap' between the two states, and analyzing and interpreting the differences between the two states.

Once the gap items/differences are identified, the organization's managers can then define specific initiatives designed to eliminate the gap issues to such a degree that, eventually, the current state matches the desired state. Once this gap-closure is achieved, performance should be greatly improved, resulting in the achievement of the objectives and the accomplishment of the goals that have been defined in the human capital strategy. When this occurs, the execution of the human capital strategy will—by virtue of alignment—contribute to the successful execution of the business/organizational-unit-strategy, leading to improved organizational performance.

One aspect of the human capital strategy related to closing the talent gaps is making investments in human capital for the purposes of improving employee job performance, closing the gaps, and contributing to the success of the organization.

Human Capital Investment and the Impact on Job Performance

Investing in education, training, and the opportunity for employees to gain relevant experience have been shown to positively improve performance

Understanding the impact of an investment or any other variable on employee job performance must begin by answering the question, "What are the determinants or causes of performance?" This assumes a distinction is made between performance and the *outcomes* of performance: results, goal achievement, the bottom line, etc.

There are many variables that can affect the performance of employees in the work place. These variables can include the employee's level of engagement, working hours, training & development opportunities, stress, recognition & rewards, and culture, to name a few. Some variables are outside of the control of the employee and some do not directly determine one's level of performance.

Organizational Psychologist John P. Campbell developed a hierarchical model of job performance based on extensive research. Campbell advanced three direct Determinants of Job Performance focusing on those variables directly under the individual's control:

- *Declarative Knowledge:* Understanding what is required to perform a task.
- *Procedural Knowledge*: Knowing how to perform a job or task.
- *Motivation*: The intrinsic choice to perform at a high level; putting forth one's best effort. This is consistent with the concept of employee engagement.

There is an additional determinant that, while not specifically defined as one of Campbell's determinants, is nonetheless an important determinant of one's job performance.

- *Problem Solving:* The process of completing a task or reaching a goal when the means for reaching that goal have not yet been identified.

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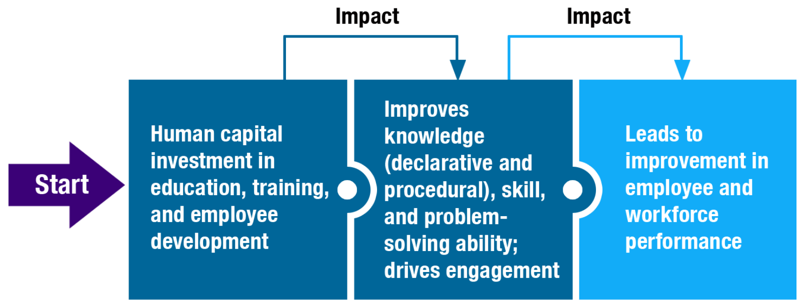
Investing in education, training, and the opportunity for employees to gain relevant experience have been shown to positively improve performance by increasing declarative knowledge and/or procedural knowledge. In addition, financial and 'recognition' rewards (investments) have also been shown to have a positive impact on performance by improving motivation and engagement.



Measuring Individual Job Performance

Organizations measure employee job performance for many reasons, including the facilitation of employee development; to facilitate human capital planning; and to gauge the effectiveness of performance improvement initiatives, to name a few. Performance can be measured based on objective (quantifiable), judgmental (behavioral), and personnel (e.g. absences, awards won) criteria. Job performance is observable, and because it can be observed and measured, much attention is paid to gauging measurable performance criteria.

Measuring job performance objectively—as with revenue growth, expense reduction, customer retention, and other determinants of organizational performance—is only accomplished when said performance is evaluated by quantifiable, measurable, specific objectives that make it unambiguous whether or not an objective has been accomplished and, therefore, performance expectations met.

For example, suppose that Jill was informed at the start of the year that her end-of-year performance would be based on hitting a target of producing 1,000 widgets with fewer than 2% defects. In this example, Jill would know, without question, what is expected of her and what is required for her to meet or exceed her performance target; if she produces 980 or more defect-free widgets, she will have performed very well. If, on the other hand, she only produced 800 defect-free widgets, she will have performed poorly: clear expectations, specific quantitative targets, easy to measure.

Defining job performance objectives and measurable, observable criteria establishes what employees will be charged with doing. This enables managers to make reasonable inference about what they know, what they don't, what they can do, what they can't, and what education, training, and development efforts are needed to close the gap between current performance and expectations.

In many cases, defining and establishing performance criteria can be challenging. What if, for example, an employee's job is unlike Jill's but is, instead, a management position? Managers develop & manage people (and are held responsible for their subordinates' performance), build coalitions, allocate resources, and decide upon go-forward actions. The manager is also a figurehead, representative, networker, and information disseminator. How do you measure *those* activities and performance criteria?

Measuring job performance-whichever criteria are ultimately decided upon--should enable a side-by-side comparison of the employee's current state of performance against the desired state. This will help identify areas of needed improvement as well as the impact of any job performance improvement initiatives such as education, training, and development.

Gauging the Impact of Human Capital Investments

Determining whether or not investments in human capital have had a positive impact on employee and, ultimately, organizational performance remains a challenge for most organizations; such measurement are complex

Determining whether or not investments in human capital have had a positive impact on employee and, ultimately, organizational performance remains a challenge for most organizations; such measurement are complex. What do we measure? How do we measure? What should be our focus – traits, behaviors, results? How do we quantify important performance determinants? Do we measure 'performance', 'effectiveness' (the results of performance), or 'productivity' (the ratio of effectiveness to the cost of achieving that level of effectiveness)? How will we know that there has been a positive (or negative) impact?

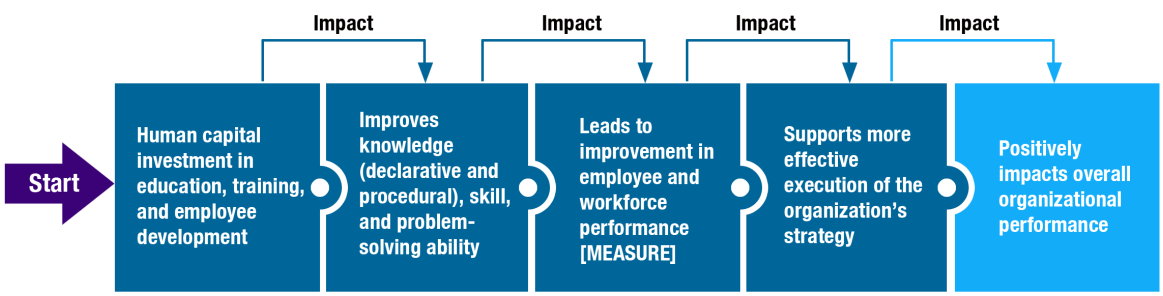
'Impact' is a measure of the tangible (and intangible) effects caused by a stimulus. Put differently, it is the direct or indirect change in performance in response to a stimulus. The ability to gauge the impact of a human capital investment on employee job performance rests on the ability to *measure* pre- and post-investment job performance.

Some organizations, especially those with high voluntary-turnover rates, gauge the impact of human capital investments such as education & training, for example, based on the cost of hiring a person to replace the associates to whom they provided the education & training benefit (a smaller percentage of the overall turnover), against the cost of hiring a person to replace the associates to whom they did not provided the education & training benefit.

Others are more concerned with the improvement in their employees' effectiveness at accomplishing tasks and initiatives related to the organization's goals and objectives. In these cases, the measurement process is more complex. Some organizations follow approaches such as Lean Six Sigma which includes a post-implementation measurement process. Some adopt W. Edward Deming's three improvement questions: What are we trying to accomplish, how will we know that a change is an improvement, and what changes can we make that will result in improvement? Some use analytics and tools. And still others will focus on simpler approaches such as difference-reduction, following the assumption that if they identify and close the aforementioned talent gaps (differences), then, by default, the employee's performance will be improved.

Whatever the approach, an investment in human capital and its impact should be placed in the context of overall organizational performance improvement: improvement emanating from the human capital strategy that is aligned with business-unit-level strategy and ensuring strategic alignment throughout the organization down to the work level.

Example:



Education, Training, and Experience-Focused Development as Initiatives to Support Execution of the Human Capital Strategy and Drive Performance

Recently, I worked on an engagement with a $135 Billion U.S.-based corporation to develop and implement an employee 'effectiveness' program as part of a human capital strategy. Specifically, the initiative was based on a planned human capital investment designed to improve the employees' 'effectiveness' at generating revenue, attracting & retaining clients, and improving overall performance.

At the initial planning meeting—attended by the company President and other executives—the assembled massed began to rattle-off all of the investments that might be made toward employee effectiveness and performance improvement. After about 90 minutes of the discussion, I asked a fundamental conversation-stopping question: What do we consider to be an 'effective' employee?

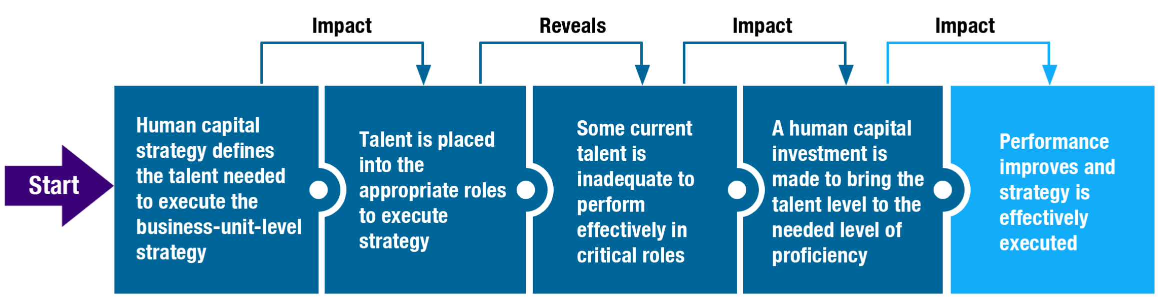
Silence.

The most impactful human capital investments include continued formal education, on-going periodic training, and development programs

It seemed that everyone had a definitive opinion of the types of investments that could be made toward employee effectiveness—MBA degrees for executives, Challenger training for sales reps, coaching tools for managers, organization redesign—but no one bothered to define what an 'effective' employee looked like or to validate whether any of the proposed investments would yield the intended results. We were putting the proverbial cart before the horse: How would we know which investments to make without knowing what investments were needed?

I argued that, until we defined what we wanted to achieve ('effective' employees) and took an honest inventory of what we currently had, we could not know what we needed. The necessary starting point was to define specifically what we considered to be an effective employee and the associated attributes, followed by an initial assessment to create the current state benchmark of the organization's employees' performance and effectiveness levels.

From there, we could develop employee effectiveness goals and measurable objectives & initiatives (including human capital investment) as part of the human capital strategy.



The Rationale for Investing in Human Capital Education, Training, and Development

A human capital strategy can be invaluable to achieving improvements in both employee job performance and overall organizational performance.

There are many ways to improve an employee's job performance, once the desired job performance metrics and criteria have been specifically defined. The most impactful initiatives involve improving employees' declarative knowledge, procedural knowledge, and problem-solving abilities. And the most impactful investments include continued formal education (at colleges and universities), on-going periodic training (short-duration on-or-off-site work-related skills improvement programs), and development programs designed to give employees more relevant job-specific experience.

This assumes that the organization is culturally-enabled to support such investments.

According to a Council for Adult and Experiential Learning (CAEL) survey, 69% of employers said the reason they provide educational benefits such as tuition assistance is to improve employee job performance and productivity. Education, training, and development contribute to improvements in knowledge and problem-solving ability, which contributes to job performance improvement.

Considerations

Ultimately, a human capital strategy is simply a strategy; it is governed by the same disciplines as any other strategy. Likewise, an investment in human capital should be considered as would any other capital investment: you make the investment with the expectation of getting a return on that investment.

Several studies show that education and training do indeed have a positive impact on productivity and performance

A human capital investment in education, training, and development toward performance improvement is no different. Employers invest (fund) money toward employee development for which they expect a return in the form of improved job performance, improved productivity, and improved competitiveness, which impacts goals, objectives, and strategies. However, measuring the impact of an education or training investment in human capital is not easy.

Gathering data on effectiveness, productivity, and, in some cases, performance can be a challenge. In addition, questions regarding causality (do education and training cause performance to improve or does an organization's good performance make it more conducive to education & training requirements?) can add to the uncertainty.

Research by the National Institute of Economic and Social Research provided evidence of a link between the overall skill-level of a workforce and job productivity & performance. Their studies found that the higher levels of workforce productivity were related to the greater skill levels and knowledge of the workforce. As for quantifying the impact of education and training on employee and organizational productivity, several studies show that education and training do indeed have a positive impact on productivity and performance due to the direct positive correlation between these investments and improvement of the determinants performance.

When trying to determine (1) the requirements for performance improvement, (2) the impact of a human capital investment in education and training toward satisfying the identified performance requirements, and (3) metrics and criteria that determine the success or failure of the investment, a general approach could be as follows:

1. Define the purpose or goal(s) of the human capital investment: what are you ultimately hoping to accomplish by making the investment? (E.g., improve employee job performance, improve job readiness, identify talent to fill positions, etc.).
2. Determine the criteria and metrics that will be used to gauge achievement of the 'purpose'.
3. Assess and establish a benchmark of your current state of performance. For example: What is the current job performance level? What is the current level of productivity? What are the current performance and/or capability metrics?
4. Define the desired and/or expected levels of proficiency and readiness associated with the purpose.
5. Identify talent and performance gaps. How do you know that by closing the talent gaps you will improve performance?
6. Define the quantifiable, measurable metrics that will dictate whether or not you have satisfied the purpose or accomplished the goal(s) defined in step 1.
7. Determine the human capital investments in education and training that will close the talent gaps and/or further employee readiness.

8. Implement and execute the gap-closure initiatives.

9. Monitor progress and measure performance. Make adjustments as necessary.

Conclusion

To a large extent, the human capital strategy defines the talent necessary to execute the business-unit-level or organization-level strategy with which it is aligned

An investment in human capital can become an initiative that supports the achievement of objectives and the accomplishment of goals defined by a human capital strategy that supports a business-unit-level strategy. To a large extent, the human capital strategy defines the talent necessary to execute the business-unit-level or organization-level strategy with which it is aligned. Talent (productive workers) effectively performs job functions designed to produce intended results. And the investments in human capital that contribute most significantly to job performance improvement are education, training, and development, due to their ability to positively impact and improve knowledge, problem solving ability, motivation, and experience.

Human capital strategy is not a Human Resource strategy. Instead, it is a business and organization strategy designed to support an organization's ability to create a sustainable competitive advantage and create value for its stakeholders.

Notes

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