

The Value of Human Capital Management

Why do leadership development programs fail to meet their goals of building consistent values and competencies across business units? Why does a best-in-class recruiting initiative neither attract nor retain the employees with the kinds of skills the organization needs for the future, limiting the firm's opportunities? What are the reasons a new performance management system can create destructive competition between employees instead of incentives to improve cooperation?



These under-achieving efforts reduce an organization's performance and create skepticism about future efforts. Many employee development and performance improvement programs fail because they do not have the demonstrable support of the senior leadership team, are not integrated with other organizational initiatives, do not meet the motivational needs of the employees, and do not contribute to the organization's future direction. Many organizations are now recognizing that human capital management can assist them in integrating their efforts to improve performance and to provide an environment and incentives consistent with them.

Depending on its external conditions, mission, business cycle, funding levels, and other factors, the challenges an organization faces shift over time. Due to these changes, an organization's human capital challenges and strategies for meeting these challenges also must shift. If a company enjoys an increase in business, its human capital efforts may include improving recruiting programs, accelerating high-potential leadership initiatives, and implementing incentive programs consistent with reaping the benefits of the increased business. If a government program's costs are accelerating or its support is declining, its human capital programs may reflect this through developing the competencies to redesign and restructure the program, identifying

alternate career paths or detailing positions for employees, or pursuing flexibilities in retirement programs.

One of ICF Consulting's U.S. federal clients faces dramatic changes in its mission and strategy due to security issues and increased outsourcing of its functions. Though we started helping the organization with its management challenges through training, coaching, and other strategic support, ICF Consulting has used a human capital approach to help the organization's leaders look at its agency's initiatives more holistically.

Human capital management is not about changing the names of things we are already doing in human resources (HR) and elsewhere. It is about acknowledging, anticipating, and acting on the human impacts of those actions. Human capital management provides a systems approach to improving the performance of an organization and its employees, by integrating initiatives that impact their performance, including restructuring, business process improvement, and new IT systems introductions, as well as more traditional HR programs, such as recruiting, retention, and performance management.

Human capital management takes the view of employees as individuals—the combination of skills, competencies, motivation, capabilities, interactions, energy, experiences, and institutional memory that create value for the organization. Gary Becker, the Nobel-prize-winning economist, acknowledged this in his book *Human Capital*: “...expenditures on education, training, medical care, etc., are investments in capital. However, these produce human, not physical or financial, capital because you cannot separate a person from his or her knowledge, skills, health, or values.”

Perspectives™

In our work with government and private-sector organizations over the past five years, we have learned that organizations with effective human capital management take the following actions:

- **Engage organizational leaders** regarding the potential of managing human capital more holistically
- **Identify leadership support** for assessing and acting on the human impacts of organizational action
- **Create the human capital linkages** to the organization's mission and strategy
- **Build a human capital plan** consistent with those linkages
- **Rally support** for the plan
- **Implement and monitor** the human capital initiatives
- **Publicize** the lessons learned and benefits
- **Revise the initiatives** to better match the organization's direction as it changes over time

Through this approach we are helping organizations link strategy with program planning and workforce planning, integrate budget and performance management, and augment motivation, reward, and performance management systems to help employees see how their work and their career development advance the goals of the organization.

Human capital management is about investing in employees to improve the performance of the organization in the short- and long-term. These investments can include improving management and leadership, assessing and anticipating workforce requirements and capabilities, creating better systems and tools, and building marketable skills, as well as fostering the organization's energy and commitment to career development. Through these investments, an organization can create strong bonds between employee actions and desires and its performance.

For more information on human capital strategies, please visit www.icfconsulting.com/human-capital.