Managing Human Assets

The case for a new systematic approach to matching human assets to business requirements

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Introduction

Recently, one of our clients, a well-known electronics firm, re-engineered the order fulfillment process in one of its businesses. Along with re-engineering the process, they analyzed the specific skill requirements of the new process; assessed the skills of the existing workforce; and designed, built, and executed a new performance-based training curriculum to address the new requirements. After this initiative was completed, they retained an independent consulting firm to assess the return on their investment in this approach. The purpose for conducting this research was to confirm its value as a prelude to deploying it on a wider scale. The results confirmed their judgment, and the company is moving ahead.

Another of our clients, a well-known information technology company, established an entire new service business. The critical role in this new business was the "project leader" role. Analysis of the tasks for this role convinced the company that their existing workforce was short of candidates with the required skill mix to fill the positions that would be created. To manage this, they built a system that included a mix of selection, training, and structured job experience with careful coaching. After-the-fact measurement of results revealed that project leaders who had come through this system were running programs whose business results were 10 percent better than the average. This 10 percent in the service business they are in is worth many millions of dollars and may make the difference between winning and losing in the competitive race for customers.

Meanwhile, we continue to read stories that suggest that a high percentage of business process re-engineering efforts fail or fail to achieve their expected potential. We read and watch as major investments in process technology and information technology fail to reap their advertised benefits.

Why the Gap?

Why are some companies able to maximize and build on new and challenging concepts while others fail?

We believe the difference lies in the companies' ability to manage their inventory of human competence.

Human competence is composed of complex menus of knowledge and skills, attributes, and values (KSAVs). The old model of a relatively static business in which the inventory of human competence could be gradually and informally adjusted to match business requirements is rapidly disappearing.

Today, the world of business is undergoing fundamental, permanent change that renders the existing approaches to human resources management dysfunctional. Peter Drucker in *Post Capitalist Society* and other authors in other works assert that a new world of work is being created out of the old in which the fundamental assumptions, metaphors, paradigms, and methods of management are different.

In the new world, human competence is the primary asset of production that confers competitive advantage. Information technology is the primary technology. Organizations are flat and fluid, structured around a set of clearly defined business processes. The competitive environment is global and rapidly changing in ways that are often difficult to forecast far in advance.

Business strategy defines and shapes the response to this shifting environment. Products and services, business processes, and structure all change in response to strategy.

To comprehend this changing environment, formulate strategy, plan and execute changes in process and structure, and simultaneously produce a steady stream of high-quality products and services that are carefully matched to customer requirements requires human competence.

But, how do we derive the KSAVs needed to achieve results?

Business processes define all work to be done within the organization and the interfaces between this work and the organization's customers and suppliers. Business processes are made up of interactive sequences of tasks that are performed by people or teams in assigned roles. The specific mix of KSAVs required for high-performing processes can be determined by systematic analysis of the tasks involved in each process.

Tasks are generally assigned to roles or teams. In the old world, individuals carried standard job titles. In the new world, an individual's job is more likely to be a collection of ever-changing "roles." By looking at the collection of tasks assigned to a role or team, the mix of KSAVs required for that role or team can be determined. If the individual people assigned to the roles or teams do not possess the necessary inventory of KSAVs, process performance will suffer in some way.

One of the advantages of assigning certain types of work to teams instead of individuals is that the team will almost always possess a more diverse inventory of KSAVs than the individual, thus reducing vulnerability to performance problems caused by skill deficits. However, all of the individuals must acquire a set of teamwork skills to function effectively in this environment.

Generally speaking, each individual in the new world is required to have a much richer menu of KSAVs than the old world required. Furthermore, changing technology, changing customer expectations, the pressure of competition, and other change drivers are constantly changing and raising the bar on the KSAV requirements menu. Making things even more difficult, the fluidity of the business requires constantly shifting people's roles and team assignments.

Now, if competitive process performance depends on having a specific inventory of KSAVs in place, if we believe the mix required of most individuals is richer than it used to be, and if individual role and team assignments are to be continually changing as well as the very skill mix required for each role and team, then it should be an obvious, inescapable, and scary conclusion that the traditional, informal, unsystematic, and unintegrated approaches to managing the organization's KSAV inventory, its human asset capability, are unacceptable because they will lead to inferior business performance!

Who Is Responsible for the Human Competence Inventory?

The practices that systematically or unsystematically control the organization's KSAV inventory include the following:

• Recruitment and hiring
• Training and development
• Assignment to roles and teams
• Performance goal setting and feedback
• Rewards, recognition, and other consequences of performance
• Career management

The responsibility for the above practices traditionally has been shared by line managers and by a variety of unorganized specialists in human resources departments who may not even speak the same language. Senior management traditionally has not seen the KSAV inventory as a strategic asset to be used for competitive advantage and has, therefore, focused its attention on the financial and physical assets. Because of this, most companies have developed and deployed very sophisticated and systematic practices for managing their inventories of physical and financial assets, but not their human assets.

For reasons we have cited here, the well-managed inventory of human competence is a necessary key to competitive performance in the new world. This assertion, if believed, is sufficient to place the issue squarely in the middle of the plate of concerns to be dealt with by senior management. It is too important to be relegated to the human resources department and lower levels of management. Because of internal dissonance within the human resources groups themselves, and because the practices we are discussing here affect every employee and manager in the business, it is unlikely that the necessary changes can be engineered and deployed without senior management leadership, direction, and participation.

In the remainder of this paper, we will give examples of the negative consequences of failing to manage systematically the KSAV inventory and positive returns when the appropriate investment is made. We will also offer our view of the shape and structure of a KSAV inventory management system that will fill the bill.

Costs and Benefits

The quality world has taught us to look at the cost of conformance and the cost of nonconformance to a quality standard.

In terms we are discussing here, the standard could be stated as having the right KSAVs in the right place at the right time, in the right numbers, with the right incentives to produce the best performance that the work processes and environmental resources infrastructure will permit. The cost of conformance is all those costs associated with meeting the standard, such as analyzing the business process for KSAV requirements, recruiting, training, and so on.

The cost of nonconformance is the cost of underperforming business processes, resulting in noncompetitive products and services, customer dissatisfaction, slow response, waste in all forms, and the like.

We believe that one of the significant reasons for re-engineering failures is an organization's inability to come to grips with the new KSAV mix required as a result of the effort. The cost of this nonconformance can be in the million, hundred million, or billion dollar range depending on the scale and stakes associated with the re-engineering. The cost of analyzing the KSAV requirements and then doing what is needed to manage the skills inventory is only a tiny fraction of these penalties.

Few organizations recognize the risk incurred by not managing human assets during the implementation of new products and processes. Many manufacturing companies will spend a great deal of time and effort preparing for an MRPII or inventory management implementation, perhaps one million dollars worth of software, and ignore the qualification of the human assets required to make the process function. They are spending the money on an inert system and are reluctant to spend significant sums of time and money on the humans that will interact with and manage the system.

On the positive side, where the investment in skills has been systematically undertaken, we have seen companies reap rates of return on this investment in the hundred-to-one range. Often when the KSAV inventory is managed well along with improvements in technology or business processes, it is difficult to measure the effect of the investment in skills management because it is buried in the overall cost and benefit picture, and no one is willing to run the controlled experiment just to get a measurement.

The Solution

If the logic behind a systematically managed KSAV inventory is so powerful, and if the returns on investment in it are so high, why isn't everybody doing it? The following is our list of reasons; check the ones that apply to you.

• Senior management lacks awareness of the issue and its potential competitive impact.

• No one in the company knows how to design and install an integrated skills management system driven by process performance requirements.

• The human resources community within the company, which is the logical group to whom to turn, is dysfunctionally housed in subspecialty silos without a common, unifying conceptual framework, much less a set of practices integrated around managing a common KSAV inventory.

• Several groups within the company are struggling for control of the change management process, each with their own ideas about how it should be conducted.

• Skills management within the company is under the influence of the "competencies" movement, which often does not start with systematic analysis of process performance requirements.

• The task seems overwhelming, especially given all the initiatives already underway and a shortage of people to do what is already committed, plus keeping the regular business running.

• Top management lacks first-hand experience with the specific disciplines and skills needed to install an integrated, performance-based KSAV inventory management system; therefore, they think that the job should be relatively quick and easy, resulting in their loss of patience with the complexity and resource cost of doing it well.

What does this KSAV inventory management system we've been talking about actually look like? The flow chart below shows the major elements and their business process and business strategy drivers.

Human Assets Inventory Process
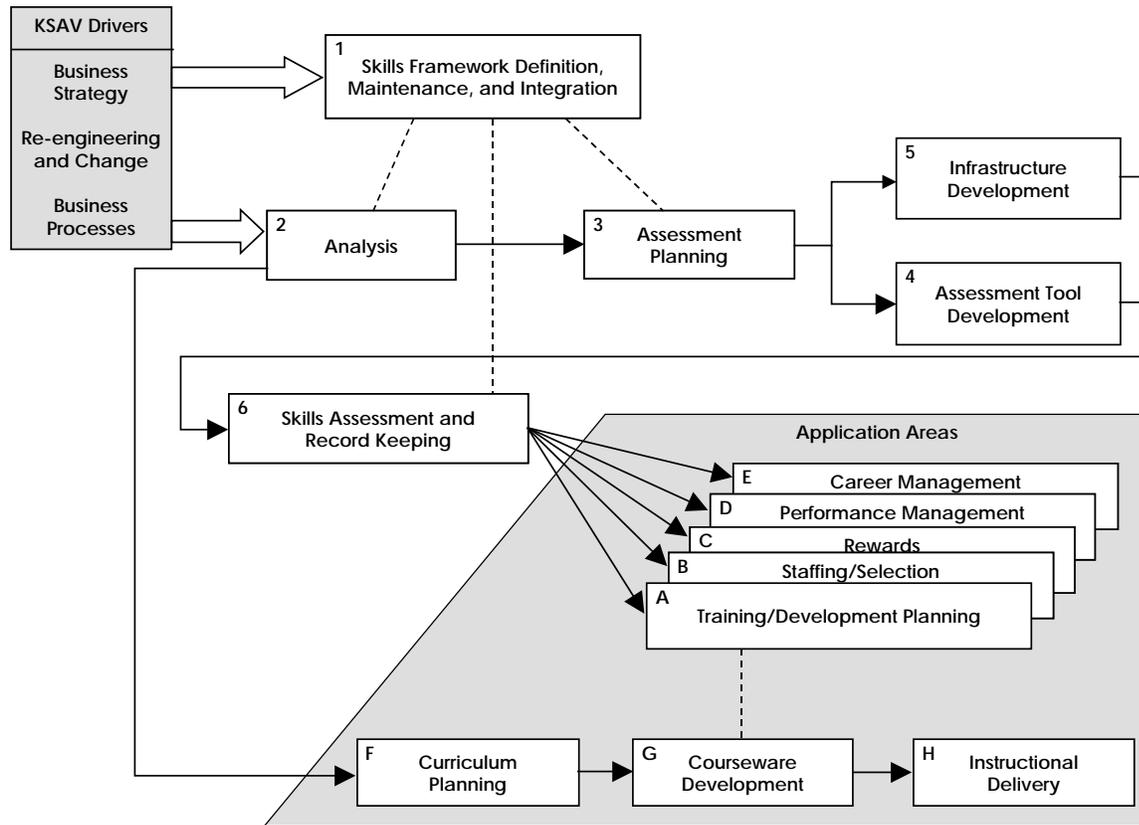
The important thing to realize is that this system itself represents a strategically important business process that supports all other processes in the business. As such, it must be carefully designed, staffed, linked to other processes, and managed just like all the other critical business processes. To be successful, the roles of all the participants in the process must be defined, and the participants must possess the necessary KSAV mix to carry their roles. In addition, the organizational and information infrastructures must be reshaped to support the process.

We believe that this skills management process is the unifying principle around which line managers and human resources specialists can consolidate to define and manage a winning inventory of human competence. This is the way to bring human assets under the same level of systematic control routinely applied to the company's physical and financial assets.

How to Get Started

Contemplating applying a re-engineered critical support process across a major company, all at once, is overwhelming and likely to fail. Instead, we recommend trying the process on a few high-profile initiatives, such as

• Business process re-engineering
• New business start-up
• Implementation of major new technology
• Integration of an acquisition

Applying this new process on a trial basis in a few critical areas will help develop the process itself, begin the acquisition of the specialized skills needed, and acquaint senior management and line management with the important roles they must play and with the payoff and cost to the business.

Once the initial pilot projects have been completed and evaluated, it is time to think about re-engineering this process for deployment over time across the entire business. This re-engineering effort will inevitably require fundamental and permanent change in the human resources and training infrastructures, refocusing them on a common inventory of KSAVs that everyone understands to be driven by business performance requirements. In this scenario, line management is the customer and direct user of the human assets management process. Human resources and training specialists maintain the process and provide specialized support and tools.

Senior management's role in initiating this change includes the following:

• Sponsorship of the initial pilot projects

• Setting expectations for success and cooperation

• Setting the vision of ultimately arriving at a state where the company's human assets are systematically managed in alignment with business process performance requirements

• Allocating the necessary resources

• Keeping the spotlight on the effort and the resulting business benefits

• Remaining patient and requiring the organization to remain patient while learning a major new way of managing

Once the pilot projects are completed and evaluated, senior management must provide the leadership for re-engineering and deploying the re-engineered process.

Senior management leadership, vision, and staying power are critical to the success of this change because short-term benefits may be low while short-term costs are high. Additional obstacles include the following:

• Resistance by everyone invested in the old order

• The perception that the solution is too complex (we see this even in companies that routinely engineer and build such complex systems as fighter aircraft and computers)

• Disorientation and new skills required of human resources and training specialists

• Heavy investment of the company's best experts' time in the initial analysis and in building assessment tools and training materials

• Lack of a completely articulated and debugged tool kit available off the shelf and easy to learn and apply

We believe that the processes and tools to manage the human assets of the corporation strategically are being created now. They will be embraced first by a relatively small number of companies that are willing to experiment and contribute to the development of this emerging technology. We further believe that several decades from now, only companies that have embraced this technology will have survived the competitive pressure.