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Secrets to success: human capital management strategy

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# Secrets to success: human capital management strategy

Elissa Tucker

## Abstract

**Purpose** – *The purpose of this paper is to detail four elements that drive human capital management (HCM) strategies that get business results.*

**Design/methodology/approach** – *Analysis of APQC's Open Standards Benchmarking data and human capital management best practices case studies reveals how to establish the groundwork and successfully execute an HCM strategy.*

**Findings** – *A successful HCM strategy requires specific groundwork and execution to support workforce performance. In terms of groundwork, HR must display strategic competence and business insight. Then, HR must establish a solid implementation infrastructure and follow-up with a comprehensive results assessment.*

**Originality/value** – *Many HR professionals understand what needs to go into an HCM plan for compensation and benefits, long-term workforce strategy, succession, diversity, learning, retention and HR technology updates and upgrades. This paper details how best-practice organizations successfully build and implement such plans and what tangible results an HR function can expect from adopting the four detailed best practices.*

**Keywords** *ROI, Infrastructure, Implementation, Metrics, Best practice examples, Human capital management strategy*

**Paper type** *Research paper*

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No longer needing to be convinced of the primary role talent plays in organizational performance, business leaders now expect from HR professionals a high-performing human capital management (HCM) strategy that will secure business results. The HCM strategy spells out plans for compensation and benefits, long-term workforce strategy, succession, diversity, learning, retention and HR technology updates and upgrades. But a successful HCM strategy requires specific groundwork and execution to support workforce performance.

Four fundamental elements drive successful HCM strategies. In terms of groundwork, HR must display strategic competence and business insight. Then, HR must establish a solid implementation infrastructure and follow up with a comprehensive results assessment. This article compiles analysis of APQC's Open Standards Benchmarking data and HCM best practices case studies to explain how best-practice organizations approach these four HCM strategy necessities.

## Strategic competence

The groundwork for a successful HCM strategy is simple but crucial: HR must understand the business strategy, and business leaders must understand why HCM strategy is crucial to realize key objectives.

Ultimately, HR's job is to drive organizational performance. This requires a deep understanding of the business strategy and workforce needs. HR professionals need not

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only business acumen but also an understanding of how talent management can support specific strategic needs. According to APQC's Open Standards Benchmarking data, understanding talent management and business operations are among the top desired competencies for HR professionals.

And among the leading HR functions, strategic competence is a core HR capability. HR professionals must understand the business and the larger industries it works in. Sumotomo Corp. Senior HR Manager Cheryl Blake shared with APQC that HR professionals must know what threats face the company, as well as understand both customers and competitors. The HR function should operate with the mantra that understanding the business helps HR professionals make better decisions.

In another best-practice example, the Aditya Birla Group balances business- and function-specific requirements in developing HR professionals. To build a strategic understanding, its “HR academy” covers both role- and competency-based requirements. This formal training is supplemented with mentors and coaches, self-directed learning and strategic assignments. These efforts help HR professionals expand their functional expertise, understand the cultural nuances of certain business units and gain project experience serving varying businesses. Potential HR leaders are then reviewed by both the HR talent council and business talent councils to combine perspectives. Such efforts ensure HR professionals are grounded in business needs.

In addition to fortifying HR professionals with business acumen, successful HR functions also ensure that their organizations' leaders understand why the HCM strategy is so important. Such effort is rewarded with tangible results. The presence of senior leaders playing an integral role in supporting/executing the HCM strategy correlates with higher HCM key performance indicators (KPIs) related to cost, efficiency and productivity. Compared to organizations where leaders do not understand HCM, those organizations whose leaders leverage HCM spend \$89 less per employee on HCM strategy implementation and serve 800 more employees per HCM strategy FTE (full-time equivalent employee). And these organizations also see higher HR satisfaction ratings.

Kaiser Permanente provides an excellent example of this HCM strategic competence among senior leaders. In benchmarking Kaiser Permanente Northern California, APQC found that its HR function dedicated time and analysis to educating business managers on the ways that, managed correctly, internal workforce mobility strengthens the organization, despite the short-term operational disruption it may cause. Senior leaders understand that the movement of engaged, trained and socialized employees can provide cross-germination in practices and skills, and it makes Kaiser Permanente an attractive place to work. This effort ensures the HCM strategy is a continuous commitment rather than a one-time strategy-building exercise.

### **Business insight**

HR must be involved in setting the business strategy, which becomes the key input informing the HCM strategy. When HR helps to create the corporate strategy, they are intimately aware of what should drive HCM plans.

Just under two-thirds of HR functions surveyed in APQC's Open Standards Benchmarking database do indeed help formulate corporate strategy. These organizations leverage this experience to create HCM strategies that consider: the organization's long-term objectives, corporate and business unit strategies and senior management directives (Figure 1). Employee surveys are also common inputs, with nearly three-quarters of organizations in APQC's Open Standards Benchmarking database using them in setting HCM strategy.

At Philips Healthcare, the HR function identifies strategies at the business unit level. The director of integrated talent management works with business unit leaders and their management teams to clarify their strategies and develop plans to develop workforce capabilities to reach strategic goals. With workforce capabilities recognized as a primary business asset for delivering the value proposition, strategic capability planning helps the business understand what HR can deliver. Because of this coordination, HR delivers better value, efficiency and effectiveness to the business.

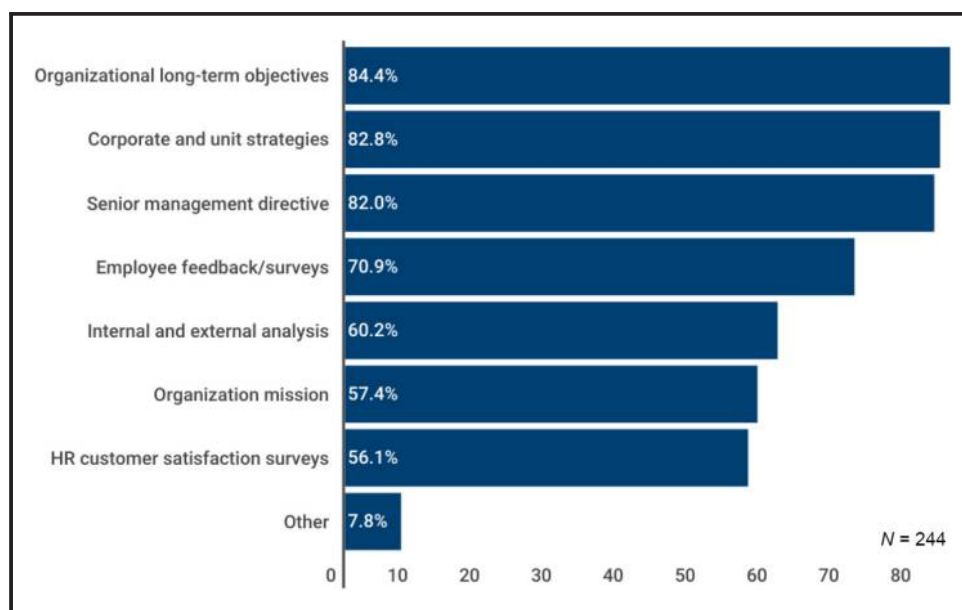
In another best-practice example, HR and business leaders at Kaiser Permanente Northern California come together to understand the current and desired future state of the business. Then, HR and business leaders turn their attention to the implications of changes. Once the risks are identified, it is possible to identify specific workforce strategies, prioritize them and make a business case for the most critical ones. To create an HCM plan, the workforce planning team then works with its business partners and HR to craft specific, actionable and relevant workforce strategies.

### Implementation infrastructure

With the groundwork set for an informed HR function to effectively optimize workforce performance, HR can then ensure the HCM strategy has the implementation infrastructure necessary to be executed on a meaningful scale. This strategy infrastructure involves formal documentation, assigned accountabilities and service level agreements.

As an important communication vehicle for HR plans, *formal documentation* of the HCM strategy eases the implementation process by providing actions that prompt plan

**Figure 1**



refinement. Documentation also drives consistent implementation and spells out responsibilities for specific results. This is why APQC has found that organizations that formally document HCM strategy have lower costs for creating and executing an HCM strategy than those that don't.

For example, the HR function at Philips Healthcare goes deep into the details in how its HCM strategy will support business needs. Documentation outlines what it will take to execute plans, how plans link to company strategy and the timelines for plans. This documentation helps HR get management on board and helps clarify concerns and expectations.

*Assigned accountabilities* within the HCM strategy ensure the resources are in place for plan execution. Again, Kaiser Permanente provides a best-practice example. Both business and HR leaders determine what roles and responsibilities are necessary to reach goals. Whereas the workforce planning team takes a visible role in implementation, the business units ultimately take responsibility for executing the workforce plan. This balance only works if the strategy details accountability upfront. And this accountability is built on the organization-wide understanding that it is part of every leader's job to plan ahead.

*Service level agreements* also help in executing an HCM strategy. Service level agreements took hold in HR shared services and outsourcing arrangements for transactional and administrative aspects of HR. However, such agreements can also ensure that an HCM strategy is implemented effectively. These agreements clearly delineate expectations and accountabilities between HR and the business. Collaboratively creating the agreement prompts HR and the business to better understand each other's needs. Service level agreements also provide a reference point for communication throughout implementation and a means through which to update plans and adjust expectations.

Two-thirds of organizations, APQC's Open Standards Benchmarking database indicates, use HR service level agreements to some extent. This use correlates with better performance on HCM strategy KPIs, as well as higher HR customer satisfaction rates. This is the case at best-practice example Ericsson, where HR creates end-to-end service level agreements to manage end-user expectations and HR metrics. Importantly, Ericsson's agreements outline reverse dependencies – where clients must meet one deadline before HR can meet theirs – to alleviate potential roadblocks in specific HCM processes.

### Results assessment

Both during and after HCM strategy implementation, a comprehensive results assessment drives performance. This assessment most optimally involves employee engagement surveys, HR customer satisfaction surveys and HCM strategy return on investment (ROI) metrics. Such inputs should inform all efforts to evaluate, improve and communicate the HCM strategy.

APQC has found *employee engagement surveys* to be especially important in assessing if an HCM strategy is being effectively executed and is realizing desired outcomes. In

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addition, the qualitative feedback can signal what kinds of improvements are needed. APQC's research shows that using employee surveys is associated with positive performance on HCM strategy KPIs, as well as with better HR customer satisfaction ratings. Employee survey results can reveal the practices that employees value most, which allows the organization to focus time and resources on these particular practices.

More than just a check on administrative performance, *HR customer satisfaction surveys* are also an effective way to gauge how well an HCM strategy is meeting an organization's needs. Using surveys and focus groups, HR can collect employee, manager and leader feedback on its: competencies, strategic planning support, communications, business unit partnerships and programmes or practices or policies. As with employee engagement surveys, HR customer satisfaction surveys can pinpoint practices that are not valued and can thus be eliminated. Satisfaction surveys can also collect feedback on how HCM processes can be improved and streamlined. For these reasons, APQC's Open Standards Benchmarking data shows that measuring HR customer satisfaction is associated with lower HCM strategy process costs and more efficiency in the HCM strategy process.

Consider Ericsson's best-practice example. Its HR function correlates process delivery measures with end-user experience and satisfaction measures. Looking at HR processes end to end has highlighted interdependencies between HR and its stakeholders that can ultimately affect HR's performance and stakeholder satisfaction. Understanding these interdependencies, as well as gaps between process performance and end-user satisfaction, has enabled the HR function to better detect issues and determine the right solutions.

Finally, *HCM strategy ROI metrics* should be steering efforts. Expressed as a formula, the return on HCM investment is the total estimated benefit of HCM investments divided by the total estimated cost of HCM investments, expressed as a percentage. Even though only 44 per cent of organizations measure HCM strategy ROI, APQC's Open Standards Benchmarking research shows that organizations that do measure HCM strategy ROI have greater HR customer satisfaction.

At BAE Systems Inc., for example, the HR function equates ROI for its employee development efforts to justify investments, as well as leaders' time spent with certain programmes. In a scorecard, HR combines ROI metrics with stakeholder perception of ROI. Underwhelming results call for improvements steered by interviews with past participants.

Such ROI results are a useful communication tool. APQC has found that most organizations report ROI in a scorecard or dashboard format so that it will resonate with business leaders. They are useful for continuing the HR business unit dialogue that begins during corporate strategy setting meetings. For example, Ericsson reports on its most commonly requested HR services both within HR and to its stakeholders. Using HCM dashboards, HR only reports actual outputs, without interpretation. End users have self-service access to cut the data in different ways (breaking it down by organization, country, etc.) while the base data remain unchanged.

The effort required to compile assessment results will continually ease as new technologies make it possible for organizations to capture feedback more frequently at less expense. Newer data collection methods incorporate social networking platforms,

text analysis, pulse surveys, frequent performance discussions and employee recommendation scores. For example, IBM's HR function has its own predictive social analytics team to monitor employee engagement in real time and predict the success of HCM plans.

### **A successful human capital management strategy**

For HR to implement an excellent HCM strategy and meet business leaders' high expectations in workforce performance, HR must understand the needs of the business and what employees need to be engaged and excel. HR must put in place a comprehensive HCM strategy detailing how the organization will address needs; how HR will evaluate HCM outcomes, and ultimately, how the HCM strategy will deliver business results through an optimized workforce.

With more than 15 years of experience researching HR, Elissa Tucker develops and executes APQC's HCM research agenda. She has completed numerous research studies on leadership, strategic workforce planning, HR trends, recruiting, training, performance management and talent management. Prior to APQC, she worked as a Senior Research Consultant at Aon Hewitt. She also co-edited and contributed to the book *Workforce Wake-Up Call: Your Workforce Is Changing, Are You?*

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