

# Aligning Human Capital with Business Strategy: Perspectives from Thought Leaders

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**Human capital is now firmly acknowledged as a strategic source of value creation — indeed, a company’s most valued asset — in today’s knowledge-based economy. As natural custodians of human capital, human resource executives are expected to lead its development, but most HR organizations lack a strategic planning process for human capital, much less a consistent way to describe and measure it. A recent BSCol conference featured three leading voices on these issues: Dr. Jac Fitz-enz, the father of human capital benchmarking; David Norton, co-creator of the Balanced Scorecard (and author of a groundbreaking framework for human capital measurement and management); and Helen Drinan, then-CEO of the Society of Human Resource Management.**

## Measuring, Tracking, and Benchmarking the ROI of Human Capital

*Dr. Jac Fitz-enz, founder and chairman, Saratoga Institute; author of The ROI of Human Capital; and acknowledged as the father of human capital benchmarking and performance assessment.*

Reflecting a growing view among leading thinkers, Jac Fitz-enz believes the HR organization will never achieve full potential until it can describe the role human capital plays in creating organizational value and demonstrate its investment return. Armed with such data, HR practitioners can identify and analyze relationships between business actions and human capital results. This is hardly bean-counter thinking; employee costs can exceed 40% of corporate expense. Add to that the investment in talent, development of organizational knowledge, and the fact that training time hasn’t diminished nearly as rapidly as product and business cycles have accelerated, and you

can see that turnover costs have mushroomed.

Traditionally, HR has reported on its ability to reduce the costs of HR processes, rather than focusing on the results. HR, like every business function, should have a set of operational metrics. Yet most functional areas lack metrics that describe their effectiveness in creating value. Just as an accounting system tells us what is happening by reporting profits and losses, there is a basic methodology for process management. Fitz-enz cited five generic ways to evaluate an HR process: How much does it cost? How long does it take? How much was accomplished? How many errors or defects occurred in the process? And, how did employees respond (e.g., to the job satisfaction survey)? Each of these criteria can be applied across the three core human capital practices: acquiring talent (cost per hire), developing it (cost per trainee), and retaining it (cost of turnover). Fitz-enz also advocates that organizations involve HR more actively

in strategic planning. And if HR’s mission is to improve business operations — to become a strategic partner — HR professionals must, as he says, “get their heads out of the paper and their minds in the business.” The Balanced Scorecard can establish a common language and focus for demonstrating human capital’s impact on desired business outcomes. Managing human capital effectively will help organizations execute their strategic plans. Start with the enterprise, he says, cascade to the business units and functions, and then show the value created from human capital. Measurement is the fuel for the Balanced Scorecard, and human capital is the driver of strategy — and ultimately, success.

## Measuring and Managing Human Capital: Getting to the Strategy Table

*David P. Norton, co-creator, Balanced Scorecard; president and co-founder, Balanced Scorecard Collaborative.*

HR executives have long been concerned with the question, “How do I get to the strategy table?” A recent study by Kennedy Information<sup>1</sup>, the leading research firm on the consulting industry, found that 40% of HR executives are asked to sit at the strategy table, while 60% still play a passive or reactive role. Norton’s conclusion: HR lacks the science and tools to describe and measure human capital (as many as 85% of organizations do not have an adequate way to describe human capital, according to a BSCol survey of HR executives). Without the ability to measure HR’s strategic contribution, organizations cannot manage human capital as a strategic asset. It’s little wonder that half the organizations BSCol surveyed stated that human capital is not linked to strategy.

The Balanced Scorecard, though, has emerged as an important tool to address this challenge. The missing link between HR and the enterprise,

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Norton observes, is a shared model of the strategy. Such a model would give HR professionals a point of reference for defining the impact of human capital on organizational strategy — and for tailoring development programs to the organization’s strategic priorities. The Balanced Scorecard is the “how” that transforms the HR function from sideline player to strategic partner.

Three of the four BSC perspectives are based on time-tested management models: the financial perspective is based on the DuPont ROI model, the customer perspective on value propositions, and the internal perspective on value chains. But the learning and growth perspective, which encompasses intangible assets like human capital, lacks a standard management framework. Every HR professional has a different view of the important components of human capital (e.g., leadership, skills). A common framework would facilitate the development of standardized measures and benchmarks — and a common language — that would foster knowledge-sharing among HR professionals.

In 2001, BSCol formed the HR Action Working Group, a group of HR executives from more than 20 leading organizations. They worked together to define just such a framework. The group identified five dimensions of human capital that executives find most relevant to their strategies:

- Strategic Skills/Competencies
- Leadership
- Culture and Strategic Awareness
- Strategic Alignment
- Strategic Integration and Learning

The starting point, they found, is to build a strategy map to articulate organizational strategy and then define how human capital is linked to strategy. This strategy-based view of human capital provides a prescriptive framework to guide the development of measures of the contribution of human capital. Out of this framework arose the “Human Capital Readiness Report,” which provides a snapshot of an organization’s human capital relative to its

strategic requirements. It documents the strategic requirements, then shows, through its measures and programs, how human capital is being developed. HR professionals can use the report as a communications tool that, among other things, can help justify the value of human capital investments, something they are under increasing pressure to do. The report provides the foundation for a periodic review of HR’s strategic challenges and contributions — in effect, a progress report. As such, it becomes the bridge between enterprise strategy and HR, giving HR entrée to the strategy table and empowering it as a true strategic partner. HR can now work toward improving human capital readiness, and more broadly, toward enhancing the organization’s ability to execute its strategy.

**HR in the New Millennium:  
A Perspective from the Profession**

*Helen G. Drinan, CEO<sup>3</sup>, the Society of Human Resource Management.*

The impact of technology, global competition, outsourcing, and a shrinking pool of qualified talent on the organization demand a new kind of HR leadership — strategic leadership. Is the HR profession up to the challenge? How aligned are HR professionals with the CEO’s top priorities?

One million people in the United States identify themselves as HR professionals. Opportunities abound for forward-thinking HR professionals. But for those who ignore the skills, experience, and technology it takes to implement workforce strategies with bottom-line impact, survival is at stake. Both types fail to understand the macro business environment and long-term issues — a requisite step to building successful business-aligned HR strategy. This integrated worldview has never been more critical, given today’s accelerated, globally competitive business environment, and increasingly

**Highlights from the Society of Human Resource Management Study *The Future of the HR Profession***

*Outstanding HR leaders...*

- Derive their agenda from the company’s business objectives.
- Focus on a few strategic priorities.
- Create a shared understanding with the CEO on HR’s strategic, value-creating (rather than just tactical) ability.
- Stay in touch with the workforce; understand drivers of employee commitment and performance.
- Move HR away from “customer service” (“What do I have to do to meet expectations today?”) and toward “customer focus” (“How can I take the HR function in a new direction over a period of time?”).
- Build their business knowledge and financial and consulting skills.

*What will HR look like in the next decade?*

- Utilization of technology will be essential, not only to free HR from administrative work, but to help leverage information about the workforce.
- Thus enabled by technology, HR will play a more managerial role.
- HR departments will likely be smaller, more focused, and have greater impact on the business.
- If HR does not fulfill its strategic role, it will default to its historical role — transactional — and non-HR professionals will take the lead.

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(text edited for space considerations)

service- and knowledge-based economy.

In a recent study, the Society of Human Resource Management (SHRM) addressed such key questions as: What is the most exciting work in HR today? What skills and experience levels are necessary for the successful HR professional? Within the next decade, what are the primary workplace challenges facing the HR profession? And will the HR profession as we know it survive? (See preceding page for highlights.)

Workforce issues are at the top of the CEO's agenda. The SHRM study also revealed the increasing recognition that people represent the only real competitive advantage a company can sustain — and that HR's "seat at the table" is already established. The question is: Will it be occupied by an HR professional — or someone else? Who will execute the human capital strategy?

Interest in HR issues has grown beyond the HR department; indeed, there's a growing acknowledgment that human capital management has become a requisite skill for CEOs. Consider a recent Conference Board study<sup>2</sup>, which cited customer loyalty and competition for talent as two of the biggest CEO challenges. SHRM's study revealed that HR's pressing issues are: becoming a strategic partner, applying new technology, managing talent, recognizing and developing the employee's relationship to company brand, dealing with mergers and acquisitions and business reconfigurations, and reducing costs. *Figure 1* illustrates the alignment of the CEO's challenges and HR's "most compelling" work, showing great opportunities for HR. Nowhere, incidentally, do you see HR language; you only see business language.

So what is the profile of outstanding HR leaders? Among other things, they derive their agendas from enterprise business objectives; they stay in touch with the workforce; think "customer focus," not "customer service"; and concentrate on a few

**Figure 1. The Future of the HR Profession Study**



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*The alignment between the CEO's concerns and HR's challenges is significant, offering HR great opportunities.*

strategic priorities.

### The Future of HR: Linked to the Enterprise Strategy

A growing number of HR experts — Brian Becker, Mark Huselid, David Ulrich, Steve Kirm, John Boudreau, to cite a few — are searching for measures and systems, both quantitative and qualitative (behavioral), to better align HR strategy with business strategy. Jac Fitz-enz provides an "HR-out" view that looks at HR processes and describes the human capital value added. The Balanced Scorecard offers a framework to manage and measure human capital and provides an integrated strategic planning process for HR. David Norton provides a "strategy-in" view of measuring and managing human capital.

At the same time, more and more organizations are successfully integrating human capital management and HR strategy through the BSC. At Alterra Health Care, the percentage of employees who understand the company's strategy grew from 20% to 80%. Hilton Hotels increased customer satisfaction as well as post-stay loyalty. It also shares company stock with employees. Crown Castle International transformed the HR

function into a human capital partner, and Ingersoll Rand overhauled its strategic management system and aligned the organization using the Balanced Scorecard, with HR as leader and champion of the process.

It is clear that human capital is a strategic priority; what's not is how it will be managed. But if these positive developments are any indication, we should expect to see more of the strategy table seats occupied by HR in the not-too-distant future.

<sup>1</sup> The Human Capital Market: Implications for HR Consultants, *Kennedy Information*, December 2001.

<sup>2</sup> The CEO Challenge: Top Marketplace and Management Issues, *The Conference Board*, January 2001.

<sup>3</sup> Drinan retired from SHRM shortly after the BSCol conference.

### To Learn More

The ROI of Human Capital: Measuring the Economic Value of Employee Performance, by Jac Fitz-enz (New York, NY: AMACOM, 2000).

"Measuring the Contribution of Human Capital," BSR Jul–Aug 2001 (Reprint #B0107A), and "Managing the Development of Human Capital," BSR Sept–Oct 2001 (Reprint #B0109A), both by David P. Norton.

"Alterra Health Care's Fast Track to Results," by Janice Koch, BSR Nov–Dec 2001 (Reprint #B0111D).

Reprint #B02059 (the Society of Human Resource Management's web site) and [www.bscol.com/hr](http://www.bscol.com/hr).