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# How is Human Capital Management Defined and Managed in Large Companies?

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# How is Human Capital Management Defined and Managed in Large Companies?

## **Abstract**

[Excerpt] The employer — employee relationship is in disarray: 59% of workers feel their company favors profits over people, 58% believe there are limited growth opportunities in their organization, and 69% would be more satisfied if their employer better utilized their skills and abilities. Thus, a company must consider how to reinvent people strategy to improve engagement. This summary will illustrate the value of strategic human capital management, outline how organizations have adopted a human capital mindset, and provide recommendations for the future workplace.

## **Keywords**

HR, human resources, human capital management, future of work, human capital, talent, corporate strategy, contingent workforce, automation technologies, AI, artificial intelligence, strategy development, changing workforce, workforce

## **Comments**

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## EXECUTIVE SUMMARY

### RESEARCH QUESTION

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How is human capital management defined and managed in large companies? How does it differ from human resource management? How does this affect the future of work?

### INTRODUCTION

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The employer – employee relationship is in disarray: 59% of workers feel their company favors profits over people<sup>i</sup>, 58% believe there are limited growth opportunities in their organization<sup>ii</sup>, and 69% would be more satisfied if their employer better utilized their skills and abilities<sup>iii</sup>. Thus, a company must consider how to reinvent people strategy to improve engagement. This summary will illustrate the value of strategic human capital management, outline how organizations have adopted a human capital mindset, and provide recommendations for the future workplace.

### HUMAN CAPITAL VS. HUMAN RESOURCE MANAGEMENT

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Human capital management is an umbrella term for a firm’s ability to develop their human capital – the value-generating contributions of talent, including character, creativity, and capacity. It is proactive and transformational, viewing people and personnel expenditures as investments, and takes an outside-to-inside approach to integrate people strategy into corporate strategy<sup>iv</sup>. In contrast, human resource management denotes an organization’s formal people management systems. It is reactive and transactional, viewing people and personnel expenditures as resources, and takes an inside-to-outside approach to integrate people strategy into corporate strategy (Appendix 1)<sup>v</sup>.

### CORPORATE HUMAN CAPITAL PRACTICES

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Large, multinational companies, particularly those in the financial services and manufacturing spaces, have developed Human Capital teams as a replacement for (Goldman Sachs), or a strategic subset of their Human Resource departments (American Express, DE Shaw, Lockheed Martin).

COMPANY	HUMAN CAPITAL TEAM	MISSION
American Express	Human Capital Insights	To deliver insights to power critical HR and organizational initiatives through the design, execution and analysis of surveys <sup>vi</sup> .
DE Shaw	Human Capital Systems	To curate employee data and leverage it to answer operational and strategic talent questions for leaders across the business <sup>vii</sup> .
Goldman Sachs	Human Capital Management	To advise, design, and implement strategies, processes, and technologies to help people advance, drive productivity, and help the firm and clients achieve superior results <sup>viii</sup> .
Lockheed Martin	Human Capital Data	To provide advanced analytics and reporting for HR professionals and business leaders, interface with a broader group of Business Area teams on analytics, reporting, and HR systems to solve critical human capital challenges <sup>ix</sup> .

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## HUMAN CAPITAL AND THE FUTURE OF WORK

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It is especially important for firms to adopt a human capital mindset in the face of the changing nature of work, where the augmented workforce, including contingent workers and technology, requires a redesign of the traditional employer – employee relationship.

### The Contingent Workforce

While nearly six million U.S. workers have contingent jobs<sup>x</sup>, only 51% of employers say they are able to manage their contingent labor well. To develop this capability, organizations should:

- **Redefine Customers:** While employees have been HR's traditional customers, this definition should now also include members of the augmented workforce, and a new, permanent strategy should be developed and implemented to meet the firm's goals<sup>xi</sup> (Appendix 2).
- **Become a Talent Broker:** HR will need to match worker talent to particular tasks or teams by evaluating candidates on performance data, including KPIs from previous assignments, peer feedback, cultural fit assessments, and training test scores<sup>xii</sup>.
- **Segment Workers:** HR should tailor their talent management strategies to meet the needs of a highly diverse contingent worker audience, and should consider segmentation by performance, potential, location or any other meaningful criteria<sup>xiii</sup>.
- **Consider Talent Partnerships:** Instead of using its own marketing department to craft a narrative for its Disney-branded hearing aids for children, Siemens USA instead "borrowed" Disney's highly-specialized creative and marketing talent to better serve customer needs<sup>xiv</sup>.

### Automation Technologies

While 41% of firms have made significant progress in implementing cognitive and AI technologies, and another 34% are in the midst of piloting, only 17% of executives are confident in their ability to manage a workforce with people, robots, and AI<sup>1</sup>. To develop this capacity, companies should:

- **Build a Clear Narrative:** Humans will continue to play a significant role in the workplace. Over the next five years, the global value of human capital in the workforce will be worth \$1,215 trillion, some 2.33 times the estimated future value of physical capital, including technology, real estate, and inventory<sup>xv</sup>. However, nearly one-third of workers are anxious about the loss of their job due to automation<sup>xvi</sup>. HR should initiate mature conversations about the future with employees, and should continue to encourage meaningful dialogue.
- **Enhance Human Elements:** Leading companies are increasingly cognizant that technologies are most effective when complemented, and not replaced, by humans. As a starting point, firms should transform hypotheses about future needs into workforce scenarios that can guide decision-making.
- **Invest in Human Capital:** While tasks are being automated, the essentially human elements of work, such as empathy, communication, persuasion, personal service, problem solving, and strategic decision making, are more critical.

## CONCLUSION

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The adoption of a human capital management mindset will allow organizations to consider the potential of employee talent, encourage outside-to-inside strategy development, reframe the Human Resources function, and adapt to the needs of a changing workforce.

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## APPENDICES

### Appendix 1: Outside-to-Inside vs. Inside-to-Outside People Strategy<sup>viii</sup>

	INSIDE-TO-OUTSIDE	OUTSIDE-TO-INSIDE
<b>FOCUS</b>	Administrative efficiency, redesign HR practices, and link HR to strategy	Create value both inside, with employees and organizations, and outside, with customers, investors, and communities
<b>BUSINESS STRATEGY</b>	Drive internal efficiency	Understand business context, and define HR through eyes of customers and investors
<b>TARGETS</b>	Build talent and improve employee results	Increase employee productivity, improve organizational capabilities, and ensure leadership as a brand
<b>FUNCTION</b>	Seek best practices	Offer aligned, integrated, and innovative HR practices around people, performance, information, and work

### Appendix 2: The Extended Workforce: Old and New Realities<sup>viii</sup>

DIMENSION	OLD REALITY	NEW REALITY
Percentage of the workforce	Small percentage	Large percentage
Type of work performed	Primarily low-skilled, low value	Increasingly high-skilled, high-value knowledge work
Location of work performed	Local	Global
Reasons to hire	Address an immediate need	Gain agility and access to top talent
Configuration of work	Hierarchical, permanent jobs	Dynamic project teams with employees and non-employees
Manager	Procurement or line managers, with a cost orientation	HR, with a strategic orientation and input from the functions
Corporate perception	Assets to be managed at cost	

		Individuals to be managed for value
Recruiting process	Temp agencies	Freelance and crowdsourcing platforms, online social networks, outsourcing providers, business partners

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