Winning in challenging markets requires stronger attention to human capital

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Human capital is getting much more attention lately. The Conference Board's 2014 survey of global CEO challenges ranked human capital issues as the number one challenge. In our work, we have found that the leadership profile of successful CEOs matches the leadership profile of effective Chief Human Resources Officers (CHROs), that HR issues are increasingly a part of firm valuation by thoughtful investors (leadership capital index), and that about one-third of the issues discussed at the board level are HR related (e.g., succession planning, talent review, executive compensation, governance, strategy execution, ethics, and culture). With this increased relevance and status of human capital, let us propose four contrarian insights that will help business leaders leverage human capital for value creation.

1. ***Value is defined by the receiver more than the giver***

This principle applies to many aspects of organisation (and personal) life. Building on one's strengths is incomplete unless one's strengths strengthen someone else. Leaders who set a vision that no one follows are not really leading. Leadership authenticity or emotional intelligence without a positive impact on someone else is more narcissism than real leadership. Human capital is not about human resource activities but their outcomes. The scorecard for human capital is the business scorecard. For example, we have just published *The Leadership Capital Index: Realizing the Market Value of Leadership* so that investors can track and assess the market value of leadership. This work is an example of focusing on business outcomes (market valuation) of human capital work (leadership). *Business leaders should start human capital explorations by clearly defining desired business outcomes, and then determine how human capital (or resources) choices positive influence those outcomes.*

2. ***Competitiveness is not strategy, but strategy organization***

"Strategy" declarations (mission, vision, aspirations, intent, purposes, goals, and so forth) do not equal competitiveness. To compete, and fully differentiate from others, strategy has to translate into organisation disciplines and actions. Strategy without organisation is false hope. Organisation without strategy is mindless activity. It is often easier to create a strategy statement than to deliver on it. Knowing where we want to go is often easier than getting there. *Business leaders wanting to compete need complete models that include both strategy and organisation.*

3. ***Organization is not structure but capability***

No one knows, or cares much about, the number of levels of management in admired companies. We admire companies not because of their morphology or shape, but because of what they are good at doing, be it innovation, customer service, distribution, efficiency, global reach, and so forth. An organisation's capabilities represent what the organisation is good at and known for.

The last 20 years have been inundated with ways to change the morphology of organisations: resizing, rightsizing, downsizing, reengineering and delayering. Today, leaders need to broaden their definition of organisation so that they can audit their organisation capabilities to define what the organisation is, should be known for, and is good at doing. Sometimes organisation audits include many human capital activities (structure, rewards, staffing, training, systems, and so forth). But unless and until these isolated human capital systems build enduring capabilities, they are not going to lead to sustained competitiveness. Organisations with enduring capabilities survive and thrive.

Business leaders who want to build better organisations should focus less on isolated human resource practices like *structure (clarifying roles, rules, and responsibilities), training (classroom training and on the job development), or compensation (financial and non-financial rewards) and more on how these practices will create capabilities required for success in the marketplace.*

4. ***Capability consists of talent, leadership, and culture***

As leaders try to define and create organisation capabilities, there are *two* givens and *one* variable. The first given is that every organisation has to have exceptional talent. Organisations don't think; people do and without the right people as the ingredients, organisations won't succeed. Human resource practices (staffing, training, structure, compensation) should ensure people who are competent at and committed to meeting customer needs.

The second given is that organisations must have great leaders. Leaders make choices that align resources to appropriate goals. Leaders set directions and get things done. Effective leadership comes from having a leadership brand (what leaders know and do) that reflects the product and firm brand (promises made to customers).

Every organisation requires talent and leadership. In addition, organisations need to create the right culture – the one variable. The right culture is more than a pattern of activities inside a firm (e.g., our values, behaviours, or norms); it is the identity of the organisation in the mind of key stakeholders (customers, investors, communities). *Business leaders should ensure that human resource practices drive the right talent, leadership, and culture as core elements of defining organisation capabilities.*

Winning in changing and increasingly challenging markets requires that business leaders pay more attention to human capital issues. When business leaders focus on value from the outside in, competitiveness through organisation, organisation as capability, and capability as talent, leadership, and culture, then they can create and enable human capital practices that will be relevant for business success.

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Notes:

- *This article is based on the authors' paper Making Strategic Human Capital Relevant: A Time-Sensitive Opportunity published in Academy of Management Perspectives, August 1, 2015, Vol 29, no. 3, 357-369*
- *This post gives the views of the authors, and not the position of LSE Business Review or the London School of Economics.*
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