

# Concept Paper

On

## Managing Human Capital

Prepared by

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President



*"A Leader in Measuring Success"*

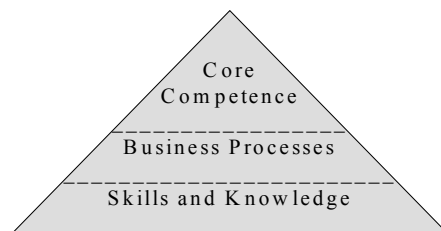
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Leaders of large organizations often state their belief in the importance of human resources and their commitment to people. However, in practice, leaders in most organizations view employees as an expense and, when business slows, employees and employee-related resources are among the first to go. In 1984, the 500 largest companies in the US employed well over 14 million people; ten years later they employed less than 12 million people. Why is this so? This was a time when the GDP grew in 1996 dollars from \$5.5 trillion in 1984 to \$7.3 trillion in 1994. Why is there such a large gap between word and deed? The answer may lie in understanding core competence, human resources and the skill requirements of jobs.

### **Core competence**

A decade ago Prahalad and Hamel (1989) wrote that an organization must leverage its core competence and build their business around it. A core competence, according to Prahalad and Hamel, is what a business does well – what it excels at. For example, they described how Honda successfully leveraged their expertise in small engine manufacturing and applied it successfully to the manufacturing and sale of many products, including motorcycles, snow blowers, lawn mowers, and power generators. Prahalad and Hamel argued that those companies that understand and manage their core competence most effectively will compete most successfully.

While Prahalad and Hamel’s insights about core competence were ground-breaking they fell short in explaining just what to do about the skills and knowledge needed to support the firm’s core competence. The ability of a firm to leverage the skills and knowledge that form the foundation of their core competency is crucially dependent on the firm’s ability to manage them. It is important to understand that (1) a core competence is a business capability, (2) core competence requires that certain skills and knowledge exist in the organization and (3) for the core competence to be realized and leveraged to the firm’s benefit, employees must possess the right skills and knowledge, at the right time and place and in the right amounts.



So if a business' core competence is tightly connected to its ability to manage its skills and knowledge, a crucial question is, what is the process for managing skills and knowledge? How does a firm manage its skills and knowledge to create and leverage its core competence. Or, hey Honda, how'd you do that?

### **Managing Knowledge and Skills**

Most firms don't understand the role that skills and knowledge play in an organization and therefore they do not know how to manage them. I'm not talking about knowledge management as it has come to be known today. Managing skills and knowledge is more comprehensive than knowledge management; but it includes knowledge management. Managing skills and knowledge is not creating job descriptions. Job descriptions provide no information about people, but it includes information found in job descriptions. It is not a collection of resumes because resume information is often inaccurate and the information about people is not standardized, but it includes the kind of information found in resumes. And managing skills and knowledge is not an isolated human resources function because the management of skills and knowledge begins with the business strategy or intended core competence of the business.

There are two components to managing skills and knowledge effectively. One is to identify and manage the work-oriented skills and knowledge and the other is to identify and manage the worker skills and knowledge. Managing the work component of skills and knowledge means studying the skill and knowledge requirements of jobs. The study must include what skills and knowledge are required to perform jobs successfully and how much of each skill and knowledge is required for success. This is not a new idea. Organizations have studied the skill and knowledge requirements of jobs for decades in order to set wage rates, identify training needs, create job descriptions, write job requisitions, and more. What is new to *managing* skills and knowledge is studying the skill and knowledge requirements for jobs in the context of the firm's core competence. A list of skills and knowledge that do not align with the core competence of the business is only a list without strategic value, but one that identifies the skills and knowledge that support the firm's core competence is of real strategic and practical value.

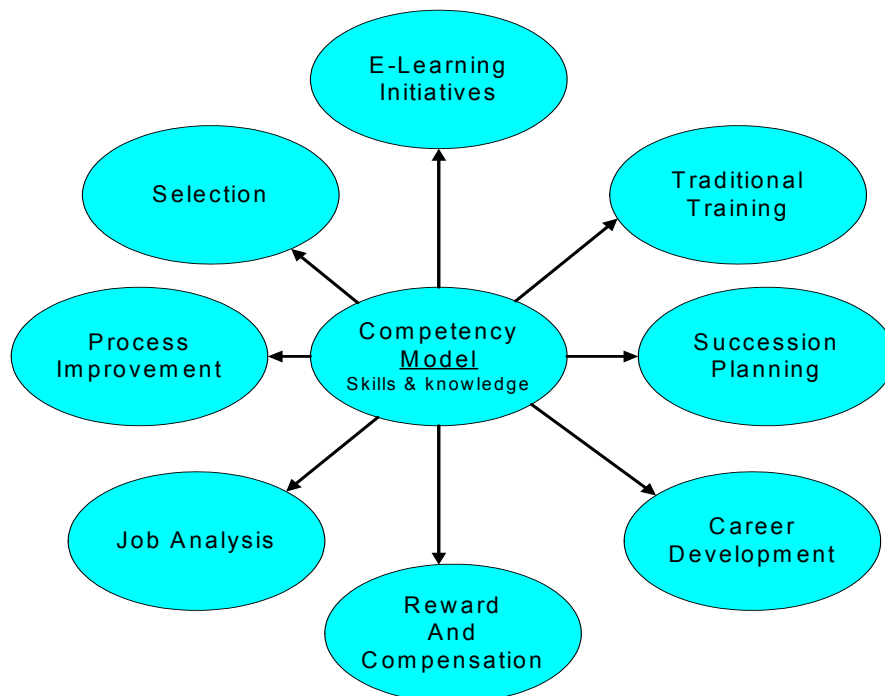
The second component for managing skills and knowledge is to identify and manage worker skills and knowledge. This is accomplished by using the results from the job analysis just described. The list of work-oriented skills and knowledge that is derived from the job analysis can be recast as a survey. The survey can then be administered to workers and their supervisors to obtain ratings of the workers' skills and knowledge contained in the list – those crucial to managing and leveraging the firm's core competence.

The work and worker skill and knowledge information is then stored in databases and updated periodically. Updates are required when the direction of the business changes (i.e., the core competence evolves), when workers acquire new skills and when workers join or leave the firm. Workers are encouraged to keep their skill ratings up-to-date at all

times. The ubiquitous availability of the Internet and web-based surveys make updating workers' skills and knowledge more feasible than ever.

The development and updating of the skills and knowledge is performed by job analysts, industrial psychologists and others with expertise in job studies and competency modeling. These specialists work with subject matter experts from the firm to identify the skill and knowledge requirements for jobs in the firm and ensure they are critical to support the firm's core competence. The development and updating of skills and knowledge may seem overwhelming. The task is made manageable by narrowing the focus of the job study and maintaining the proper level of granularity. The specialists do not have to identify each and every skill and knowledge for every job in the firm. The focus must be on those skills and knowledge needed to support the core competence. And the level of detail obtained must be sufficient to identify the skill accurately but not so detailed that the information changes constantly and is a burden to maintain accurately.

Once this information is developed, standardized and stored in a database it can be used to make decisions and take actions to support the firm's core competence. For example, the information can be used as part of a needs analysis to ensure that the firm's training programs are teaching "the right stuff." The skill and knowledge information can be used to recruit new hires more effectively, it can be incorporated into performance appraisals and workers can use the information to make better career planning decisions. Figure 2 below graphically depicts the fact that skill and knowledge information is at the core of all human resources functions. These functions are an important part of leveraging a firm's core competence.



**Figure 2**

Because these skills and knowledge are critical to many human resources functions and the functions are critical to leveraging core competence, an important step in managing skills and knowledge is standardizing the language of skills and knowledge – creating a common language. Typically, each organization or function creates its own list of skills and knowledge (rarely aligned with core competence) and these lists proliferate – unaligned with the core competence, of varying quality, and redundant to each other. A common language of skills and knowledge standardizes the language used to represent skills and knowledge, eliminates redundancy, and ensures alignment with the core competence. This standardization enables comparisons of skill levels of different kinds to be made – for example, between departments, job titles, and over time.

### **Benefits of the system**

With this system of job analysis specialists, common language of skills and knowledge, skill and knowledge databases, and skill surveys in place, a firm is in a strong position to manage skills and knowledge in a manner that supports the firm's core competence. The firm will have a solid understanding of the breadth and depth of its human capital. Some examples of managing in a manner that supports the core competence are as follows.

Using the skills and knowledge, the firm will be able to:

- Identify skill gaps in the firm
- Hire workers who can close those gaps
- Identify training that is misaligned and revise curricula and courses to improve alignment
- Offer better training programs to workers
- Implement a “pay for skills” wage and salary system
- Ensure that downsizing and layoffs do not deplete the firm of needed skills and knowledge
- Select workers for project teams more effectively

In addition to these benefits, if Prahalad is correct, the firm will be more successful for having implemented this system. But the firm is not the only beneficiary of this system. Workers will have skill and knowledge information they need to ensure that they will have jobs in the future. Armed with this information, they can select training that closes skill gaps they possess. Workers will have accurate information about the skills and knowledge they need to progress along the career path of their choosing. Workers will come to learn that they should view themselves as a “packet of skills” that must be kept aligned with the core competence of the business and periodically updated. The skill surveys enable them to identify their skill gaps and proper training will enable them to obtain the skills and knowledge they (and the firm) need. If they do this they will benefit the business and maximize their chances of having a long and prosperous career with the firm.

## **Conclusion**

Considering the statistics on downsizing reported in the first paragraph of this paper and the disconnect between what the firm's leaders say about the importance of human resources and their actions, this system may improve the alignment between what the leaders say and do. Prahalad argues persuasively that business leaders must decide what is their core competence or what they would like it to be. This paper argues that they must also manage skills and knowledge because skills and knowledge are the "human capital" required for a core competence or any corporate vision, to be realized. Managing core competence and skills and knowledge successfully is important to both the firm and workers. The leaders of the firm play a crucial role ensuring that companies manage their skills and knowledge correctly and provide the worker with development opportunities that benefit the business and increase worker job security. And leaders may finally recognize the true value of their human capital and manage it more carefully – avoiding gaps in skills and knowledge that are crucial to the firm's success.