

# THE ROLE OF SENIOR LEADERSHIP IN HUMAN CAPITAL AND TALENT MANAGEMENT

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## ABSTRACT

*The long-term and sustainable success of a corporation in today's and tomorrow's globalized economy and environment are dependent on its able, talented and visionary leaders, and strong supports of human capital within the corporation. This entails the role of senior leadership in the corporation to ensure leadership par excellence continuum and to build the capacity of its human capital to meet challenges and capture opportunities for sustainable corporate wealth. As such, the role of senior leadership in a corporation is inseparable from the talent management, which involves identification, assessment and development of talented individuals as the entry basis for effective leadership succession plan and competency development toward high performance human capital.*

*This paper will discuss the intertwined concepts of talent management, competency management, knowledge management, human resource organization and development management, and other human resource management activities, which are necessary to uphold good leadership succession plan and high performance human capital for corporate survival, growth, and long-term prosperity. The paper will also describe the increasing role of and demand for human resource professionals to provide corporate senior leaders, executives and line management with professional advice, consultancy and facilitation in order for them to be able to carry out succession plan and human capital enrichment as an integrated part of their respective leadership and management functions.*

## INTRODUCTION

The concepts of talent management, competency management, human resource and organization development, knowledge management and human capital management are intertwined concepts in human resource or people management in an organization that reflect the growing importance of the “people” and the leadership roles in business organizations to ensure sustainable corporate success and growth in the increasing global competitive environment.

Competitiveness measures in today's global economy have always been associated with financial performance measures in terms of values of corporate assets, costs, risks, profits and losses. It is along this concept that there have been paradigm shifts from personnel administration to human resource management and more recently to people and human capital management; from considering costs of employee salaries and benefits, training and development, and other personnel amenities as expenses to investments that add value to the human capital; and from considering human resource function as a cost center to a profit center.

The Google website on human capital and human capital management offers a number of definitions on human capital. Economist Theodore Schultz invented the term in the 1960s to reflect the value of human capacities. He believed human capital was like any other type of capital; it could be invested in through education, training and enhanced benefits that will lead to adding the value of human capital and consequently, an improvement in the quality and level of production. Although these intangible assets do not appear on balance sheets, they are crucial to judging a company's value.

Derek Stockley stated that: "The term human capital is recognition that people in organizations and businesses are important and essential assets who contribute to development and growth, in a similar way as physical assets such as machines and money. The collective attitudes, skills and abilities or competency of people contribute to organizational performance and productivity. Any expenditure in training, development, health and support is an investment that improve competency and thus the human capital, not just an expense"

In a society which places a strong emphasis on *competition, financial return and viability*, the people issues can sometimes be neglected. However, business and political leaders are increasingly starting to recognize that having good people who are skilled, knowledgeable and motivated can make a significant difference. To grow and adapt, the organization's leadership must recognize the value and contribution of the people. Treating money spent on people as an investment in an important asset is a far more appropriate mindset than treating such expenditure as an expense.

In other words, the basis for "monetizing" human capital comprises of the value of composite, cumulative competencies of the people in the organization, the investment for recruiting talented people and developing their respective talent to meet the required competency, and necessary operating and maintenance costs of the people to keep up their productivity toward the achievement of the organization's vision.

The Webster's New World Dictionary defines talent as "natural ability or power", a superior, gifted ability in specific profession such as art, linguistic, specific engineering and science discipline, finance, human relation, sports, leadership, etc. Talent can be considered as

the potential, unique capacity of a person. In order to benefit this potential capacity, it has to be explored, identified and developed into proven and productive capacity or competency.

Competency is defined as a combination of knowledge, skill and attitude of a person which makes the person able to perform or excel in performing certain work. Competency could be developed through education and training, working exposures and skill development, and through positive reinforcement, interpersonal roles, and other behavioral improvement undertakings.

Knowing the specific talent of each person in the organization or to be recruited for the organization and developing this unique potential capacity to create highly competence human resources that add value of the organization's human capital, which in turn will enhance organizational performance and wealth, are among the essence of talent management. Talent management consists of many elements, including performance evaluations to identify individual potential; psychological testing and assessment centers to determine capability gaps; training and development programs, relocations, project work and job experience to accelerate development. The strategic approach of talent management is as rigorous as other business planning processes.

Recognizing the importance of human capital management and talent management in an organization as described above, what is then the role of senior leadership in the organization? What should the senior leadership do to uphold good leadership and high performance human capital in the organization for sustainable corporate survival, growth, and long-term prosperity? Commitment of senior leadership in an organization to carry out human capital and talent management as an integral part their leadership role, however, poses new challenges and, at the same time, opportunities to human resources professionals to hone their professionalism to provide professional consultancy and advisory services to corporate leaders.

## **TALENT MANAGEMENT AND HUMAN CAPITAL MANAGEMENT**

The management of human resources in business and public organizations has evolved with growing trend toward still giving more attention to the intangible people aspect but simultaneously also addressing the tangible value of human resources. Human Capital Management is the manifestation of the philosophy stating that *people is the most important asset* of the organization. However, differs from other physical assets, such as machine and money, the value of people grows through its productive life by its own initiatives and through proper maintenance and development processes.

The introduction of competency standards and competency matrices in place of job descriptions and the rise of Competency Based Human Resource Management in the 1980s

reflected efforts to develop measurements of the value of human capital. Competency matrix provides measurement tools for various human resource management activities such as training and development gap analysis, recruiting, placement, relocation, promotion, successor planning, performance evaluation, salary and benefit survey and benchmarking, outsourcing and required consultancy services. The same measurement can be used to support the valuation of human capital in term of its financial value. This will help corporate business and financial leaders to develop appropriate procedures, based on prevailing regulations and best industry practices, to valuate their respective human capital and book the corresponding monetary values in the balance sheets, profit and loss statements, and corporate wealth.

Salary and wages, costs for training and development, and other costs for recruiting, maintenance and development of people should be considered as investment to increase the value of the most important asset of the organization, the corporate human capital. Of course in order to provide appropriate and legitimate justification for the investment, there should be certain threshold to be met, such as return on investment, payout time, and perhaps also “virtual” cash-flow. If not already done so, perhaps there should be joint efforts among human resource (HR) and information technology (IT) professionals and professional accountants to establish standards and coding system for monetizing human capital which are acceptable to the business community.

Personnel competency in conjunction with industry accepted competency standards can be used to establish valuation of each individual that build up the human capital value of an organization. Individual competency can be enhanced to add value through investment in individuals in the form of education, training, and other personnel development means. The effectiveness and success of the investment in human resource development will get even better if it is done in accordance with their respective individual talent. For example, to get a competence master mechanic from within the organization, we should start with seeking or identifying a person with mechanic knack or talent and then exercise appropriate training and development to enhance his/her competency to become a master mechanic.

Talent Management in essence involves finding or indentifying the right talents and developing those talents into personnel competencies needed by the organization to have highly efficient and high performance human capital. The high performance human capital in turn adds values, productivity and marketability to the organization as such that it has to be well maintained through out its productive life and given appropriate recognition when they are retired. It is in this respect that addressing the “people” issues becomes utmost importance.

### **Value Delivery Process in Human Capital Management**

Exhibit – I shows a concept of Value Delivery Process in Human Capital Management, from Existing to *Desired Human Capital Values*, which include the following conditions:

- Efficient, High Value and High Performance Human Capital
- Human Capital Monetary Values are booked in the Balance Sheet and become marketable asset
- Human Capital and Talent Management become integral part of senior leadership roles.

In order to achieve such conditions, we propose the strategy, describing how we are going to achieve the desired conditions; the value added steps to obtain additional values beyond strategic goals; and what should be developed and produced to make the desired goals realized, as highlighted below:

### **Strategy**

- Apply Competency Based Human Resource Management.
- Apply best practice of Talent Management
- Integrate Strategic Human Capital Development Plan with the Corporate Strategic Business Plan
- Advocate commitment of Senior Leadership to exert proactive role in Human Capital and Talent Management as an integral part of their leadership functions
- Enhance the role and capacity of Human Resource Professionals.

### **Add Value**

- Align competency based HR development with individual talent
- Recruit candidates with the right talents to meet organization needs
- Assign monetary value of existing and potential human capital
- Recognize talent to have potential value to human capital that has to be explored and developed to become tangible human capital value.

### **Develop**

- Develop Competency Matrix for each position
- Compile inventory of and map-out existing and required talents
- Analyze HR competency gaps, prepare and deploy talent based competency development plan that may include HR relocation and reassignment
- Establish Personnel (HR) Inter-company / division / department Development Committees (PDC)
- Develop human capital valuation methodology and HC value monitoring, bookkeeping, reporting, and auditing procedures.

### **Produce**

- Inventory and map of existing and required talents
- Competency matrix required for each position and personnel competency level

- Strategic Plan for HC Development in line with Corporate Business Strategy covering among others: acquisition of new talents (potential HC), exploration and development existing talent into productive human capital
- Methods & Procedures to value and book HC financial values, including investment spent for HC value exploratory, development and production
- New Leadership Development. Program that incorporate Talent & Human Capital Management.

Those are just a few ideas from practitioner's point of view that could be expanded and enhanced through further studies and researches by human resource professionals and academic communities. The system will work in any business organization provided there are commitment and proactive role-models from the top and senior leadership of the corporation.

## THE ROLE OF SENIOR LEADERSHIP

Leaders, directors, and managers, who constitute the senior leadership in an organization, and members of the organization or workers, are required to maintain an organization's existence. Their competencies acquired through formal education and experience that improve the organization's productivity and revenues, are in essence the basis of human capital values. In order to maximize the human capital values, senior leadership in the organization should recognize the importance of the following aspects in human capital management:

- *Talent* – recruiting for the right talent through effective recruitment and identifying talents already embedded in the organization, and further develop these talents or *potential capacity* into needed competencies.
- *Competency* – applying competency based human resources management whereby all job positions have the required competency profile well documented and individual competency level of incumbents periodically appraised.
- *Training, education, on the job experience* – investing on improvement of individual competency in line with their respective talent into the required level of competency of the job position
- *Placement, Rotation and Succession Planning and Performance Management* – these are essential processes in managing talents and competencies: to develop the right talent for the right competency to carry out current or future job assignments. Good talent based manpower planning reduces development cost and cycle time, improve productivity, and creates employee satisfaction. Effective performance management leads to improvement of human capital values.
- *Health and Safety* – attention to personnel health and safety are paramount to ensure that the organization's human capital performs well and grows to higher value.

- *Motivation, Innovation* – these represent the people aspect of human capital which do not exist in other physical capital. Highly motivated, innovative and creative people with the right talent based competency well developed will ensure high value of corporate human capital and growing corporate wealth.

Research conducted by John Bersin of Bersin & Associates <sup>11)</sup> showed that the involvement of top executives in driving or actively participating in the talent management strategy is critical to its success. In the context of Asian culture, proactive role or role modeling and demonstrated commitment of top executive and senior leadership in the organization are utmost importance to ensure snowballing effect for a successful implementation of the talent and competency based human capital management through out the organization.

In order for the senior leadership to take proactive role in talent and competency based Human Capital Management, they should be made aware of the economic and intangible benefits of this integrated, strategically aligned human capital asset management systems, which require ongoing process. Exhibit –II shows an example of asset management process used by many oil companies to explore and develop their potential resources into real economic values. Similar ongoing process can be developed for use in the human capital / asset management and to integrate it into overall organization business strategy.

Economic benefits of the integrated talent and competency based human capital management include, among other things: increase revenues, customer satisfaction, improve quality, increase productivity, reduce cost, reduce cycle time, and increase return to shareholders and market capitalization <sup>10)</sup>. The intangible benefits include employees' satisfaction, motivated work force, climate conducive to innovativeness and creativity, and high individual and team performance.

For organizations that have not fully exercised talent management, competency management and human capital management – the role of senior leadership in those organizations as *change agents* or “sponsors” to introduce and put Talent Management, Competency Based Human Resource Management, and Human Capital Management processes to work will even be greater and more crucial. These processes require paradigm shift of the way senior leadership should look at human resources as the source of people power and human capital asset. Senior leadership is expected to disperse through out the organization the shared vision and strategic intents of the organization to give clear direction for those intertwined processes of talent, competency, and human capital management in order to achieve common goals.

Senior leadership in an organization has many ways to demonstrate and exercise commitment, interest and participation in the fabric of talent, competency, and human capital management processes. A few examples of those means are outlined below:

## **Personnel Development Committee – Human Resource Development Forum**

PDC or HRD Forum is an organized inter-companies, inter-business units, inter-division or inter-department forum or committee to discuss human resources development through out the organization. The process involves top-down and bottom-up joint assessment and evaluation of key personnel talent, competency and performance to identify and determine candidates for filling vacant positions, relocations, cross-assignments, promotions and successions. The committee also discusses training and development needs, especially for fast-tracks, and is an excellent mean to talk about talent management issues and review human capital development strategy.

The committee normally consists of senior leadership of the respective organization member (company, business unit, division, department, or section). The top leadership of the group takes the lead, and human resource professional(s) could facilitate the committee meetings which are conducted on periodical basis.

## **Succession Plan and Leadership Development**

In a large organization, the board of directors/commissioners or a special committee lead by the top executive takes the responsibility for the company succession plan of key leadership positions, based on recommendations and inputs from the Executive PDC or HRD Forum. Each senior leadership candidate is scrutinized for his/her talent and level of competency against the required talent and competency of the respective position. The board also discusses company leadership development profile in line with the company strategic intents and changing business environment.

## **Strategic Business Plan and Deployment**

Formulation of shared Vision, Mission, Values and determination of strategy, strategic intents and objectives constitute the strategic planning process. Assessment and analysis of company strengths, weaknesses, opportunities, and threats precedes the business plan process. The role of senior leadership in the strategic planning and deployment process is to ensure that investment in and development of human capital becomes an integral part of the company business plan. They should also ensure that there is continuing processes of exploring for new and talented human capital potentials, developing them, and effectively making them efficient, high performing, and productive human capital that add value to shareholders and the company wealth. These continuing processes are keys to sustainable company success and growth.

## **CHALLENGES AND OPPORTUNITIES FOR HUMAN RESOURCE PROFESSIONALS**

The role of senior leadership in an organization to be proactive in talent and competency based human capital management does not necessarily entail that company leaders and managers

should be proficient in human capital management. However, they require consultancy and advisory services of human resource professionals with expertise in talent and competency based human capital management processes and complimenting knowledge in financial management.

In large organizations, these services can be obtained from within the organization, which is the Human Resources Services or Supports Division or Business Unit. In the context of this paper which addresses human capital in term of physical asset that has and can add value to the company, it may be more appropriate to call this group the Human Capital Business Unit, because it is no longer considered a cost center but a profit center. As a profit center, all expenses for talent management and competency development management processes are considered as investment in human capital to add value and improve efficiency and productivity, and thus create additional profit to the company.

In small and medium companies, professional human resource services in talent and competency based human capital management can be outsourced to competence professional human resource consultants.

The increasing demand of HR professionals poses new challenges and opportunities to hone their professionalism in undertaking their call of duty. As business undertakings now involve multinational and global activities, it is utmost importance to establish internationally or regionally recognized competency based certification human resource professionals that could be trusted in the valuation of human capital, especially for public companies, to enhance the company book values and marketability.

## **CONCLUSION**

In conclusion, the foregoing discussion can be summarized as follows:

- Individual talents can be considered as potential human capital asset (*potential reserves*) of an organization / company which should be identified (*explored*) and developed (*exploited*) in order to become highly competence, efficient and productive human resources (*proven reserves*) and generate human capital financial values that can be booked in the company balance sheets and thus increasing marketability of the company.
- Human capital values in an organization are declining (*depleted*) due to attritions and turnovers. In order to keep up with the company performance to generate values to shareholders and ensure growth, company should continually recruit new talents (*add new potential reserves*) that fit the company needs and optimally manage the people aspect and physical asset value of the human capital.
- Talent management and competency based human resource management are integral parts of human capital management which in turn should be integrated in the management of overall

company assets. Consequently, human capital development and values should be integrated in the company business strategic plan and deployment to support attainment of company vision.

- The senior leadership role in the human capital and talent management includes, but not limited to:
  - Develop awareness of the importance and contribution of talent and competency based human capital management to add value to shareholders among selves, peers and subordinates
  - Demonstrate commitment that talent management, competency based human resource management and human capital management are integral parts of senior leadership role through proactive participation, as champion or facilitator, in the human capital management processes
  - Integrate human capital asset development in the company strategic business plan and deployment and act as sponsor or participate in promoting the valuation of human capital in financial term so that it could be booked in their respective profit and loss statement, performance measure, and company balance sheet
  - Develop competence human resource professionals in the organization as consultation and advisory resources in the technicality of human resources management, which include but not limited to talent management, competency management, and human capital management processes.
- The presence of competence human resource professionals to support senior leadership in a large company for consultancy, advisory and facilitation services in talent and human capital management recurrent process is utmost importance. For small and medium size companies these human resource professional services could be outsourced.
- Internationally or regionally recognized competency based certification of human resource professionals becomes a necessity to create trust in human capital management process, especially relating to human capital valuation for public company marketability in the globalized business environment and market economy.

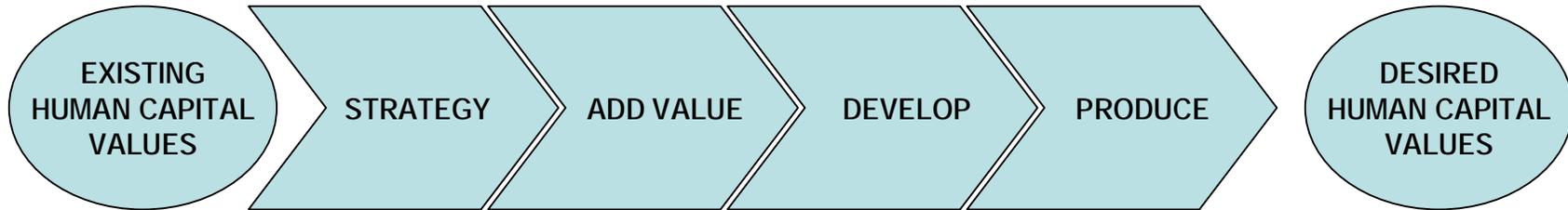
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# EXHIBIT - I

## VALUE DELIVERY PROCESS IN HUMAN CAPITAL MANAGEMENT



EXISTING	STRATEGY	ADD VALUE	DEVELOP	PRODUCE	DESIRED
<ul style="list-style-type: none"> <li>Existing Human Capital (HC) potential value not fully developed</li> <li>Existing Human Capital value not properly appraised and recognized as an asset to the organization</li> <li>Existing talents have not been fully explored and exploited as potential human capital value of the organization</li> </ul>	<ul style="list-style-type: none"> <li>Apply Competency Based Human Resource Management.</li> <li>Apply best practice of Talent Management</li> <li>Integrate Strategic Human Capital Development Plan with the Corporate Strategic Business Plan</li> <li>Advocate commitment of Senior Leadership to exert proactive role in Human Capital and Talent Management as an integral part of their leadership functions</li> <li>Enhance the role and capacity of Human Resource Professionals</li> </ul>	<ul style="list-style-type: none"> <li>Align competency based HR development with individual talent</li> <li>Recruit candidates with the right talents to meet organization needs</li> <li>Assign monetary value of existing and potential human capital</li> <li>Recognize talent to have potential value to human capital that has to be explored and developed to become tangible human capital value</li> </ul>	<ul style="list-style-type: none"> <li>Develop Competency Matrix for each position</li> <li>Compile inventory of and map-out existing and required talents</li> <li>Analyze HR competency gaps, prepare and deploy talent based competency development plan that may include HR relocation and reassignment</li> <li>Establish Personnel (HR) Inter-company / division / department Development Committees</li> <li>Develop human capital valuation methodology and HC value monitoring, bookkeeping, reporting, and auditing procedures</li> </ul>	<ul style="list-style-type: none"> <li>Inventory and map of existing and required talents</li> <li>Competency matrix required for each position and personnel competency level</li> <li>Strategic Plan for HC Development in line w/ Corporate Business Strategy covering among others: acquisition of new talents (potential HC), talent exploration, development and production</li> <li>Methods &amp; Procedures to value and book HC financial values, including investment spent for HC value expl., dev. &amp; prod.</li> <li>New Leadership Dev. Program that incorporate Talent &amp; Human Capital Management</li> </ul>	<ul style="list-style-type: none"> <li>Efficient, High Value and High Performance Human Capital</li> <li>Human Capital Monetary Values are booked in the Balance Sheet and become marketable asset</li> <li>Human Capital and Talent Management become integral part of senior leadership roles</li> </ul>

## EXHIBIT -2

### ASSET MANAGEMENT PROCESS APPLIED TO HUMAN CAPITAL MGT PROCESS

