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WHITE PAPER

10 Principles for Building an Effective Human Capital Plan

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What is Human Capital?

Your company's competences, knowledge and personality attributes embodied in the ability to perform labor so as to produce economic value.

Almost every business leader will say that people are their most important asset, but few do anything about it. If you are going to take this principle seriously then human capital planning is crucial.

The Human Capital Plan is an important tool that organizations use to drive focused actions that can ensure goal achievement and business success. It allows organizations to assess, plan for, and respond proactively to its human capital challenges and needs. It helps shape the organization by building a plan to develop the workforce and practices needed to meet an organization's vision, mission, and goals. Human capital challenges such as having capable leaders, building workforce skills, driving high performance, and ensuring retention of top talent can be addressed through effective human capital planning. The Human Capital (HC) Plan will establish a framework of policies, practices, and actions that guide your efforts in meeting these workforce needs.

Here are 10 principles to follow in order to build an effective human capital plan for your organization:

1. Human capital issues can have a big impact on business

Recognize how significantly human capital issues can affect your business. Without acceptance of its importance in your organization's framework, all plans regarding your workforce will fall flat or at least be deprioritized. Realizing how your human capital decisions affect your bottom line is an important step before drafting the plan.

Examples of Human Capital Issues Impacting Business

One company we work with built a performance management process that allowed them to achieve their goals more quickly. It was a pre-revenue start-up business. This meant they were able to gain an advantage by being first to market and also accelerate their revenue generation.

Another client company under 50 employees was growing rapidly in size and was a government contractor. However, the company did not know it needed to have an affirmative action plan if it wanted to go after larger government contracts in the future. Putting that in place allowed them to continue to build their government business. This was a human capital initiative they had to implement before continuing to grow the business.

Human capital matters are investments with expected returns.

2. Tie human capital plans to business outcomes

Human capital matters must not be viewed as tied to a cost center, but as investments with some return expected.

From a human capital point of view, you can do one of two things:

- Help increase revenue per employee, or
- Optimize or minimize the cost per employee

If you go for the first option, then take into account all the things that you offer which are unique to your organization. Offering differentiated products enables you to dominate a market. And those products or services cannot be offered without the tremendous talents of your workers.

You have to be careful about the second option though. With minimizing, you do not want to bring the cost per employee so low that you then face retention issues. Focus instead on optimizing.

Case Study: Leadership Skills Training Brings Good Results

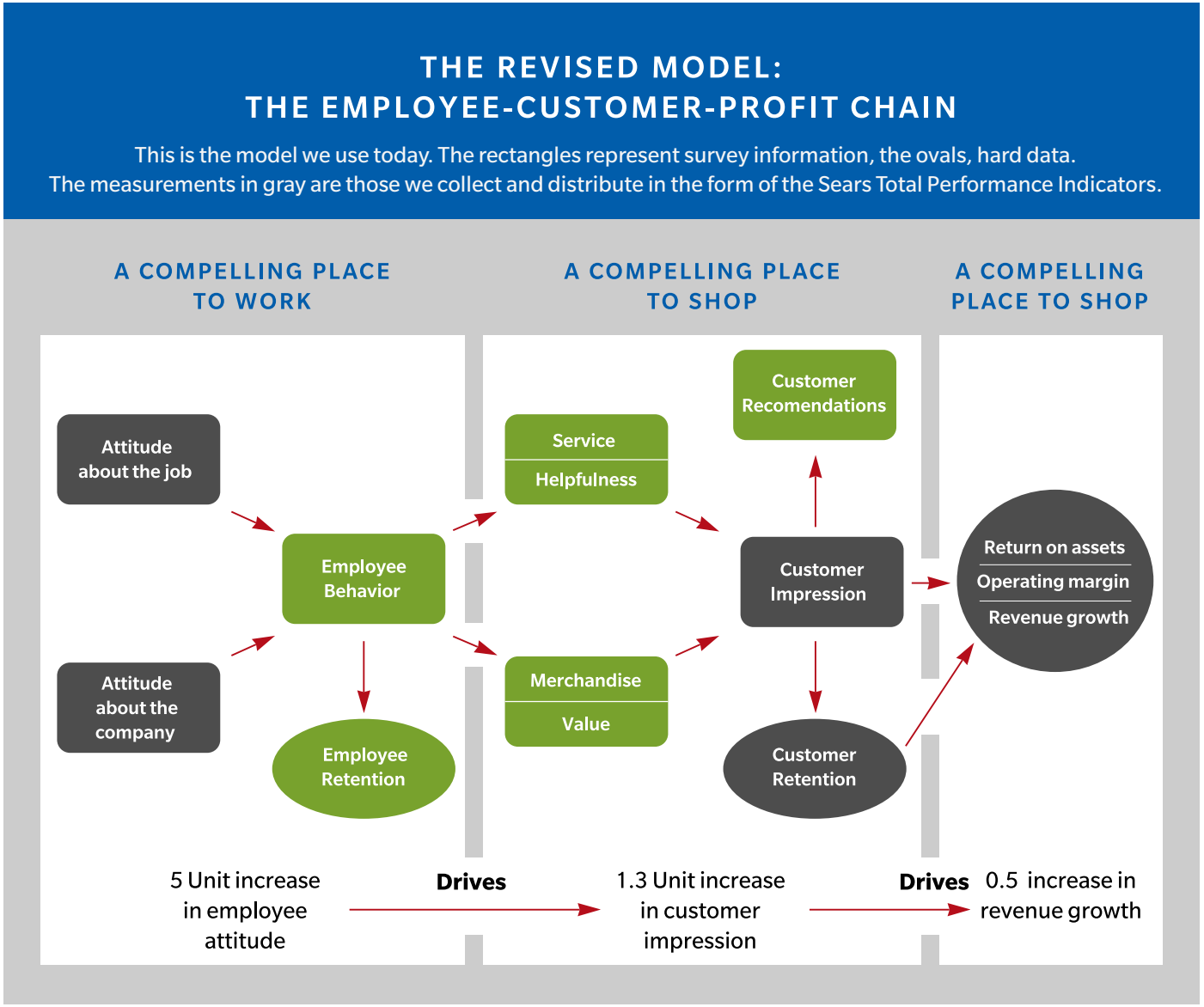
One of TriNet's clients had project managers onsite working in teams to serve customers. Because the project managers were not as effective as necessary in regards to managing their people, TriNet worked with them to develop leadership skills via online learning and facilitated development activities with the PM team. The result was an improvement in their leadership and a correlating improvement in customer service. The leaders were more productive and completed more work due to better planning and resource management.

Case Study: Sears Improves Customer Experience with Training

A 1998 Harvard Business Case on Sears showed that the company was able to improve the capability of its customer-facing employees and thus improve the overall customer experience. The result directly affected Sears's bottom line. Sears measured the staff interactions, the customer feedback and subsequently improved the company's financial results. See chart on following page.

The Employee-Customer-Profit Chain

Harvard Business Review:
Jan.-Feb. 1998



Best practices need to be relevant to your industry.

3. Target your practices to your specific industry and business

Do not adopt best practices just because others are using them. Best practices only work if they are focused on employing targeted human capital actions relevant to your business.

Discovering and emulating other companies' best practices has been very popular — especially in the last ten years. Unfortunately, the best practices of another company are often irrelevant to your own company. They generally add no value.

It is not until you focus on what you are doing specifically in your business and taking targeted human capital actions relevant only to your situation, that best practices becomes meaningful.

You need to go through a human capital planning process where all practices are tied concretely to your business goals.

4. Align your actions with best practices

When you put actions in place, make sure all those actions work together and are integrated with one another – otherwise you will have a system that works against itself.

Examples of Contradiction

- If you are trying to promote more collaboration within your team but your incentive program is based only on individual actions, you will not achieve your desired goals.
- If you do quarterly incentive payments, yet you only do a performance review on a semi-annual basis, the system will not work.

What results are you trying to achieve?

Plan for them.

5. Plan ahead to assess results

The objective of the human capital plan is to maximize the value of a company's investment in people. This means you should think ahead about what you are trying to achieve and what your desired results might look like.

- Plan for what results you expect.
- Determine how you will assess your performance, and what your benchmarks are for success.

Case Study: Healthcare Institution Improves Customer Experience

One of TriNet's clients was a healthcare institution experiencing significant turnover, much of it unplanned. Because the company did not have an effective performance system, they were paying a lot of severance just to minimize their risk as employees were terminated.

What they were trying to improve was the patient experience. Having patients see different caregivers every time did not help, so reducing turnover could clearly impact the business. Their immediate short-term goal was to understand:

- Their current turnover rate
- Turnover costs
- Severance costs

Once all these factors were analyzed, they put a plan into action and were able to see reduced turnover and reduced severance costs, along with improved scores from their patients based on their patient experience.

Improving the Hiring Process Reduces Turnover

Another example: one TriNet client was experiencing significant turnover in its non-exempt workforce. Research revealed that the executive team needed to improve the hiring process and make better hiring decisions. The company took the following concrete actions:

- They improved their candidate interview process by letting candidates see what the work environment was actually like
- They used an assessment tool to assess the candidate's fit in the organization

TriNet evaluated the cost associated with the company's turnover. Part of it was overtime cost, recruiting costs, and training costs. TriNet also evaluated the cost of training people to use the assessment tool for future job candidates. At the end of the year, turnover was down and the company saw a return on its investment.

In each of these cases, companies began the project by planning for their expected result –and then determined how to assess whether their actions were successful or not.

Involve your business leaders, not just HR

6. This work is too important to be left to HR

Many small businesses do not have HR teams or may have less experienced HR managers, but even in regards to larger businesses staffed with complete HR departments, the human capital plan needs to be led by management. It is important to have business leaders involved and participating both in planning and implementation. They have to be willing participants and champions or it will not work.

For many businesses today, one of the largest costs is the people costs – it is a major cost but also a major opportunity. When you involve your company's business leaders in a human capital plan, help them understand both the business issues involved as well as what needs to be done from a human capital point of view — but then you also have to put measures in place so they are held accountable. Communicate to business leaders that workforce success, operational success and customer success are just as important as making the numbers.

7. It is a process, not just an event

As the human capital plan moves forward, there will be ongoing adjustments needed. Allow for those adjustments to take place.

For example, you may have determined that you need to hire five salespeople to drive new business in an expanded territory. You have determined how this will be done and what the market rate is for their skill sets. But as you go you may need to adjust — maybe you need more than five people after all, or you have to modify the compensation.

Ongoing adjustments are necessary but it is also important to do a formal review of the whole human capital plan periodically. A good time frame is every quarter — long enough to get something substantive done, but not so long that you are far removed from what happened.

A sample page from a human capital plan.

US Government Accountability Office's 2004-2006 Human Capital Strategic Plan

EXPECTED OUTCOMES	MEASURES	INITIATIVES
Key Effort 1: Implement and evaluate the effectiveness of human capital flexibilities granted by Congress to assist GAO in managing our workforce		
GAO's human capital flexibilities address known challenges of attracting, retaining, motivating, and rewarding a high-performing and skilled workforce.	Documented policies, procedures, and evaluation plan are available to all employees.	Develop clear, documented, and transparent policies and procedures to implement approved flexibilities. (FY 2004-2006.)
Adequate safeguards are in place to ensure that employees are treated consistently and fairly and that managers are held accountable.	Extent to which program objectives are met by implemented flexibilities.	Educate managers and employees on the availability and appropriate use of approved flexibilities through new or ongoing communication mechanisms and management-training initiatives. (FY 2004- 2006).
Managers and employees are familiar with GAO's human capital flexibilities and use them effectively.	Employee feedback data.	Develop and implement a plan to evaluate the effectiveness of approved flexibilities. (FY 2005-2006).

Prioritize your actions:

what's of high value and easy to do?

8. Don't do too many things: limit and prioritize

You will need to prioritize your actions based on value and ease of implementation.
Ask these two questions:

- How valuable would this be for the business?
- How difficult or easy is it to implement?

Logically, you concentrate your initial efforts on those actions that have high value and are easiest to do. The actions that have high value but are more difficult to do will require the most planning and the largest investment — though usually these are the ones that give you the most pay-off. Prioritizing and limiting to a few initiatives is critical.

9. Create a value chain

Create the value chain from the business goal to the individual actions you will take to reach that goal. A few questions to ask:

- What are the human capital issues that are in the way?
- What is the capability I need to build to achieve the business goal?

A hypothetical case study: Increase Sales

Let's say your goal is to increase sales in the Northeast by 20% to 5 million dollars. You face issues such as turnover and low productivity in your sales force, as your people confront powerful competitors with more effective sales teams. What is the capability you need to build to reach your business goal? What actions do you need to take?

Some human capital solutions may include hiring more people, implementing a new compensation plan, and revamping the sales training process to reduce the time to productivity.

The result should be that your sales go up, but you can also measure interim actions such as your time to productivity, your turnover, and the strength of your sales pipeline. These interim actions come before your business goal is achieved.

Creating that value chain from the business goal to actions taken means you think about and add value every step of the way. This simple process is flexible enough to encompass more sophisticated business goals and human capital issues.

What are you trying to achieve for the customer?

10. Do the HC planning from the outside in

Remember also that it is always about the customer! You need to think about what you are trying to achieve for the customer. As you come from the outside in, examine the processes and capabilities you will need to have to create the ultimate customer experience.

Some questions you need to ask:

- What experience do I need to create for the customer?
- What products or services do I need to have to satisfy the customer?

Think about revenue per employee and cost per employee in the context of what you are trying to achieve for your customer. That should lead to the financial results that you want. It also leads to a differentiation.

The Bottom Line: A Good Plan is Unique

It is much more difficult to copy workforce capability than it is to copy a marketing program or a product. And the reality is, you don't really want to copy anyone else's human capital plan.

Rather, you want to build the human capital plan that's right for your unique situation, business model, and goals. Build your human capital and build the capability of your people. The result is a powerful competitive advantage that cannot be easily replicated in the market place.

About TriNet

TriNet serves as a trusted HR partner to small businesses, to help contain costs, minimize employer-related risks, relieve administrative burden, and keep focus on core business functions. From routine employee benefits service and payroll processing to high-level human capital consulting, TriNet's PEO expertise is integrated with every facet of a client's organization. Its solutions specialize in serving fast-moving companies in fields such as technology and professional services, who recognize that top-quality employees are the most critical competitive asset.

For more information, visit **www.trinet.com**

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