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**Strategic  
Human Resources Management**

**Discussion of Key Terms  
and Concepts  
March 10, 1999**

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U.S. Office of Personnel Management  
Office of Merit Systems Oversight and Effectiveness  
Office of Merit Systems Effectiveness

This is a summary of meeting discussions and does not necessarily reflect official OPM policy.

# **Strategic Human Resources Management Discussion of Key Terms and Concepts March 10, 1999**

## **Introduction**

The Strategic Human Resources Roundtable discussion held in October 1998 was the first meeting hosted by the Office of Merit Systems Effectiveness to provide a forum for interested parties to discuss these issues. During the Roundtable, it became clear that there was confusion about terms and concepts especially considering the variety of perspectives and experiences of the participants. Key terms and concepts are used somewhat differently by those from the human resources, strategic planning, financial and oversight communities. The participants of the Roundtable agreed that a follow-on meeting to address this confusion about terms and concepts would be helpful.

The second strategic human resources meeting on definitions was held at The Office of Personnel Management on March 10, 1999. The purpose of this second meeting was to discuss this confusion of key terms and concepts in the hopes of reaching some consensus. If some consensus could be reached, then future discussions would be more effective and have a greater likelihood of increasing the understanding and application of strategic human resources.

Several participants from the Roundtable expressed interest in attending the meeting on definitions. The group for this meeting was an intentionally smaller work group chosen to represent the variety of perspectives, yet be able to reach effective closure. A list of meeting attendees is attached.

A list of some key terms and concepts was provided to attendees prior to the meeting just to stimulate their thinking. In addition, Steve Altman from the Government Accounting Office (GAO) was asked to start the discussion by sharing the concept "Human Capital" from a recent report and how it might be useful in communicating about strategic human resources. A description of the concept of "Human Capital" and a summary of the discussion follows.

## **Human Capital**

The development of the *Human Capital* concept is a result of the struggle by GAO and others with the lack of legal, regulatory and policy guidance on how the concept of human resources relates to strategic management and how it should integrate with the other major change initiatives in this decade such as the Government Performance and Results Act (GPA) and the CFO Act, etc. Indeed, this lack of guidance contributes in part to the confusion in terms and concepts involved with strategic human resource issues. However, there is still a need to review the HR resource components of agency strategic and performance plans, and to consider human resources as a fundamental issue in the current reinvention climate. Therefore, the GAO proposed this concept and will apply it in this round of strategic plan reviews.

An organization's employees are its *human capital*, a term more useful than "human resources"

because it allows us to consider employees as assets rather than as resources that are to be consumed. One might think of it as simply interchangeable with the concept Human Resources. The differences in the concepts are key to understanding how *Human Capital* might be able to help improve understanding and integration of employee issues in strategic planning. The *Human Capital* view of people is based more on an economic perspective. *Human Capital* views people as a valuable asset rather than merely as a cost. Assets are those things that bring long term value to an organization. When viewed this way, it is easy to think of people and/or what they accomplish as adding long term value to an organization. “Only when the right employees are on board and are provided the training, tools, structures, incentives, and accountability to work effectively is organizational success possible.” (GAO, 1999, page 102.)

One would not equate people with more classic assets such as facilities, property or financial capital. However, this concept makes it easier to see the need to “invest” in and “develop” people as an asset, much as we invest in other types of assets. It is easier to understand why it is important to invest resources to obtain and keep the right people in the right jobs, and to develop them through appropriate training and recognition. “*Human Capital* is not a cost to be minimized, but a strategic asset to be enhanced.” (GAO, 1999, page 102) *Human Capital* is subject to intangible factors such as leadership and work environment. People also have a great capacity for a constant influx of energy, are flexible, and are adaptive to change. The most important point to remember is the “human” part of *human capital*. People respond as whole individuals; organizations need to consider the whole individual in managing their *human capital*.

*Human Capital* may also make it easier to use common economic theory to discern appropriate measures for costs (investments) and benefits (output, productivity) of people and then to use these measurements to obtain a “return on investment.” Many organizations spend 70-80% of their operating budget on their people. Nowhere else do you make that substantial an investment in an asset and not measure and evaluate it. Measuring *Human Capital* is complicated and difficult because there is the need to look at costs and benefits of the intangibles involved with people. Measurement of *Human Capital* will therefore require validation and revalidation in order to yield accurate and usable information.

There are four critical components to building, maintaining, and marshaling the Human Capital needed to achieve results: 1) adopting a strategic approach to *Human Capital* planning, 2) acquiring and developing staff with the skills to meet critical needs, 3) creating a performance oriented organizational culture, and 4) protecting Merit Principles. These components are described more fully in the attached material taken directly from the GAO publication, *Major Management Challenges and Program Risks: A Governmentwide Perspective*, GAO, 1999.

## **Discussion**

Several people made additional comments on the concept of Human Capital. In summary, the management of Human Capital is future oriented, involves workforce planning, is measurable, focuses on a renewable resource, involves investment, and is aligned with the strategic plan and integrated with the core mission. Like other new terms, one must use it cautiously and carefully

always tying it back to basic principles. We must also keep in mind that it is not what we spend on employees that make them an asset. Rather, it is what value they bring to the organization. Increasing our investment in them in appropriate ways will increase their value to the organization. It is not as easy as making everyone happy, in the hopes of getting better mission accomplishment. Though clearly employees who feel valued will likely accomplish more. *Human Capital* emphasizes people as an asset to be developed, or a renewable resource. But it could just become another new term. In addition, even the economic slant of *Human Capital* does not assist in reconciling the requirement for five year strategic plans with yearly budget cycles. How do we deal with the reactive management of *Human Capital* caused by the conundrum in budget and planning cycles?

There was some discussion about other strategic human resources management concepts. In general, it was thought that the key was not what terms you use, but that you clearly express the concepts in terms all people can understand. What a concept is called depends to a large degree on who is talking about it. The person talking about a concept usually is expressing some ownership of it as well as the bias of their experience. The concepts of human resource management are part science and part art; merely defining terms may not help clarify the concepts.

Other comments involved the critical role of line managers in all aspects of mission accomplishment, including human resource management. Effective management of human resources is necessarily strategic. One cannot hope to continue to accomplish the work without having some future view of who might be leaving and when, what skills might be needed and why, and some idea of the current impact of the local economy and employment trends. We need to remember that effective management of human resources must be, and is, conducted in large part by line managers. There are some really good managers out there who are making the strategic link between mission and people.

We also need to be sure we train, encourage, and support line managers and higher level managers to think and act strategically about mission, people, (*Human Capital*) and the importance of linking the two together. In order to do this, managers need to know more than just the concepts of strategic human resources management. They also need to have and use the necessary skills to put the concepts into practice. Once managers understand the concepts and have the skills, we need a reasonable balance of incentives/rewards, and penalties so line managers will actually practice strategic management. That is, we need to align our individual performance management systems with strategic human resources management in the same way that an agency's strategic plans are aligned with their organizational performance plans. There are built in incentives in the GPRA in the form of budgeting that will take effect in 2000 when Congress begins to relate agency performance to budget authorizations. We also need appropriate incentives at the individual manager level in the form of performance standards and rewards. Agencies are beginning to align individual performance with these strategic human resource management concepts. In addition, Vice President Gore's initiative on performance involves systemic alignment of strategic (including human resource?) skills for the Federal Senior Executive Service (SES) cadre.

## **Conclusion**

It is important to get the right people talking about strategic human resources management. One reason there may still be confusion about how human resources management fits in current strategic initiatives is that it is unclear who is championing strategic HRM as compared to the champions for other current major change initiatives. In addition, there is inconsistency of who is heard, and by whom, on the issues of strategic human resources management. This may be one reason that HRM issues are not more prominent in the GPRA. We need to get out and talk about these issues in plain English with managers and policy officials, program staffs, and representatives from the CIO and CFO communities. In doing this, a common lexicon may not be as important as clearly conveying what we mean and how we can make it happen.

There may also be an historic view of HRM as an *assumed* part of the major strategic change initiatives, rather than as a critical standalone component of reform. This view may now be changing as more and more people realize the need to reform human resources management as an equal and necessary component of overall Government-wide reform and reinvention.

Finally, there is continued recognition that the human resource community needs to focus more squarely on establishing effective measures of strategic HRM. And, we need to routinely provide strategic HRM information such as results of workforce planning. These are critical means by which we can get to and remain at the “strategic table.” Discussion of conceptual issues is, and will continue to be important. However, effectively putting strategic management of human resources into practice requires understandable and credible measurement and the ability to provide useful routine strategic HRM information for agency managers.

### **Next steps**

Plan next meeting on measurement

Communicate these issues to others including those in the CFO, CIO communities.

Consider ways to involve and assist managers in strategic HRM

### **Reference**

U.S. Government Accounting Office (1999) *Major Management Challenges and Program Risks: A Governmentwide Perspective*

## Meeting Participants

|                |   |
|----------------|---|
| Steve Altman   | U.S. Government Accounting Office       |
| Lisa Fairhall  | Office of Management and Budget         |
| Ron Glaser     | Department of Treasury                  |
| John Palguta   | Merit Systems Protection Board          |
| Steve Perin    | Department of Energy                    |
| Roberta Peters | Office of Personnel Management          |
| Evie White     | Department of Health and Human Services |

## Other Attendees

|                |                                |
|----------------|--------------------------------|
| Dee Ann Batten | Office of Personnel Management |
| Mario Caviglia | Office of Personnel Management |
| Soraya Smith   | Office of Personnel Management |
| Laura Shugrue  | Office of Personnel Management |
| Paul Thompson  | Office of Personnel Management |