

MONETARY VALUE AND HUMAN CAPITAL

PROFILE DR ROBERT KAPLAN

Netherlands-based international researcher, consultant and *HR Future* point man Diederick Stoel asks Dr Robert Kaplan to elaborate on some of the thinking in his new book, *Strategy Maps: Converting Intangible Assets into Tangible Outcomes*.

DR ROBERT KAPLAN is Marvin Bower Professor of Leadership Development at Harvard Business School. He has a B.S. and a M.S. degree in electrical engineering from MIT, and a Ph.D. in operations research from Cornell, and is the author of numerous groundbreaking books. His Balanced Scorecard, outlined in his book *The Balanced Scorecard*, is the premier tool for linking a company's current actions to its strategic goals. His new book, *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (David P. Norton, coauthor) focuses on how to use the Balanced Scorecard to successfully implement your strategies. Dr Kaplan is also the co-developer of Activity-Based Costing, a revolutionary approach for determining the underlying economics of a business

WHAT IS THE AIM OF THE STRATEGY MAP BOOK?

The book is designed to do two things. One is to articulate how important strategy maps are in the balanced scorecard programme. Strategy maps enables you to construct a causal change of linkages among the objectives in the four perspectives of the Balanced Scorecard – the financial perspective, the customer perspective, the internal perspective and the learning and growth perspective. The second part is about what we can do in the three principle compounds of the learning and growth perspective: human capital, information capital and organisation capital.

YOU SAY WE NEED CAUSAL LINKAGES AMONG THE OBJECTIVES IN THE VARIOUS PERSPECTIVES. WHERE DO YOU START MAKING THESE LINKAGES?

The description of strategy is top down, so we start in the financial perspective with the destination being improvement in shareholder value. Then the focus is on customers. They provide the revenue growth and margin growth that succeed on those financial measures. It's not until you understand customer value proposition and the expectations for

financial performance that you can get to the internal processes. So, the internal processes have to line up and drive the improvements for customers and share holders. Then you have to get to the learning and growth perspective which is the investment in people, systems and culture to drive improvement in the internal processes. But remember, you measure whether your strategy is successful in the financial and the customer performance. You implement strategy with what you do in the internal processes and the learning and growth objectives.

IN THE STRATEGY MAP BOOK THERE IS A STRONG FOCUS ON THE LEARNING AND GROWTH PERSPECTIVE. WHY?

I think we made some significant advances through our work with human resources organisations. We learned to align the people dimension much better with the strategy. There was always a spot on the balanced scorecard for upgrading the skills of the people. It was mostly generic measures and people described the learning and growth perspective as the black hole of the balanced score card because there wasn't a lot of new light and new insights there.

WHAT IS THE DIFFERENCE BETWEEN THE LEARNING AND GROWTH PERSPECTIVE AND THE INTERNAL PROCESSES?

The learning and growth is in fact providing capabilities for the internal processes to improve. They're not really ongoing processes of designing, making, selling and distributing things. It's a stock of value and we keep wanting to enhance that stock of value. And that value gets turned into flows that take effect through the processes, making the processes more effective and more efficient.

YOU TALK ABOUT VALUE. THERE IS, AND THERE HAS ALWAYS BEEN, A QUEST IN PUTTING A MONETARY VALUE TO HUMAN CAPITAL. WHAT IS YOUR OPINION ON THIS MATTER?

You can not value human capital. You can measure it, but you can not value it. And it's not a helpful way to think about human capital. The question is not what it's worth, but how ready that capital is to drive the improvement in the most important processes.

CAN YOU ELABORATE?

I understand were human resource

people are coming from. They want to show that their work is very strategic and vital for success. And one absolutely agrees with this. But they are also saying that the only thing that gets management's attention is the financial pay-off. They believe this because they are still living in the old world - the world before the Balanced Scorecard - and in the new world with the Balanced Scorecard we can express the importance of human capital. We can actually align it and show where we contribute much more powerfully. We don't have to get an ROI or a financial figure down to that.

What adds value is the way the intangible assets all work together. We can measure and manage each individual piece, but not necessarily with a dollar sign or a euro sign in front of it. We can quantify, but not value it. That is the key distinction. And that's where people get confused. They're confused because they think that to quantify something, you have to value it, but that is not true.

WHAT ABOUT THOSE COMPANIES TRYING TO GET HUMAN CAPITAL ON THE BALANCE SHEET?

I'm not in favour of putting human capital on the balance sheet. Most of that asset is owned by the individual and not by the company. Companies can't sell their human capital. Putting human capital on the balance sheet is what people talked about before the Balanced Scorecard was developed. In 1990, we developed the Balanced Scorecard. And now we have CEO's running their companies with the Balanced Scorecard which included measures of human capital and human readiness and liquidity, and so, in effect, the battle has now been won. I don't have to take the balance sheet approach - which is an imperfect kind of a poorly conceived measure - on human capital. With the Balanced Scorecard I can quantify it, I can measure it, I can manage it, I can measure gaps, I can invest to close those gaps, and I can do it all without have to worrying about this solving this

valuation problem, which I believe is unsolvable.

IF YOU'RE SAYING, "STOP TRYING TO CONVERT HUMAN CAPITAL INTO MONETARY VALUES," WHAT DO YOU ADVISE HR PEOPLE TO CONTRIBUTE TO THE STRATEGY OF THEIR ORGANISATIONS?

Look at the strategies of the business units of companies you're supporting. Then align the HR objectives to enhance the value creating strategies of the business units. HR is the foundation for implementing strategy.

WHERE DOES ONE START?

As we started to work more intensively with some human resources groups, the idea of the strategic job families developed. Strategic job families are those functions that align with the critical processes that are the centre of the strategy. So the first questions, you should ask are: Which are the positions that are creating the differentiation? What are the critical processes and jobs families that are creating and delivering the distinctive value proposition? The next step then is finding out what the job competencies are required in those eight to ten job families. The strategic investment and efforts in HR can then be directed at developing the strategic job families.

THIS IS QUITE REVOLUTIONARY IN TERMS OF ALLOCATING THE HR BUDGET. WHAT IS THE SCIENTIFIC VALUE OF YOUR PROPOSITION?

This is just an early finding. It still has to be examined and validated. I think it's a whole new framework, but it gives the HR community something to think about regarding these ideas of strategic job families. We open the Strategy Map book with an anecdote from a relatively small high-tech machining company. They found that one of the most important jobs they have is one at an entry level position. They said, "It's not one of our high powered engineers, but somebody who is doing some basic machining at the front end of the process." They had

never understood that this was a critical process, and they now put a lot of resources into getting the people in that position to a much higher level of capabilities and skills.

This is what gets you to the executive suite. You can go to the CEO of the division and say, "I understand you think HR is an expense centre and a cost centre. You think you have to manage us with budgets, and every dollar you spend is a subtraction from your bottom-line. But let me show you a strategy for revenue growth. This strategy is going to require specific skills of people in the most strategic job families. I tell you, you are not going to get there unless we are going to start upgrading the capabilities of our people, starting today."

WHAT SHOULD BE THE MISSION OF HR IN THE NEXT FEW YEARS?

Your customers are the business units in the corporation, and you in effect are their servants, so your mission is to make them more valuable. Align yourself as a partner with those business units. Understand their strategy for value creation. Be sure that you can help supply the people and the incentive systems, the motivation, the communication, that will make the people in that aligned organisation more ready to deliver the strategy.

ANY FINAL TIP FOR THE READERS OF HR FUTURE?

HR has to be more relationship based. Think much more about building long term relationships between HR and the business units. Don't be in the back doing traditional HR functions. Make sure you understand enough about the business so you are going to be considered active partners and part of the management team. I think this needs a big reskilling of the HR professional. You have to understand strategy and technology, so you can converse with senior management. HR's future is in serving in this value added consultative role rather than, you know, doing traditional HR work.

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