

# THE HUMAN CAPITAL CHALLENGE

**What it is...**

**How organizations are responding...**

**Transferable practices in recruitment,  
retention and learning...**

**Questions for your organization...**

A White Paper by the ASTD Public Policy Council

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## About the ASTD Public Policy Council

The ASTD Public Policy Council is a consortium of senior learning executives representing corporations and educational institutions. The Council assists ASTD in shaping national discussions and public policies that encourage the development and support of a high-skilled, high-performing workforce.

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## FOREWORD

With this report, the Public Policy Council of the American Society for Training and Development (ASTD) focuses on one of the most critical questions facing organizations today: how to develop a high-knowledge, multi-skilled workforce.

This report sets out to:

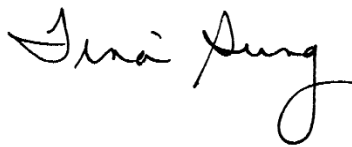
- Frame the human capital challenge faced by public- and private-sector organizations and lay out the case for action to address it;
- Describe transferable, strategic human capital development and management initiatives undertaken by a range of organizations;
- Identify key questions that organizational leaders should consider as they assess their workforce and develop successful learning and development strategies.

This report is the latest example of ASTD's ongoing commitment to improving the quality and skills of the workforce. It arrives in the wake of the enactment of the Homeland Security Act of 2002, which included a provision to establish Chief Human Capital Officers (CHCOs) in federal agencies. Appointing a senior-level learning executive within government is a longstanding ASTD recommendation that will help the government build and leverage its workforce, with the ultimate goal of improving agency performance.

By disseminating this report to federal, state, and local officials, members of Congress, business leaders, the media, and other stakeholders, we hope to expand the ongoing discussion about human capital by examining how organizations are making this issue a priority and are designing and implementing successful strategies. At the same time, we pledge to continue our work in the months ahead—both by providing ongoing information and research and by convening public- and private-sector leaders to discuss the human capital challenge and solutions to this critical national issue.

I extend my appreciation to Cynthia Pantazis, Director of Policy and Public Leadership, the Public Policy Council, and William H. Woodwell, Jr., for their significant contributions in developing and writing this report.

I welcome your comments on this paper, as well as your engagement in the broader effort to ensure that America is making the connection between people and organizational performance.



Tina Sung  
President and CEO  
American Society for Training and Development



## INTRODUCTION

*Now more than ever, the success of public and private organizations in the United States and throughout the world depends on the knowledge and capabilities of their employees.*

**“The set of tasks**

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— Vincent J. Serritella  
Vice President  
Employee Development  
W.W. Grainger, Inc.

In the knowledge-based economy of the 21<sup>st</sup> century, it is not capital equipment or technology that differentiates organizations; it is their workforce and the processes by which that workforce is established, leveraged, and maintained.

Forces from globalization and diverse security threats to evolving technologies are changing the very nature of the economy. At the same time, the U.S. labor pool is growing more slowly and becoming more diverse, unemployment is on the rise, and organizations are striving to “do more with less” by creating highly efficient, ever-leaner organizational structures. The result of these trends is an unprecedented human capital challenge that is forcing organizations to rethink how they attract, retain, and continuously develop a pool of talented workers.

Regardless of economic conditions or levels of job growth, the fact remains that organizations need skilled and knowledgeable workers. For those that meet the human capital challenge head-on, the rewards will include improved performance and productivity, increased competitiveness, and more. Those that dodge it are resigning themselves to mediocrity and, potentially, to failure.

“Now more than ever before, organizations will drive results through the alignment and integration of people processes and systems with business strategy,” said ASTD Public Policy Council Chair Vincent J. Serritella, vice president for employee development and director of the Grainger Learning Center with W.W. Grainger, Inc.

“The set of tasks formerly known as human resource services is now cast as a value chain of integrated processes and functions that are strategically positioned to help the organization compete,” Serritella added.

The challenge that organizations face in developing and managing human capital is one without boundaries. In a recent Accenture study, 200 executives in the United States, Europe, and Australia listed workforce-related issues among their leading organizational priorities. Key issues cited by the respondents included: attracting and retaining skilled staff; changing organizational culture and employee attitudes; changing leadership and management behavior; and improving workforce performance.<sup>1</sup>

In this paper, the ASTD Public Policy Council offers a portrait of the human capital challenge facing U.S.-based organizations. In a series of examples, we show how public and private sector organizations are responding to the challenge with innovative recruitment, retention, leadership, learning, and measurement initiatives. Finally, we offer a series of questions for business leaders and policy makers to address as they make human capital management and development a priority today and in the years ahead.

## DEFINING THE HUMAN CAPITAL CHALLENGE

Every economy has a driving force. The agricultural economy relied on land, while the industrial economy leveraged machines. The knowledge economy of the 21st century is anchored by two critical commodities: people and knowledge.

“The economy has moved from focusing on exporting natural resources and the use of machines to mining our own minds,” according to authors Patricia Pulliam Phillips and Jack J. Phillips.<sup>2</sup>

A high-knowledge, multi-skilled workforce is the most important competitive resource available to organizations today. Instead of an economy organized around mass production, recent years have witnessed the rise of an economy dominated by technology and service industries that emphasize innovation, speed, cross-functionality, and strong customer relations. This puts a premium not just on the technology skills of workers, but also on their ability to communicate effectively, access and apply knowledge, synthesize information, solve problems, adapt to fast-moving work environments, and work across the organization in teams.

**“Workers today must be equipped not simply with technical know-how but also with the ability to create, analyze, and transform information and to interact effectively with others.”**

— Alan Greenspan  
Federal Reserve Board Chairman

### Obstacles to Human Capital Development

Responding to the human capital challenge means more than figuring out how to recruit and retain top talent. Organizations also need to address other obstacles to human capital development and management, including:

- Weak job architectures and job design.
- Tenured and older workers limiting the mobility of new talent.
- Workers feeling entitled rather than challenged and motivated to perform.
- Failure to align human performance practices, including compensation, work design, training, and performance management.
- Disconnect between human capital practices and organizational performance and goals.
- Failure to accurately measure the quality of training and learning outcomes.

As Federal Reserve Board Chairman Alan Greenspan has put it, “Workers today must be equipped not simply with technical know-how but also with the ability to create, analyze, and transform information and to interact effectively with others.”<sup>3</sup>

The increased importance of workers’ knowledge, skills, and capabilities has focused new attention on the concept of human capital.

Human capital does not mean people alone; it means talent. As defined by author Thomas A. Stewart, it is “the capabilities of the individuals required to provide solutions to customers.”<sup>4</sup> Developing an organization’s human capital, therefore, is about more than having enough people; it is about having enough people with the right skills and knowledge to help the organization create competitive advantage, grow, and succeed. It is also about creating a culture that supports leadership development at every level of the organization.

**“Investing in personnel has not been a priority in the federal government, yet good management requires the flexibility to act quickly and to compete as an employer of choice in the fast-paced 21st-century knowledge economy.”**

— *Senator George V. Voinovich*

At the heart of the human capital challenge facing organizations today is the fact that skilled and knowledgeable workers are fast becoming an endangered species. A combination of demographic trends and a growing gap between worker skills and the requirements of today’s jobs has created a critical and growing need for organizations to strengthen their own capabilities in such areas as recruitment, retention, and employee development.

The federal government is a case in point. With the federal workforce numbering 2.7 million civilian employees as of March 2002, U.S. officials cannot afford to ignore issues of human capital. What’s more, with 50 percent of the federal workforce eligible for retirement by 2005, the human capital challenge facing the government is very immediate and very real.

“Investing in personnel has not been a priority in the federal government, yet good management requires the flexibility to act quickly and to compete as an employer of choice in the fast-paced 21st-century knowledge economy,” said Senator George V. Voinovich, chair of the Senate Subcommittee on Oversight of Government Management and the Federal Workforce.

These same challenges face organizations of all sizes, public and private. According to PricewaterhouseCoopers, 70 percent of Fortune 1000 companies cite lack of trained employees as their biggest barrier to sustaining growth.<sup>5</sup>

Responding to these challenges is one of the most important competitive issues facing employers today. “It really comes down to preparing an environment in which you’re able to have the right workforce and keep employees fully productive,” said Candice Phelan, director of learning and development services for Lockheed Martin. “If you can’t figure out how to do that, you’re really putting yourself at a competitive disadvantage.”

### The Old Reality

People need organizations.  
Machines, capital, and geography are the competitive advantage.  
Talented employees make some difference.  
Jobs are scarce.  
Employees are loyal and jobs are secure.  
People accept the standard package they are offered.

### The New Reality

Organizations need people.  
Talented people are the competitive advantage.  
Talented employees are essential to success.  
Talented people are in demand.  
People are mobile and their commitment is short term.  
People demand much more.

Adapted from Ed Michaels, Helen Handfield Jones, Beth Axelrod, *The War for Talent*, Harvard Business School Press, Boston, MA, 2001.

## Understanding Workplace Demographics

Population changes such as the aging of the baby boom generation and increasing racial and ethnic diversity promise to transform the American workforce in the years and decades ahead. A basic understanding of the demographic shifts that are taking place in American society is essential for organizations seeking to address the human capital challenge and make strategic decisions about learning, hiring, retention, compensation, and benefits.

*The rate of growth of the labor pool is slowing...*The annual growth of the U.S. population as a whole has decreased from 1.3 percent in the 1980s to 1.1 percent today. The implications for the labor force are clear: current projections by the Employment Policy Foundation indicate that 2.3 million jobs will remain unfilled in 2004; this number is projected to double to 4.6 million jobs in 2008.<sup>6</sup>

This makes beefed-up recruitment and retention efforts a necessity for organizations of all types in the years ahead. It also means that many organizations may find themselves reaching out to a broader group of job seekers and providing more on-the-job training for new employees who come on board without the full complement of necessary skills.

*The average worker is getting older...*The median age of the U.S. population in 2000 was 35.3 years, up from 32.9 years in 1990 and the highest it has ever been. This increase is a direct reflection of the aging of the baby boom population (those born between 1946 and 1964).

The 2000 census found that the age group experiencing the most rapid increase in size between 1990 and 2000 was 45- to 54-year-olds, who grew in number by 49 percent. By contrast, the 18- to 34-year-old population experienced a 4-percent decline.<sup>7</sup>

With labor force participation rates for older workers projected to rise steadily in the years ahead, employers are faced with a double-sided human capital challenge. On one hand, they will need to work harder than ever to attract from a shrinking pool of qualified younger workers. At the same time, organizations will need to weigh how best to tap the knowledge and talents of their older employees.

*The labor force is becoming more diverse...* In the coming years, the non-Hispanic white portion of the U.S. population will become considerably smaller in relation to other racial and ethnic groups. By 2045, according to the Census Bureau, non-Hispanic whites will make up 54.5 percent of the population, down from 71.4 percent in 2000. At the same time, the Hispanic population will grow from 11.5 percent to 23.1 percent of the population, African Americans from 12.2 percent to 13.2 percent, and Asian and Pacific Islanders from 3.9 percent to 8.4 percent.<sup>8</sup>

During the 1980s, projections that minorities would represent half or more of the U.S. population by the middle of the 21<sup>st</sup> century spawned widespread discussion of how employers could prepare for an increasingly diverse workforce. Much of the discussion focussed on strategies for getting workers from different racial and ethnic groups to work together as members of a team.

Today, the focus has shifted to ensuring that new workers—no matter their racial or ethnic background—have the skills they need to add value to their employers while succeeding in the 21<sup>st</sup>-century knowledge economy. The need for improved education and skills training is acute among the nation’s growing population of racial and ethnic minorities. Although racial and ethnic differences in student achievement and educational attainment have narrowed in recent years, minorities, on average, still trail whites in virtually all measures of education outcomes.

According to Anita U. Hattiangadi of the Employment Policy Foundation, training in language skills will be especially important as increasing numbers of foreign-born workers enter the U.S. workforce. These immigrants also will require more basic skills training than other workers.<sup>9</sup>

What’s more, a “technology gap” persists between Americans of different racial, ethnic, and socioeconomic groups, meaning that many are entering the workforce without basic computer and technical skills. A U.S. Department of Commerce study in the fall of 2000, for example, found that Internet access among white (46.1 percent) and Asian American & Pacific Islander (56.8 percent) households was more than double that of Black (23.5 percent) and Hispanic (23.6 percent) households.<sup>10</sup>

Many businesses today view diversification as a strategic business decision; they want a workforce that “looks like America” and that reflects a variety of perspectives, skills, and expertise. In the 21<sup>st</sup> century, however, hiring diverse workers and meeting their equally diverse needs for education and training will become a business imperative and not a matter of choice.

## **Building the Talent Pool**

Demographics are not the only factor in the human capital challenge facing American organizations today. Another factor is a persistent and nagging gap between the knowledge and abilities of today’s workers and the requirements of today’s jobs.

A 2001 study by the National Association of Manufacturers found that, even in a manufacturing recession, companies reported serious skill shortages among both job applicants and current employees.<sup>11</sup> Among the study findings:

- Four out of five manufacturers (80 percent) said they were experiencing a moderate to serious shortage of qualified workers at the time of the study.
- The top problem identified by respondents was a lack of “basic employability skills” such as attendance, timeliness, and work ethic.

**“The human capital challenge is of paramount importance to the future of this country, and policymakers need to make this issue a priority and aggressively develop solutions.”**

— *Cynthia Pantazis*  
*Director of Policy and Public Leadership*  
*ASTD*

In a sign that the “skills gap” is an issue in newer industries as well as traditional manufacturing, the Information Technology Association of America (ITAA) reported similarly alarming findings in a 2002 study.<sup>12</sup> For the second straight year, the association’s annual survey of hiring managers in the industry found companies reporting that they would have trouble filling nearly one out of every two jobs because applicants’ skills did not match the companies’ needs.

For organizational leaders in the public and private sectors, the persistence of the skills gap—both across industries and during good and bad economic times—reinforces the importance of developing and managing human capital in more strategic ways. Meanwhile, for U.S. policymakers, the skills gap raises the question of how to improve publicly funded education and training in order to create the pipeline of skilled workers that organizations need.

“The human capital challenge is of paramount importance to the future of this country, and policymakers need to make this issue a priority and aggressively develop solutions,” said Cynthia Pantazis, director of policy and public leadership with ASTD. “If American workers are not qualified for even entry-level jobs, our economy and our competitiveness will suffer.”

## TRANSFERABLE PRACTICES: WHAT IT TAKES

The labor-supply shortage that accompanied the economic boom of the late 1990s gave the nation's employers a taste of what's to come in the 21<sup>st</sup> century. As the growth of the U.S. population and workforce slows and diversifies in the years ahead, and as the global economy places an ever-growing premium on workers' knowledge and skills, organizations will have a choice to make. Either devote the necessary time and resources to building and maintaining a pool of talented, knowledgeable workers, or watch from the sidelines while others demonstrate the connection between strategic human capital development and organizational success.

The following examples show how a range of public and private employers are beginning to respond to the human capital challenge.

### PUBLIC SECTOR APPROACHES

#### The Federal Government

With half of its employees eligible for retirement by 2005, the U.S. government is confronting a potentially enormous brain drain in the years ahead. But that is not the only human capital challenge facing federal officials.

Other challenges came to light in the aftermath of the September 11 attacks—for example, the need for more staff with foreign language skills. More generally, the FBI and other federal law enforcement agencies were forced to rethink their missions and programs, including critical staff needs and skills mixes. What's more, the newly formed Transportation Security Administration had to deal with a host of enormous challenges associated with starting a new agency literally from scratch, most notably the challenge of having to hire and train more than 40,000 new employees, including about 30,000 airport screeners, in a matter of months.

The General Accounting Office designated strategic human capital management as a government “high-risk area” in January 2001. Then, in August of that year, President Bush placed human capital at the top of his management agenda.

The unprecedented attention to the human capital challenge facing the federal govern-

ment prompted the following statement from David M. Walker, Comptroller General of the United States<sup>13</sup>:

“...an organization's people define its culture, drive its performance, and embody its knowledge base. As such, effective human capital approaches must be at the center of efforts to transform the culture of federal agencies so that they become less hierarchical, process-oriented, stovepiped, and inwardly focused; and more flat, results-oriented, integrated, and externally focused.”

Seeking to address the challenges facing the federal government, ASTD has been working with Congress to identify workforce development and management solutions. One result: an ASTD recommendation to establish a leadership position in each federal agency responsible for strategic human capital management was included in the Homeland Security Act of 2002. Chief Human Capital Officer (CHCO) positions have now been created in 24 federal agencies, from the Departments of Agriculture, Commerce, and Defense to the Agency for International Development, the Environmental Protection Agency, and the Office of Personnel Management.

### Primary Responsibilities—Federal Chief Human Capital Officers

- Setting the workforce development strategy of the agency;
- Assessing workforce characteristics and future needs;
- Aligning the agency’s human resources policies and programs with the organization’s mission, strategic goals, and performance outcomes;
- Developing and advocating a culture of continuous learning to attract and retain employees with superior abilities;
- Identifying best practices and benchmarking studies; and
- Applying methods for measuring intellectual capital.

Source: Section 1402 of the Homeland Security Act of 2002, Public Law No. 107-296.

The recommendation to create the CHCO positions was derived in part from the ongoing effort by companies to better harness their knowledge and learning capabilities by appointing Chief Learning Officers (CLOs). CLOs are responsible for developing and deploying human capital. They are fast becoming recognized as corporate leaders who are linking business needs to performance strategies and enhancing individual and organizational productivity (*for more on CLOs, see page 20*).

“With the creation of the CHCO positions, the U.S. government is taking a significant step in elevating the importance of strategic human capital management on a national level,” said ASTD President and CEO Tina Sung. “The Chief Human Capital Officers will go a long way toward helping government maximize people and talent with the ultimate goal of improving agency performance.”

Senator George V. Voinovich added that the creation of the CHCO positions is one of

many steps the federal government is taking to address the human capital challenge.

“The creation of Chief Human Capital Officers at federal agencies is a major initiative to raise the institutional profile of strategic human capital management,” Voinovich said. “This is one of the most important actions we can take to enable the federal government to properly manage its workforce.”

According to Voinovich, the new law also establishes an interagency Chief Human Capital Officers Council that will encourage agencies to share best practices in personnel management.

“By pursuing a strategy of legislative reform and outreach to the nation’s premier management experts, we have made considerable progress in raising the profile of strategic human capital management and putting executive branch personnel management back on track,” Voinovich said.

## Lawrence Livermore National Laboratory

The 8,400-strong workforce at Lawrence Livermore National Laboratory in the San Francisco Bay area is made up largely of highly specialized technical employees conducting research in areas from atmospheric science to nuclear arms control. Ensuring that the Livermore workforce has the appropriate level of skills and expertise is a continuing concern for laboratory leaders.

It is a concern that prompted the laboratory to launch a comprehensive Work-force Review Process last year. This top-down assessment, according to Anne Khoury, the lab's division leader for employee and organizational development, is designed to look across each of Livermore's 13 directorates to gauge the capabilities of workers to meet current and future needs.

"It's really about asking questions in areas from the core skills of the workforce to their diversity and whether things are getting better or worse," said Khoury. "A lot of these are things that you think about intuitively, but we saw a real need for a more systematic assessment."

The review process is managed at the directorate level, where vice presidents are charged with launching the assessments. Providing support during the review process is a group of organizational development consultants assigned to each directorate.

One goal, according to Khoury, is to identify any gaps in skills or capabilities—both in the

individual directorates and laboratory-wide—and to structure employee development programs to address the gaps. For example, when reviews started to indicate that the laboratory could enhance its programs to develop future leaders, Khoury and her staff instituted a new emerging leaders program.

**"Your current workforce are often your bait for recruitment."**

— Anne Khoury  
Division Leader, Employee and  
Organizational Development  
Lawrence Livermore National Laboratory

An important human capital challenge facing Livermore, according to Khoury, is connected to the fact that workers at the lab need security clearance. This means that the pool of potential workers is limited to those with U.S. citizenship—a potential problem when the graduate programs from which Livermore generally recruits are heavily

populated with foreign students. In addition, Livermore faces stiff competition for these workers from the private sector and other national laboratories and universities.

In response to these challenges, Livermore has developed research partnerships with a number of research universities and works to ensure that the lab's scientists are regularly on the road and presenting papers—all to keep the Livermore name in front of people as a place where cutting-edge research is under way.

"Your current workforce are often your bait for recruitment," explained Khoury. "It is their credibility and their work in communities of practice that will entice other top people to come your way."

## PRIVATE SECTOR APPROACHES

### Delta Air Lines

In the two years since the September 11 attacks, Delta Air Lines, like all airlines, has undergone profound changes to its business. The company's workforce in that time has declined by 16,000 workers. For the 60,000 workers who remain, Delta is working harder than ever to maximize their contributions to the airline's success.

"After 9-11, we made a decision to engage our people in the company's survival," said Bill Kline, Delta's chief learning officer.

For Delta, surviving through its people meant doing everything possible to get employees to embrace the company's survival strategy and to understand and support the business changes under way. The company invested \$2 million in a program that in the course of eight months in 2002 provided business literacy training to more than 33,000 employees. Employees voluntarily participated in a business simulation called "Our Airline, Our Business," as well as other learning experiences designed to

share the financial information of the company and the choices necessary to survive.

"The real question we were after is how you get leaders and employees engaged around your business and its success through the business financials," Kline said.

In related activities, Delta launched a wide-ranging communications and outreach effort to keep employees informed about changes in the business, and company officials designed and launched a monthly survey aimed at taking the pulse of the Delta workforce on key issues. The survey taps into employee opinion about everything from the communications they are receiving from their superiors to whether they have the tools and training to do their jobs.

"You can do all the training and development you want and deliver all the facts that you think are important," Kline said. "But what makes your organization run are the hearts and souls and minds of your employees."

**"You can do all the training and development you want and deliver all the facts that you think are important. But what makes your organization run are the hearts and souls and minds of your employees."**

— Bill Kline  
Chief Learning Officer, Delta Air Lines

## Northrop Grumman Newport News

Of the 9,000 production workers building Navy ships for Northrop Grumman Newport News, roughly 2,000 are required to do some welding as part of their jobs. And, with the average age of the production force topping 40, officials at the company have recognized a real need to develop a pipeline of skilled welders for the future.

“We are looking to recruit, train, and retain the next generation of shipbuilders,” said James Wallace, director of education and training for the company.

This explains the company’s recent decision to partner with five vocational schools in the Newport News, Virginia, area with the aim of strengthening their welding instruction programs. Among other activities, Northrop Grumman Newport News has licensed its training software to the schools and is working with them to upgrade their programs and facilities, add faculty, and recruit students. The company also pays student tuitions and offers paid work experience to complement the students’ instruction.

“We feel that companies in manufacturing and construction have to be actively involved in the process of ensuring a pipeline of future workers,” said Wallace. “We have to get out and make people aware of the opportunities we

offer and the skills we require. It will not be done for us by school guidance counselors.”

In a related initiative, Northrop Grumman Newport News operates a formal apprenticeship program that has been in operation since 1919. Currently, the company has 675 individuals in four-year apprenticeships that combine academic instruction, off-the-job skills training, and planned job rotations aimed at developing essential skills. Participants are recruited both externally and from within the company.

Wallace said Northrop Grumman Newport News currently employs 2,300 graduates of the apprenticeship program, and he noted that 75 to 80 percent of these have been promoted beyond the occupation for which they were trained.

“It has been for our company the equivalent of the service academies for the armed forces,” Wallace said. “It’s one way we are able to attract capable people and pass on the critical skills they need to contribute to the company’s success.”

**“We feel that companies in manufacturing and construction have to be actively involved in the process of ensuring a pipeline of future workers.”**

— James Wallace  
Director, Education and Training  
Northrop Grumman Newport News

## Liberty Mutual Insurance Co.

Liberty Mutual Insurance Co., based in Boston, has 35,000 employees worldwide. Every year, the company hires between 2,500 and 4,000 new workers, many of them fresh out of college, making employee recruitment and selection a critical business focus.

“We want to ensure that we are getting good talent in the door,” explained Richard Benner, the company’s manager of curriculum development and instructional technology. “As a result, we put a lot of emphasis on the selection process and on making sure we’re getting people who are a good fit for Liberty Mutual.”

To track the company’s success in bringing in high-quality workers, Liberty Mutual has developed a metric that combines a student’s college ranking and grade point average. Right now, according to Benner, 90 percent of the company’s college hires graduate with an acceptable combination of the two. This translates into a 3.0 GPA at the most competitive schools and a 3.8 GPA at schools that are ranked as less competitive.

“We feel that we are doing a good job meeting our targets but it is something that you have to execute against continually,” Benner said.

But grades and school rankings aren’t everything. To provide line managers with guidance on how to select the best employees, Liberty Mutual has developed a series of

“success profiles.” Based on in-depth assessments of the key behaviors expected of employees in different jobs, the profiles and accompanying interview guides help managers ensure that job interviews get beyond the standard back-and-forth about a candidate’s experience and goals to explore his or her core capabilities and behaviors.

A sample question: “Tell me about a time when a project you were involved in got off track? What did you do? What was the result?”

Once the new hires are in the door, Liberty Mutual pays close attention to management development. The idea, according to Benner, is to make sure employees have “structured,

targeted development” to build their performance at all levels.

“We believe that for our business to succeed, we need to attract the right people, help them develop their skills, and provide opportunities for advancement,” Benner said.

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— Richard Benner  
Manager, Curriculum Development  
and Instructional Technology  
Liberty Mutual Insurance Co.

## The Kroger Co.

A recent study by a research council created by the Coca-Cola Company found that the annual cost of employee turnover in the supermarket industry exceeds the entire industry's annual profit by more than 40 percent. On a per-store basis, turnover in the industry costs companies about \$190,000 every year.<sup>14</sup>

Multiply that figure by the approximately 2,500 grocery stores owned and operated by The Kroger Co., and it is easy to see why Kroger officials have made employee retention a priority. Noting that some of Kroger's senior leaders started their careers as baggers and cashiers in the company's stores, Kroger's director of training and organizational development, James J. McLaughlin, said, "The bottom line is we need to do a better job communicating with our employees about career opportunities in our industry."

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Director of Training and Organizational  
Development, The Kroger Co.

The focus of Kroger's current efforts to boost employee retention are store managers. According to McLaughlin, Kroger is right now in the process of developing an enterprise-wide manager development program that seeks to help managers understand how to inspire and motivate associates so that they are more likely to stay with the company.

"The idea is to teach new managers so they don't treat employees like commodities but as valuable resources," McLaughlin explained.

One of the key findings of the Coca-Cola study, McLaughlin noted, was that the number-one factor in encouraging new associates to remain with the company was feedback from managers.

"You would be amazed at how many managers never tell employees how they are doing," McLaughlin said. "So one of the best practices we are trying to convey to managers is to engage with employees and give them feedback."

## General Motors

Meeting the human capital challenge is, in part, a matter of delivering learning content as efficiently and as effectively as possible, and e-learning can help. That's the message from General Motors Corporation, the world's largest manufacturing company, and its internal training arm, General Motors University (GMU).

Formed in 1997, GMU is a global network of education and training resources designed to help GM's executive, management, technical, and professional employees continuously improve their competitive performance and to drive success at GM. A brief glimpse of recent results at GMU underscores the potential for e-learning as a key part of an overall human capital strategy.

In 2002, GMU provided more than 1.8 million hours of learning. While GMU offers classroom training as a part of its total blended learning, web-based e-learning courses now account for over 30 percent of all training hours for GM's salaried workforce.

"This training is highly individualized and can be done 24/7 at a time and place that is convenient for the employee," said Donnee Ramelli, president of GMU. Ramelli reported that the use of e-learning as a key part of GMU's learning portfolio generated over \$10 million in productivity savings alone in 2002.

"When you ask, 'What's the purpose of an HR organization?,' the answer should be to develop the talents and skill sets of your people to drive the performance of the company," added Kathleen S. Barclay, vice president for global human resources at GM.

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"We're giving our employees the means to improve performance by providing updated skill, career, and leadership development programs, as well as web-based tools that allow for skill enhancement and easier management of business and personal information."

Ramelli said that e-learning was the principal driver behind a GMU initiative aimed at building key capabilities and competencies for more than 2,400 GM human resource professionals in 31 countries across the world. The program, "HR Skills for Success," began in 2001, and the results have been extremely positive.

Over 90 percent of the participants, for example, rate "very highly" the content and approach; furthermore, they indicate that they are now using the new concepts, insights, and skills on the job. GMU's leaders state that the development and delivery of the curriculum for "HR Skills for

Success" cost less than half what the company would have spent on a more traditional approach.

In a separate initiative, GM's Global Engineering Function effectively used web-based learning in 2002 to dramatically reduce the costs associated with traditional classroom instruction in CAD/CAM for designers and engineers. According to Ramelli, the process saved 12,000 person hours of productivity.

"Clearly, when linked to strategy and core competencies, e-learning must be viewed as an important and powerful tool for developing human capital," said Ramelli.

## Marriott International

As Marriott's senior vice president for the Mid-Atlantic region, Dave Grissen oversees the operations of 35 Full Service and 95 Select Service and Extended Stay hotels. When unemployment in Baltimore, Maryland, and Washington, D.C., reached unprecedented lows of 1½ to 2 percent in 2000, Grissen's recruiting challenges grew more complex.

"It became more challenging to attract talent that fit Marriott's hospitality culture," he said.

Grissen's response was to get together with hotel managers to determine how best to improve recruitment, selection, and orientation. One result of these discussions was Marriott's "Front and Center" program, which focused the region's human capital development efforts around one position: the hotel front desk.

"We selected the front desk because it is one of the smaller departments in the hotel, but it has an enormous impact on guests," Grissen said. "If I come into a Marriott and get a great welcome and have a good experience checking in, then the stage is set for a positive guest experience."

The Front and Center effort involved managers from every hotel in the region in designing a new selection, recruitment, and orientation program for front desk workers. Now, in order to be hired for one of these positions, prospective employees have to go through a minimum of four interviews and score highly on a standardized assessment.

Since the program was implemented in 2002, Grissen said guest satisfaction ratings for hotels in the region are markedly up. Another payoff is that hotel managers have changed the way they

think about recruitment, hiring and retention.

"Our general managers apply a higher standard to the interviewing and hiring process, and this is happening in all positions throughout the hotel," Grissen said.

In a similar effort, Grissen recently ramped up a new recruitment and orientation program for sales managers in the region's hotels. Like other hotel companies, he explained, Marriott traditionally had hired sales people from inside the hospitality industry or from other parts of the hotel.

Starting in 2002, however, Marriott hotels in the mid-Atlantic are engaged in active recruiting for experienced sales personnel in other industries from pharmaceuticals to finance. Like the Front and Center program, the sales initiative relies on several levels of interviews and a standardized assessment tool to screen out the best candidates. It combines these strategies with an intensive, four-week "on-boarding program" that orients new hires to the hospitality business and to how Marriott runs its business.

Grissen has been tracking the results of the sales effort, and while it is still early, he said he sees that the people going through the sales orientation are performing at an above-average pace. He also said that turnover among the new hires is down significantly.

"We have raised the bar and are tapping a sales talent pool that never existed for us," Grissen said. "And we're just now starting to see how it's paying off."

**"We have raised the bar and are tapping a sales talent pool that never existed for us. And we're just now starting to see how it's paying off."**

— Dave Grissen  
Senior Vice President  
Mid-Atlantic Region, Marriott

## ***Transferable Practices in Focus:*** **The Chief Learning Officer Position**

Chief learning officers (CLOs) have found a seat at the boardroom table in companies throughout the world. A March 2000 report by the Conference Board found that although only 6 percent of the companies surveyed had integrated learning functions, 60 percent planned to extend those programs company-wide within five years.

As the ASTD Policy Council sees it, the proliferation of CLOs is primarily a result of two connected trends. The first is the tendency of maturing organizations to place a new value on learning and on the activities and strategies that develop knowledge assets. Despite the challenges of measuring these assets, they are increasingly viewed as key components in an organization's success. As a result, more organizations see a need to appoint a senior executive to manage, grow, nurture, and leverage these assets.

The second trend contributing to the rising number of CLOs is the recognition that organizations need to adopt a more holistic view of learning. The role of training director has therefore been expanded and a senior executive appointed to look at the learning function across all facets of the organization.

"It's about moving unilateral training out and multilateral learning in," said ASTD Public Policy Council Chair Vincent J. Serritella of W.W. Grainger, Inc.

### **Key Job Functions**

With so many companies embracing the idea of creating a position for "learning leaders," the time is right for some consideration of the key functions and roles of the CLO. *In Action: Leading Knowledge Management and Learning* by Jack Phillips and Dede Bonner examines best-practice studies of the earliest CLOs. These CLOs define their work as:

- Aligning or integrating diverse groups or diverse functions;
- Developing a culture for organizational learning, continuous learning, or knowledge management;
- Identifying critical areas for improvement or conducting needs analyses;
- Contributing or managing the capture, sharing, and retention of knowledge-content activities;
- Leveraging corporate-wide learning or knowledge development and maintaining relationships with senior managers;
- Conducting strategic planning and implementation;
- Uncovering best practices and benchmarking; and
- Being a visionary or champion for organizational learning and knowledge management.

An important focus for the first generation of CLOs is accountability. In a challenging economic environment, they are working to demonstrate their value to their organizations by showing top management that learning is about more than training. It is about the full spectrum of activities that help a company develop and maintain workers' knowledge and skills.

### What CLOs Need to Know

In a series of interviews conducted with senior learning executives for *Training & Development* magazine,<sup>15</sup> a set of core competencies for CLOs emerged. These include:

- *Business literacy.* All CLOs said it is important to understand fully their organizations' businesses and not just the training function.
- *Strategic thinking.* CLOs emphasized strategic thinking over tactical tasking as their most important competency.
- *Vision.* CLOs have to understand the big picture and envision a vital role for learning in the organization's success.
- *Passion.* The best CLOs tend to have an almost evangelical zeal for building a learning culture and organization.
- *Cross-functionality.* CLOs need to draw on multiple skills and experiences to develop customized solutions for individuals and departments throughout the organization.
- *Technological savvy.* Most CLOs aren't technology experts. But they all agree that knowing how to use technology is an important CLO competency.
- *Communication skills.* Strong interpersonal and listening skills are key.

The role of the CLO, according to the interviewees, has evolved into a position that requires business acumen, vision, and a technical understanding of the learning function.

## ***Transferable Practices in Focus:*** **Training and the War for Talent**

The latest *State of the Industry Report* from ASTD shows that companies' training investments are holding their own, despite the recession and the effects of the September 11 attacks.<sup>16</sup> In fact, as measured on a per-eligible-employee basis, the amount spent on training actually *rose* 8 percent between 2000 and 2001 among the companies participating in ASTD's Benchmarking Service.

Of course, leveraging training to build and sustain worker skills is about more than what you spend; more importantly, it is about the strategies and the tools you use and about how learning itself becomes a means for attracting and retaining top talent.

In 2000, ASTD joined with the Society for Human Resource Management (SHRM) to investigate how seven top companies promoted employee growth and career development.<sup>17</sup> The companies were selected based on a screening survey that identified them as Exemplary Practice Partners (EPPs).

What the EPP companies had in common, according to the study, *Recruiting and Retaining Employees: Using Training and Education in the War for Talent*, was an unrelenting focus on connecting workforce initiatives to organizational strategies.

“The organizations support training from the very highest levels, realizing both implicitly and explicitly that building the knowledge capacity of their workers is a necessary strategy for business success,” the report stated.

In addition, each company—from Southwest Airlines to Dow Chemical—had established a strong identity and culture premised on the idea that people play a significant role in the enterprise’s success. The companies made employees responsible for their own development, and all of the companies had instituted position or role competencies providing a framework for employees to understand the skills, knowledge, and abilities required of their positions and others.

Last but not least, the companies also displayed a profound commitment to blended learning, mixing a wide array of delivery mechanisms and learning models to help employees develop critical knowledge and skills.

### ***Transferable Practices in Focus:*** **Determining the Value of Human Capital**

With organizations maintaining or increasing their investments in human capital development and training despite challenging economic times, executives and shareholders increasingly are interested in understanding what they are getting for their money. It is perhaps the principal challenge facing organizational learning professionals in the years ahead: how to determine the value of training and the payoff in terms of employee and organizational performance.

**The most effective measurement initiatives go beyond identifying operating cost reductions to demonstrating how specific initiatives directly affect the performance of individuals or groups.**

Forty percent of 200 companies surveyed by Accenture do not regularly measure the business impact of human resources (HR) and training initiatives in such areas as turnover and retention, employee satisfaction, innovation, productivity, and quality.<sup>18</sup> Furthermore, 35 percent of the companies are not regularly measuring the impact of these initiatives on customer satisfaction; and only 18 percent said they get weekly or monthly evaluation of the effectiveness of their training efforts.

Among those organizations that *are* working to measure the impact of HR and training practices, measurement strategies vary. Many, for example, are experimenting with conducting thorough return on investment (ROI) analyses of training programs. The premise for these efforts is that the emerging knowledge-based economy of the 21<sup>st</sup> century demands that companies do a better job accounting for the hidden value of their knowledge assets, and documenting the contribution of these assets to business performance and growth.

Currently, some organizations have succeeded in demonstrating a connection between human capital and business value. However, most measurement efforts to date have focused on one aspect of human performance (e.g., employee satisfaction or retention) or one discrete relationship (e.g., linking employee satisfaction with customer satisfaction).

Looking ahead, organizations need to embrace the importance and the benefits of broader, more inclusive measures. The reason: measuring the impact of investments designed to improve human performance not only reveals which investments work but also helps to substantiate future investments. The most effective measurement initiatives go beyond identifying operating cost reductions to demonstrating how specific initiatives directly affect the performance of individuals or groups. Performance-improvement measures such as these are critical to determining some level of return on investment for HR and training efforts.

Yet another measurement strategy that is being adopted by increasing numbers of companies is the dashboard indicator. Executives with the Vanguard Group's Vanguard University, for example, have created a dashboard that links key learning-related measures such as course design with learning outcomes and, ultimately, with corporate-wide dashboard measures.

Meanwhile, at Delta Airlines, measurement and evaluation of learning initiatives is driven by a "measures scorecard" that addresses both the efficiency and the quality of learning and its impact on the broader business. The scorecard focuses on four components:

- Productivity—efficiency of design, production, implementation, and servicing of products and processes.
- Quality—process capability of meeting and exceeding internal customer specifications.
- Impact—Impacting the business and improving customer service.
- ROI—Value-added use of resources.

Describing the Delta scorecard, Chief Learning Officer Bill Kline said, "It needed to be robust enough to capture ROI data but simple enough that all managers, instructional designers, and facilitators within our seven functional learning organizations and corporate learning area could gather and analyze data."

Another company, The Home Depot, has adopted yet another means of measuring learning initiatives. The company's Position-Based Curriculum, launched in April 2002, enrolls 300,000 Home Depot associates in structured learning activities specific to their jobs. Measurement initiatives track employees' execution of the curriculum while assessing their performance in areas from customer service to punctuality.

The message from these examples is clear: companies are making progress in addressing the challenges around measurement. Equally clear, however, is that there is considerable work to be done to reach the next level. What will the next level bring? The ability to identify the explicit, causal links between human performance and business performance and to direct investment in training and human capital processes and technologies accordingly.

As Accenture concluded, "Companies that 'crack the code' will reap the rewards of market leadership and superior financial performance."<sup>19</sup>

## MOVING FORWARD

The human capital challenge facing organizations today calls for innovative approaches to critical issues from recruitment and retention to training, measurement, and employee relations. Responding successfully means devoting unrelenting attention to developing and maintaining employees' knowledge and skills. And it means making a strong connection between the capabilities of workers—their talent—and the competitiveness of the organizations that employ them.

The ASTD Public Policy Council has identified five key categories for action by organizations seeking to address the human capital challenge. In each category, the Council developed questions that will help public- and private-sector leaders assess where their organizations stand and identify critical areas for improvement.

### Human Capital Strategy

- Is your organization developing and adopting a human capital strategy?
- Is your organization assessing workforce characteristics and future needs?
- Is your organization developing and/or implementing a strategy for recruiting and retaining the talent the organization needs?
- Is your organization implementing a well-defined strategy for both identifying and developing your senior, mid-career, and newly appointed managers and leaders?
- Is your organization identifying best practices and benchmarking studies?

### Organizational Alignment

- Is your organization aligning human resources policies and programs with the organization's mission, strategic goals, and performance outcomes?
- Is your organization requiring leadership and management to incorporate learning and development as part of their objectives and performance goals?

## Learning

- Is your organization leveraging successful learning initiatives and broadening the impact of learning and development within the organization?
- Is your organization developing and advocating a culture of continuous learning to attract and retain employees with superior abilities?
- Is your organization capitalizing on failure as a learning opportunity?
- Is your organization designing learning using consistent standards across the organization (e.g., course purpose, instructional objectives, balanced presentations and demonstrations, facilitated learning)?

## Performance Management

- Is your organization linking learning to individual and organizational performance?
- Is your organization using competency models to align selection, employee performance review, and employee development?
- Is your organization providing business-critical information to increase individual performance?

## Measurement

- Is your organization applying methods for measuring intellectual capital?
- Is your organization working to identify explicit, causal links between human performance and business performance?
- Is your organization using measurement results to direct investment in training and human capital processes and technologies?

The success of *all* organizations—and our national competitiveness—requires that we meet the human capital challenge head-on.

The ASTD Public Policy Council urges all organizations, public and private, to use these questions as the basis for action to meet this challenge. We offer ourselves as a resource for ideas, innovations, and dialogue about strategies and solutions for strengthening organizations through the talents of their people.

## ENDNOTES

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## ABOUT ASTD

ASTD is the world's leading association for workplace learning and performance professionals, forming a world-class community of practice and widening the industry's focus to connect learning and performance to measurable results. ASTD's 70,000 members come from more than 100 countries and 15,000 organizations—multinational corporations, medium-sized and small business, government, academia, consulting firms, and product and service suppliers.

Founded in 1944, ASTD is now a global force and a sought-after voice on crucial public policy issues. Ongoing ASTD initiatives addressing various aspects of the human capital challenge include the Benchmarking Forum (BMF), a consortium of private- and public-sector organizations that benchmark training, learning, and performance improvement activities and outcomes. The ASTD Measurement Kit—a data collection instrument—represents the first set of standardized measures that provide common ground for the comparison of learning results.

ASTD also sponsors the ROI Network, which offers resources and convening activities focused on connecting learning practices to business results. Other ASTD resources include: *T+D*, a monthly magazine that addresses relevant and pivotal issues to the field; and *Learning Circuits*, ASTD's online magazine about e-learning.

ASTD offers a wide range of tools and information on workforce development, learning, and performance at [www.astd.org](http://www.astd.org).

### ASTD

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