

HR in the 21st Century: Challenges and Opportunities

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Executive Summary

As we enter the twenty-first century, experts continue to validate that it is the human asset, not the fixed asset, that will make the difference for successful organizations. While it has historically been HR's job to "own" those assets, the overall enterprise must take a more active role in the workforce experience. HR must continue to gain ground as the chief people strategist by providing attraction and retention techniques that create an employer-of-choice environment. Simultaneously HR must demonstrate a measurable ROI on human capital.

This article examines eight critical trends that have solidified over the past year. These trends will continue to present both challenges and opportunities for the HR and HRIS professional over the next decade. The eight categories include the following:

- Becoming the employer of choice
- Winning the war for talent
- Contributing to the organization as a strategic business partner
- Cultivating leadership through e-learning and development
- Recognizing the workforce as a profit center
- Thinking globally while complying locally
- Incorporating flexibility and adaptability into the organization
- Embracing technology as the underlying facilitator

HR in the 21st Century: Challenges and Opportunities

By Row Henson, a PeopleSoft Fellow

Challenge is always offset by opportunity. Today's widespread market volatility, coupled with layoffs, talent shortages and rapid shifts in technology, points to heightened challenges for human resources (HR) organizations. While appropriately leveraging HR has been a key topic of discussion for the past decade, organizations still struggle with how to make this strategic shift as a department.

What will help HR most in running the people side of the business? Over the next decade the HR profession will face a wide range of issues, which can be consolidated into a list of major hurdles. While the hurdles discussed here might not be all-encompassing, addressing these predominant issues provides impetus for turning challenges into opportunities. As a starting point, one of the most important challenges for an organization is becoming an employer of choice. This involves creating an environment where people want to come and work, contribute while they are there and stay long enough to make a difference. HR's success in surmounting its challenges is evidenced by ROI not only in terms of money, but also in efficiencies, effectiveness and organizational best practice. Undoubtedly,

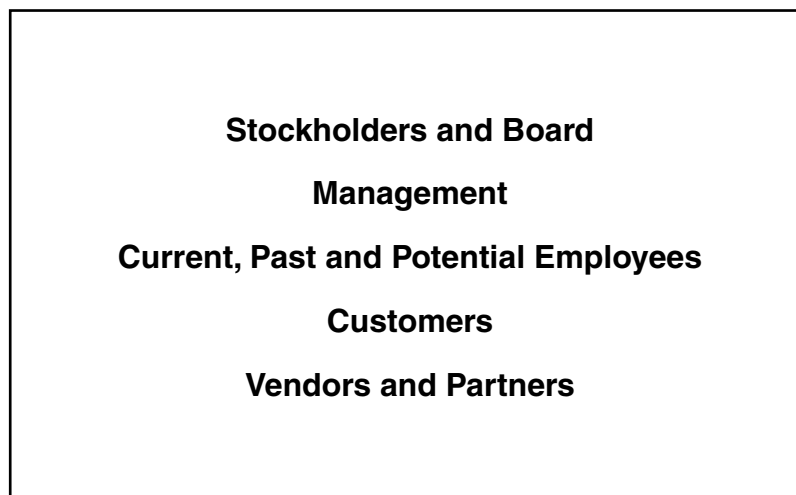
technology plays a pivotal role in addressing any HR challenge by facilitating solutions that optimize success.

All great companies look for the best ways to perform HR-related tasks. However, thinking about HR only as a department obscures HR's enterprise-wide function, which permeates the entire organization. Just as finance touches every area of a business — usually in the form of a budget — human capital is an entity affecting the enterprise in its totality. Therefore, instead of regarding HR as an isolated department, great companies shift their focus toward enterprise-wide people processes, of which HR is an integrated part.

Facing the Primary Challenge: Being the Employer of Choice

Becoming and remaining an employer of choice is the top-ranking HR-related challenge organizations face today. Establishing employer-of-choice status is HR's responsibility, and if HR does this well, all other practices become subordinate to this goal. The most important objective on the people side of the business is establishing a place where individuals want to work and remain working. HR should be concerned with providing potential,

Culture strongly influences long-term relationships with employees, customers, and suppliers



current and even past employees with this environment. Employees need a culture, a place in which to grow and feel good about their surroundings.

Delineating the Corporate Culture

Corporate culture is a dramatic force behind every employer of choice. Unique to each organization, culture has many drivers, such as the organization's leadership or the product or service produced. In cases when there are mergers or acquisitions involved, cultural redefinition might be required.

At the very least, HR should be the designated keeper of the corporate culture. At its best, HR can be instrumental in creating or maintaining a culture that is truly great. HR must first clearly identify the kind of culture the company should have, then define that culture for the workplace and support the environment that emerges. An identifiable culture attracts employees, gives them a sense of purpose and offers a basis for participation in decision-making.

Whether investigating not-for-profit institutions, government employment, a large banking firm or start-ups, job seekers continuously evaluate whether or not a prospective employer is the employer of choice for them. A suitable culture signifies different things to different people — companies attract those who find their culture desirable. This attraction might mean anything from having a lot of freedom to participating in business decisions to working with a mission to save lives.

What does it mean to be an ideal — or “cool” for some sectors — place to work? While a number of criteria are involved in answering that question, in general the cultural images successful companies portray fully address these categories: work/life balance, sense of purpose, celebration of diversity, active participation in management and an environment that integrates continuous learning.

Creating a culture where people are treated well regardless of title is becoming more and more important today. Whether baby boomers or generation X, almost every 21st century employee at every level wants to be influential in company decision-making. One of the many ways to achieve this is rewarding employees for innovative suggestions no matter where they are in the organization. Such a practice can benefit the company as well. “What is important about the frontline workers’ view is that these people capture a fuller picture of what the organization faces and what it can actually do. In most cases, they see more chances for bold action than the executives at the top.”¹

Inevitably, culture changes as a company grows and its mission evolves. It is HR's mandate to capture that culture and assure its alignment with corporate goals and objectives.

Using Branding to Promote Culture

Branding promotes culture. In the past branding was assigned to public relations or marketing, but it is indeed an HR function because of its power to attract and retain employees. Working together with marketing, HR must develop a compelling brand image for the workforce.

Great companies do not create an external brand for customers and an internal brand to attract employees. Instead, they leverage their external brand for internal recruiting. Southwest Airlines is an excellent example of this — it advertises around low-fare, no-frills, humorous service, and its employee population loves to have fun with customers. Southwest does an excellent job of branding for its customers and leveraging that same image to draw like-minded employees.

Branding that pervades a company's web content communicates brand image not only to customers but also to prospective employees. Messaging should work to attract both simultaneously. For example, when posting jobs to

the site for recruiting, HR must work with site designers to make interesting, creative postings that tie into company branding. Although internet-driven recruiting is still in its early stages, it can pull together a wide range of elements and help ease the burden on HR while pushing out to prospects the branding and critical data that speeds selection decisions. Today's college graduate looks at every prospective employer's website before applying for a job. In many cases, a website supplies an applicant with his or her very first image of a company.

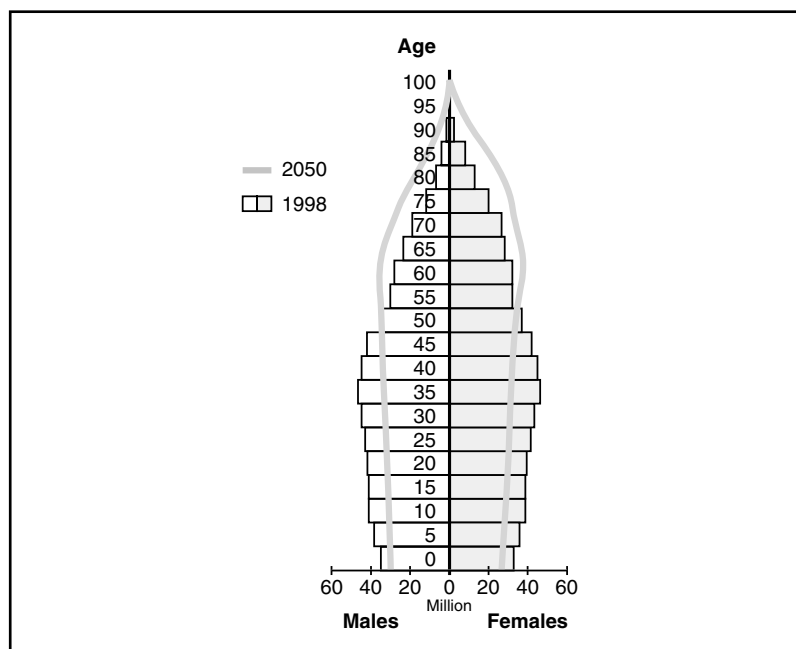
HR must take a pivotal role in branding during mergers and acquisitions. When AOL-Time Warner merged two strong cultures, HR's task was to take the best of both organizations' messaging and develop a third survivable, sustainable culture that resulted in a new brand.

Most HR organizations today do not consider themselves branders. They think of themselves in the people practice, but before getting to the people practice, HR must first identify necessary actions in terms of building a culture and branding. Such actions result in the attraction and retention of the right kind of employees to support the organization's goals and mission.

Staying Attuned to Changing Demographics

The workforce has changed and will continue to do so. Employers of choice recognize and understand the dynamics of the "new workforce," where for the first time four distinct groups of workers labor together under one virtual roof. The over-50 baby-boomers lend themselves to loyalty and sacrifice, those in their 40's believe hard work will take them to the top, 30-somethings seek a balance between work and home, and new workers in

The demographics of working men and women are changing with respect to both numbers and age ranges.



their 20's are realists wired for technology. However, today's employees are even now experiencing a metamorphosis. The role of women and other minorities is expanding, median age is increasing and there is a rise in the contingent workforce.

Organizations are changing as well, creating widespread shifts in work attitudes across age groups. HR's task is to stay attuned with the changing workforce and changing company values and make sure company culture is appropriate to the desired workers. For example, because Ford Motor Company benefits from loyalty — as do most employers of an older workforce — its culture and branding do not support rapid change and high turnover. Likewise, companies based in Silicon Valley are concerned with development and production speed, and turnover is often higher than average. HR's challenge is to strategically match the employee population with that of the organization's culture.

Winning the War for Talent

An employer of choice has already come a long way toward winning the war for talent, which is another significant HR challenge. There is no truce in this war, regardless of economic conditions.

Recruiting and Retaining Over Time

Given suitably competitive offerings with respect to compensation, culture is an organization's number one recruitment and retention tool. In an employer-of-choice environment, it is not necessary to pay top dollar if other key factors are in place.

Great companies know not to stop seeking the best talent in a downturn. When the stock market is down, many people are afraid to invest — but that is the best time to do so. The job market is similar.

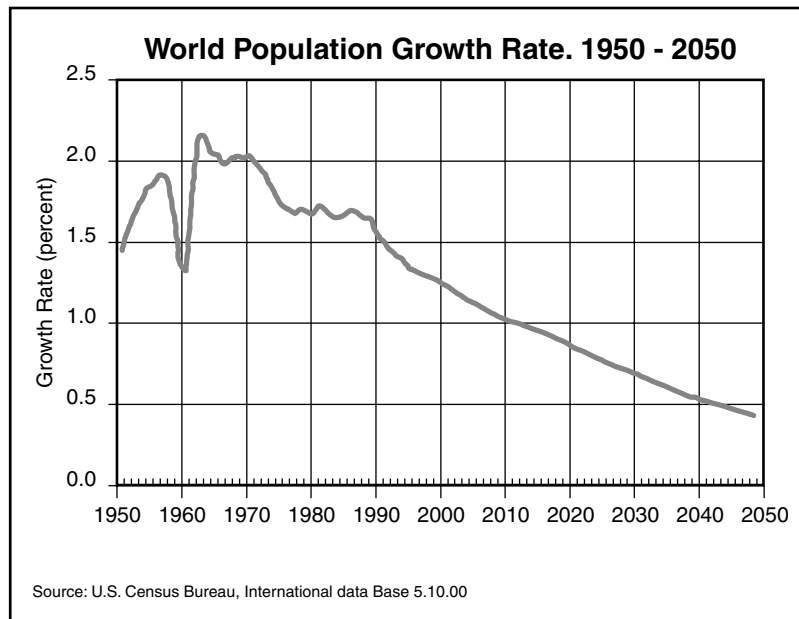
Top companies always see value in pursuing the best and brightest. Simultaneously, future talent shortages and the expense of recruiting over retention give these employers a consistently keen eye for keeping their top performers. According to Jac Fitz-enz, founder of The Saratoga Institute, "Every six middle managers a company replaces costs \$1 million in the time and expense it takes to recruit, train and develop replacements to a point where they can be as productive as those who left."²

Great companies make every employee in the company a recruiter. At a cocktail party, someone who is energized about his company and discusses it in a positive light promotes that company. Cisco is a good example of top-quality referrals. Because Cisco's employee referral program generates 60 percent of all new hires, the company realizes great savings on the high cost of recruiting and simultaneously finds prospects with good personal references.

Customer relationship management (CRM) is a good model for human capital management (HCM). The steps involved in attracting and retaining customers parallel the activities involved in the war for talent. Where millions are spent on the customer relationship, has a similar emphasis been placed on employees?

Understanding the Workforce

Statistics show that the size of the workforce is diminishing — when the economy comes back, there will be fewer candidates from which to choose. Although there is an economic slowdown now, in the next 10 years demand will outstrip the supply. During a downturn, if companies that are not hiring eliminate their focus on recruitment, they can miss golden opportunities to secure the high performers who might be instrumental in the future.



Winning the war for talent requires knowing the workforce. For example, by 2050 there will be fewer people available to work, and the majority of these will be older than 50. The contingent workforce will also be more critical in the future. Therefore, why not innovate by creating a temporary or part-time environment in which the 50-plus population will want to work? What about giving the new mom or dad the opportunity to balance hours at work and at home?

Leveraging an Indispensable Player: Technology

Meeting today's HR challenges would be impossible without technology, a critical practice in and of itself. Most people want to work for companies that have good technology. For example, college graduates accustomed to using the internet for their work, research, thesis, and case studies expect the latest technology on the job. Given the widespread availability of technology, a company lacking in this component will not qualify as an employer of choice for the emerging workforce.

Technological development is in every company's best interest. According to Cedar Group, "Organizations continue to report high degrees of success in using technology to meet objectives of business improvement, employee satisfaction and elevation of HR's contribution as a strategic business partner."³

Using Technology as a Facilitator

Great companies know how to use technology. Instead of accumulating an excess of technology for technology's sake, they invest in technology specifically as it facilitates accomplishment of their objectives. For example, an employer of choice will leverage the company website to add momentum to branding efforts.

The best companies also wield an educated vision, establishing cutting-edge solutions such as pure-internet systems that provide longevity and interoperability with future advancements. Preferred for ease of collaboration, pure-internet systems require only a browser — no code on the workstation — and support a number of standards. Web-based solutions are ideal foundations for portals, self-service, and collaboration because they

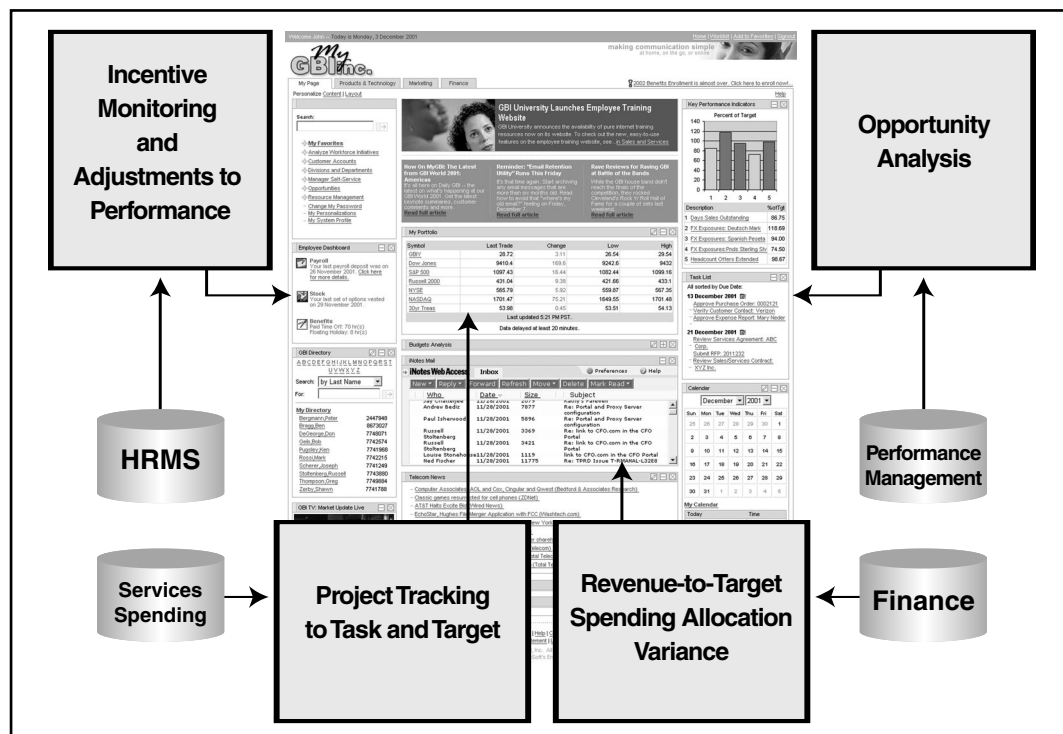
can continually draw from a single repository of enterprise-wide data.

Entering the Portal Gateway

Critical to the employer of choice, portals provide organized, efficient access to the customized content, knowledge, reporting structures, analytics capabilities, and transactions each employee needs. An enterprise portal is the gateway to all company functions and offers personalized, role-based access with respect to who employees are, where they are located, what they do, and why they do it. Third-party sources of content such as salary surveys or job boards can also be accessed through a portal.

One of the most compelling aspects of portal technology is that it serves as a primary HR tool for establishing image, culture, and branding. Role-based portal designations allow HR to push out messaging to specific groups, and all recipients see the same information simultaneously. Distributed information can include balanced scorecard data, total reward and incentive status updates, company news and promotions, quotes-of-the-day, and other culture-based messaging. More than any other form of technology, this communication tool helps replace the concept of HR as a department with a true sense of the pervasive, enterprise-wide nature of human capital.

Portal technology can serve as a valuable HR tool for establishing image, culture, and branding



Employees use a portal to seamlessly access workflow, event-driven processing, transactions, analysis, and more. Because portal information is filtered based on role, employees see only the relevant information they need to do their jobs. Where before an individual had to enter a password for each application, portals require only a single sign-on for access to all company functions. This saves time and effort and promotes increased productivity.

Establishing Self-Service and Collaboration

People want to work for and stay at companies that empower them to do their jobs, and self-service and collaboration do exactly that. Employee self-service makes HR and other work-related transactions easily accessible 24 x 7, granting increased workforce autonomy and lightening the HR administrative load.

Self-service has been gaining momentum. According to Towers Perrin, "Despite recent world events, the economic downturn and actual results to date with self-service, half to more than two-thirds of responding companies, polled in November 2001, plan to step up investments across a wide variety of HR applications."⁴ According to the Cedar 2001 Human Resources Self Service/Portal Survey, self-service has resulted in a 60 percent average reduction in both cycle times and average costs, a 50 percent increase in employee satisfaction, an up to 70 percent reduction in headcount changes, and a 90 percent drop in service-center inquiries. The Cedar 2001 HR survey reports a 100 percent ROI in less than 22 months based on implementing multiple applications.⁵

Studies show rapidly increasing evidence of the benefits of employee self-service.⁵

Extending HR-Related Collaborative Application to the Workforce			
Savings Realized Using Self-Service			
Task	Manual Cost	Self-Service Cost	Savings
Enroll in benefits	\$109.48	\$21.79	80%
Enroll in training	\$17.77	\$4.87	73%
Change home address	\$12.86	\$3.39	74%
Apply for a job	\$21.31	\$11.85	44%
Change compensation	\$44.67	\$18.26	59%
Approve a promotion	\$48.64	\$14.01	71%
Create a job requisition	\$36.89	\$11.11	70%

Source: Human Resources Self-Service Survey 2001, Cedar Group.

In addition, the Watson Wyatt 2001 study revealed that a significant one standard deviation (1 SD) improvement in focused HR service technologies created a positive 6.5 percent market impact: “Our research shows that if HR groups use new technology for the fundamentals — improving accuracy, service and cost-effectiveness — it pays off in 6.5 percent higher shareholder value.”⁶

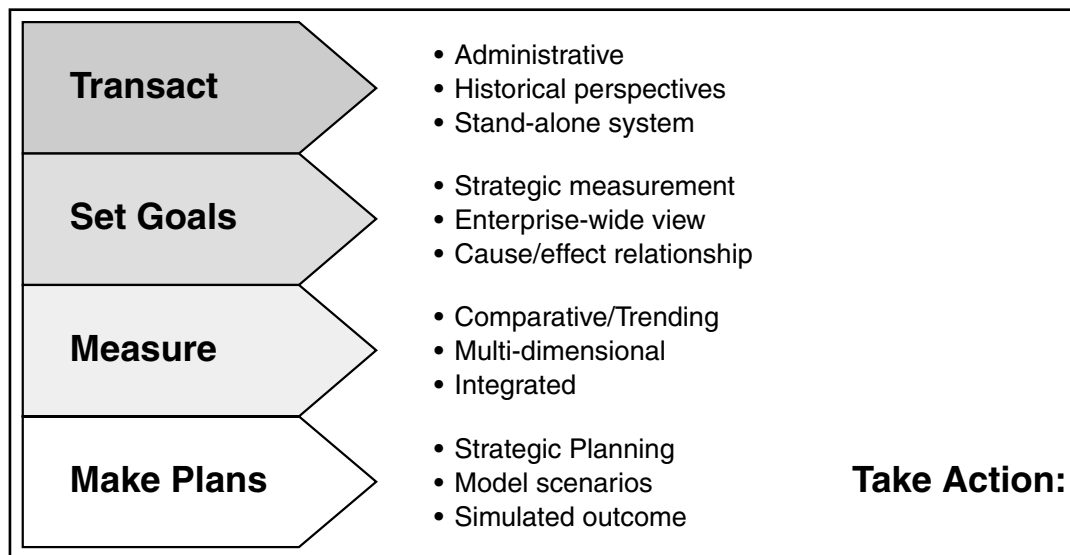
Web-based collaboration streamlines communication by connecting the disparate systems of all constituents — company-based and third-party — for integration with back-office applications and content suppliers. Improved decision-making and effective workflow result from integration of knowledge-base access, transactional information, analytics, team input and more.

An excellent example of collaboration is the recruiting process, which extends from posting a requisition to communicating with and making an offer to the candidate. Online collaborative processes create documented evidence of what took place, which is helpful in recalling details and evaluating workflow success.

Analyzing All the Data

Analytics statistically measure what is and why, and also provide data as to what should be, what could be, and what will be. By drawing from a central repository of all pertinent internal and external company data, workforce analytics enable organizations to model, simulate, report, compare and leverage the metrics most important to HR and the entire organization.

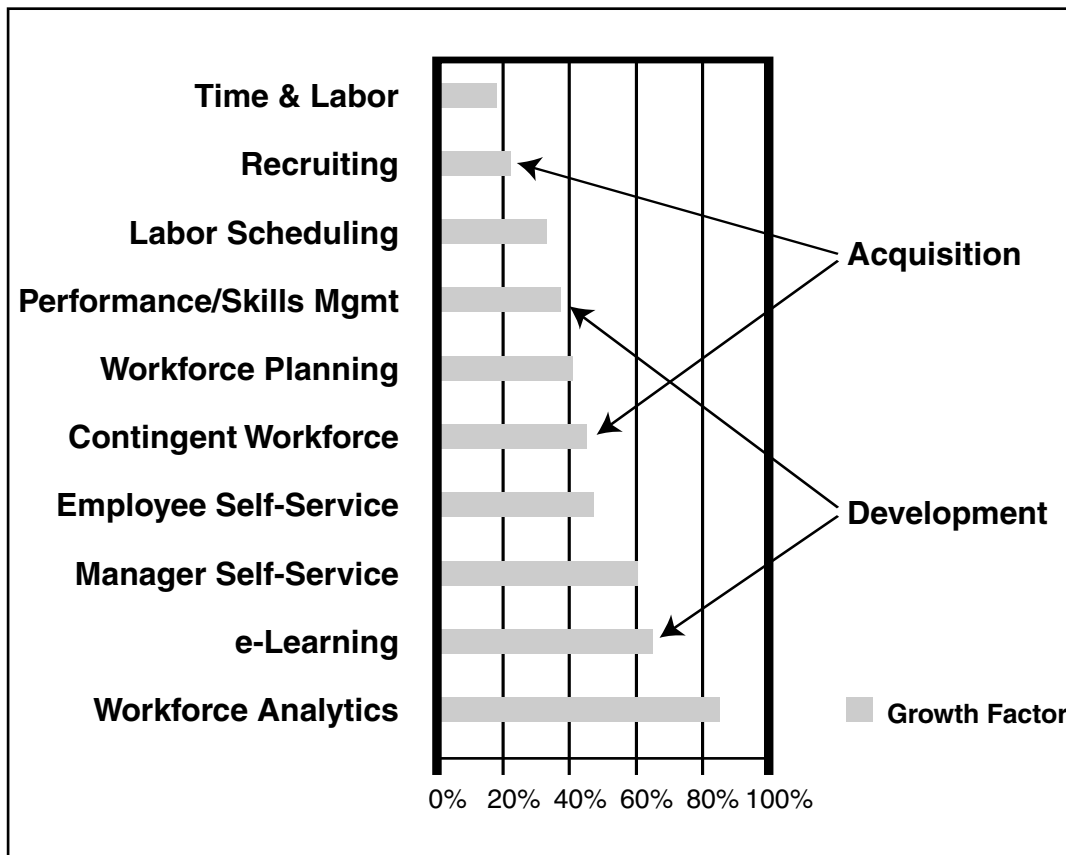
Analytic tools help HR leverage enterprise-wide data to develop workforce planning cycles that maximize productivity



Workforce analytics also help measure HR effectiveness, support processes for addressing gaps in skills and labor, derive metrics for trend and benchmark analyses, assist with talent development, provide compensation and retention planning tools for proactive analysis, and much more. The time is now to leverage analytics. According to Gartner, “Enterprises that want to out-perform their industry competitors should understand the implications of Corporate Performance Management and immediately start building their strategy.”⁷

Great companies use analytic tools to manage human capital, calculate its value, and align the workforce for maximum productivity. These tools are instrumental in anticipating the impact of inevitable external and internal business trends that precipitate change and in realizing savings by strategically allocating human capital.

Workforce excellence comes from having the best workforce and deploying it for advantage.⁸



Source: Meta Group Workforce Management Study 2001.

Recognizing the Workforce as a Profit Center

Historically undervalued, human capital is in reality a strategic asset. Watson Wyatt's 1999-2001 Human Capital Index survey of over 750 international companies statistically proved that implementing HCM best practices is a leading — not lagging — factor in increasing shareholder value. "Effective human capital practices drive business outcomes more than business outcomes lead to good HR practices," stated Bruce Pfau, Ph.D., author of the study.⁹

Accounting for People: a Necessary Expense?

Watson Wyatt provides clear evidence of the success of effective HCM.¹⁰ Yet, if optimized human capital is powerful enough to drive success, why is it common that the only executive-level mention of human capital is an

expense line on the income statement? Such an approach forces inverted behavior. For example, a company might employ the fewest people at the lowest cost simply to enhance the income statement. However, this "enhancement" is a hidden stress on overall performance.

"Oddly enough, while economists and business strategists agree that intellectual capital is the key to success for companies in today's knowledge-driven economy, there is currently no generally accepted means of quantifying these assets and accounting for them on a company's balance sheet," states Dr. Charles E. Grantham, Founder, Institute for the Study of Distributed Work.¹¹

Quantifying the Intangible: Human Capital

Since the early 1980's, companies' predominant source of market value has shifted from tangible fixed assets to intangible assets.

The Human Capital Index study provides evidence concerning HR

The Impact of HCM on Market Value

Sample size: 750 companies
Expected change in market value associated with a significant one standard deviation (1 SD) improvement in HCI dimensions.

Practice	Impact on Market Value
Total rewards and accountability	16.5%
Collegial, flexible workplace	9.0%
Recruiting and retention excellence	7.9%
Communications integrity	7.1%
Focused HR service technologies	6.5%

Intangibles include human capital, structural capital, customer capital, and organizational capital, with human capital contributing by far the biggest portion. Great companies are using HCM to leverage human capital by tying individual performance to key organizational objectives and are seeing the difference in corporate profits — the workforce is indeed a profit center.

The standard deviation of top- and high-potential performers represents twice the productivity of the average performer. States founder Bill Gates regarding Microsoft, “Take away our 20 most important people, and I tell you we would become an unimportant company.”¹² The critical value of key people is all the more reason to invest in human capital, HCM, and supporting technologies.

HR responsibilities include many specific details involving compensation, workforce trends and so on. However, it is critical that HR can answer questions such as:

- Who are our top performers and how can we retain them?
- Who are our high-potential employees and how can we develop them?
- Who are we at risk of losing and how can we reduce that risk?

Contributing as a Strategic Business Partner

Although there is emphasis today on getting HR out of record keeping and making HR more strategic, a lot of HR people are not equipped for this. Often a company wants an HR representative to think like a businessperson but does not give them the respect, time, tools and other provisions to do so.

HR’s role as a strategic business partner comes from both the company and HR’s own initiatives. One factor that supports HR in functioning better in the business world and

becoming a key business partner is appropriate use of the right technology. Technology can help HR assess opportunities, manage risks, take action, and communicate with employees.

Measuring performance and tying it to overall business objectives is essential for demonstrable results at the corporate level. Yet an unfortunate number of performance evaluation criteria have nothing to do with overall company objectives. Measuring things like clocking in on time and getting along with co-workers does not provide tangible data that ties employee performance to overall company success. HR needs to evaluate the factors that have direct impact on corporate objectives.

HR takes on significant responsibility during mergers and acquisitions. In the recent acquisition of Compaq by HP, it is unthinkable that HR was not examining culture, benefits, salaries and employee skill sets to make the acquisition work.

Cultivating Leadership: e-Learning and Development

Today’s college graduates are less concerned with starting near the top as they are with being empowered to learn and make company decisions. Most people instinctively want to learn, which is very different from being “trained.” Learning is an environment that promotes the ability to gain knowledge, whether via a course, access to expertise in the form of mentors, or participation in innovative projects.

Loyalty to a single company is rapidly becoming a thing of the past. While culture attracts a new hire, the reason an employee stays on is because the working environment is challenging and meaningful, engendering growth and development. The number one reason an employee leaves a company is lack of respect of the immediate supervisor. The culprit is the aging workforce, which causes organizations

to promote younger individuals before they might be ready to be managers.

Organizations can address this retention issue on both the employee and managerial sides by creating an environment that continuously fosters learning and development. This helps train supervisors to be effective and provides learning employees eagerly embrace. Instead of secluding a new hire in months of constant training, this environment lets employees learn as they go using supportive tools and technology.

While technology is better today than ever, today's e-learning is only in its infancy. In this new world, people learn what they need to learn on their own time, at their own pace. Right-brain people can have more on-the-job learning, while left-brain thinkers can do more analytical learning online. Usually e-learning is accessed via collaborative self-service that leverages third-party expertise and/or content, which is what many are calling knowledge management today. In the future, e-learning will simply be a way the workforce is developed on an ongoing, just as needed basis.

In the new organization of the future, "Adaptive virtual organizations replace rigid organizational structures, and the organization at any one time consists of the sum total of people and companies involved in successful completion of a project. [...] Individuals recognize that continuous learning and nurturing of skills are vital to productivity and professional satisfaction. People seek opportunities to stretch themselves while employing their unique abilities, choosing jobs and projects that provide them with the best learning experiences and opportunities to excel." ¹³

Thinking Globally, Complying Locally

Even small organizations deal increasingly with customers and employees on a global basis. Great companies know how to think globally and comply locally. They act like a global organization, yet an understanding of the local environment permeates every relationship.

Making global differences a part of corporate culture is a valuable endeavor. Indeed, diversity itself is a source of greatness. Organizational headquarters that have the attitude that "corporate knows best" will have a difficult time instilling a viable culture. Education and awareness make all the difference, especially in the following areas:

Legal and regulatory issues — It is important to be familiar with laws and regulations in locations where the organization has a presence. For example, in some countries tracking religion is mandatory, while in others it is illegal.

Data security and data flow — Organizations must not only obey regulations with respect to data, but they must also be aware of how sensitive and important the security of personal data is in most of the world.

Culture — Each country has a differing set of cultural values apart from company culture. For example, some base their attitudes on love/hate polarities, while others use approval/disapproval. It is very important for smooth global operations that HR understands discrepancies between country culture and company culture and implements the appropriate processes.

Culture-based motivation — Incentive programs for people of different cultures should present true incentives by offering valued rewards. While pay for performance motivates US workers, in Germany title is motivational. In Japan, “the nail that sticks up gets hammered,” so individual performance is valued less, while efforts toward achieving group goals receive stronger reinforcement.

To help an organization efficiently leverage the global workforce, HR must acknowledge that one size does not fit all. While legal compliance is critical and can be greatly assisted by a global portal, the main focus is cultural awareness and sensitivity.

Incorporating Flexibility and Adaptability

For years companies have been moving away from hierarchical, structured environments because they are neither effective for organizing nor comfortable for employees. HR needs to mirror this movement by allowing employees — particularly managers — to be flexible, adaptable, and nimble. For example, instead of restricting a creative requisition that strays from an exact, predefined job description and salary range, HR can allow for variances that fit special circumstances.

Guidelines, rules, and benchmarks are important, but flexibility is even more critical, particularly where people are concerned. Collaboration with all constituents requires adaptability. Organizations today are less about physical structure than logical structure supported by technology.

Before doing anything else, HR must create a flexible environment where top prospects seek to be employed. This is a place where employees look forward to coming to work, enjoy working while they're there, feel they play an important role in the company, and want to stay because the company is continuing to develop them and care about them.

In great companies today, HR ties in all the ingredients for success and leverages technology to capitalize on economic and organizational change. Successfully turning HR challenges into opportunities to become an employer of choice creates a dynamic place where people want to work and choose to remain. Efficiency, effectiveness, and monetary return are characteristic of the employer of choice in the 21st century. These lay the groundwork for world-class HCM.

About the Author

Row Henson has been instrumental in human resources and human resource management systems for the past 30 years. For eight years she served as vice president of HRMS Global Product Strategy at PeopleSoft, advancing the flagship human resources product line. After retiring in July 2000, Ms. Henson became a PeopleSoft fellow and continues to provide

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