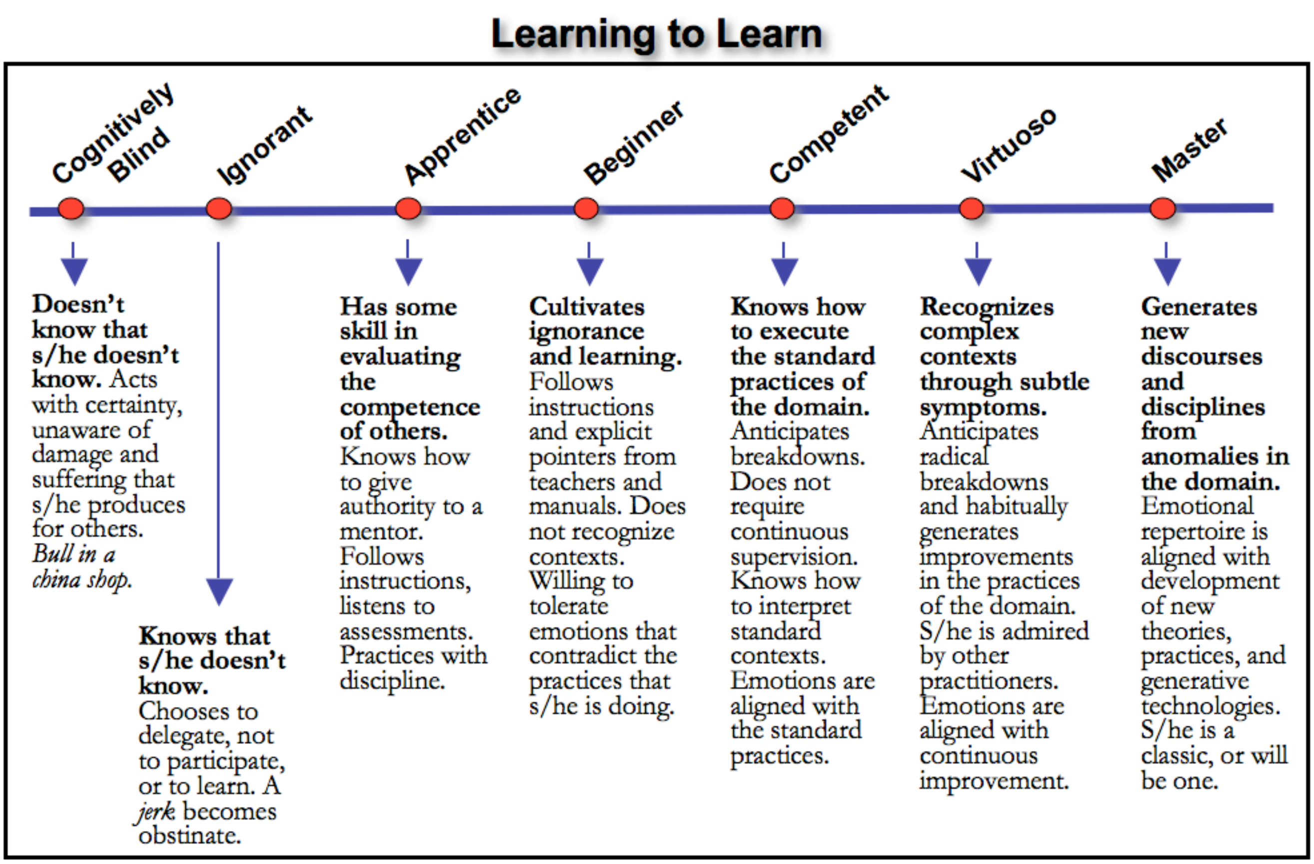
PRACTICES FOR ASSESSING HUMAN CAPITAL INVESTMENTS

INTRODUCTION:

The purpose of this short paper is to produce useful distinctions for making assessments about performance in human capital investments, such as educational and coaching programs. An important dimension in the success of human capital investments is understanding what capacities the trained executive gained to produce significant differences in a community of roles, organized in a network of conversation.

LEARNING TO LEARN:



Adapted from the work of Professor Hubert Dreyfus at UC Berkeley, and software entrepreneur, F. Flores.

One of the difficulties in assessing progress in human capital investments, like new knowledge or changes of practices, is that we understand learning metaphorically as if we were computers that need to be loaded with new content so they can perform new tasks. That metaphor hides very relevant aspects of learning:

- That one of the central opportunities and difficulties in learning is to not overcome ignorance but to overcome the ignorance of the ignorance. People cannot assimilate new information if this cognitive disposition – obliviousness about the unknown unknowns – is not broken.

- That embodying a new skill requires practices and the capacity to gain sensitivities and new capacity for action through a succession of discontinuous stages
- Learning is always a contextual capacity to produce value in concrete business relations. The test of learning is a recurrent new capacity for action.
- A significant challenge in learning is opening up a background of new emotional dispositions that produce a systematic orientation to effective action.

It is critical in assessing the achievements of a human capital program to have an adequate taxonomy, and a rigorous observer, of levels of learning to assess the improvements and to always consider that the learning process requires iterations, recurrent practices, and it is not lineal.

THE KEY CONSTITUENCIES:

In any training program, there are a set of conversations that create the context for the execution of the program and the criteria for assessing an executive's performance.

The **first** conversation happens between the *investor* and the *entrepreneur*. In a human capital investment conversation, the executive, playing the role of the entrepreneur, may propose a training program with specific deliverables that will expand the capacities of a particular team, team member, or business unity to deliver value. The basic decision of the investor, as in any investment case, is going to be based on the following assessments: Is the upside relevant for me? Are there any significant downsides to investing and failing or to not investing at all? What are the risks I am taking in doing this investment? It is crucial for these conversations to define specific deliverables of the investment to the investor. If the benefits are significantly more interesting than the risks or costs involved, the investor will commit to the program. For this paper, we are assuming a simplified investment conversation in which the investor does not have to prioritize between competing investments.

A **second** conversation occurs between the executive and his/her relevant constituencies to define specific opportunities, outcomes, and to deliver the value of the project. Any value that is promised to the investor will come from:

- Relevant internal or external customers that report specific benefits attributable to the training program. Ideally, the assessments the customers about the new benefits will be grounded in specific metrics or specific criteria that are mutually negotiated and agreed upon.
- Relevant internal and external providers, for which the same applies – value can come from specific improvements in relations with specific providers.

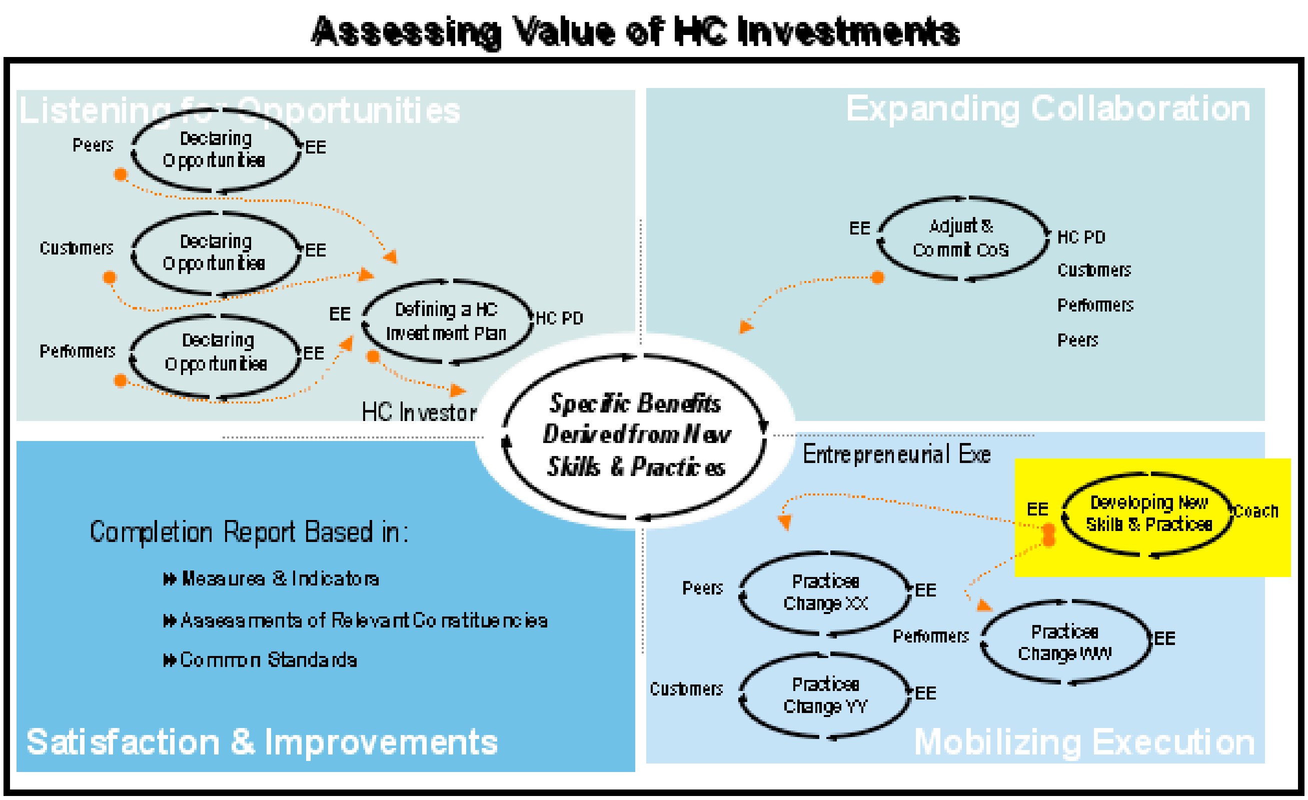
The **third** conversation is what we may call the effects of the training program in relevant peer-to-peer conversations. By this, we mean the change in an executive's reputation in specific networks of people. This change can be measured by:

- Conversations that the executive is invited into that she had never been asked into before.
- Requests for mentorship or advice made to her in domains where she had not been trusted or recognized as a competent performer before.

The **fourth** conversation is between the executive and the coach. In this conversation, the executive and the coach exchange specific mutual commitments. On one hand, the coach promises to deliver new skills that are going to be instrumental to produce the declared benefits to the customers, vendors, and investor. The executive, in turn, promises to follow the coach's instructions -- like reading assigned materials in advance, doing the exercises, and implementing the new practices – and listening to and following the assessments of the coach.

ASSESSING THE OUTCOME:

In simple terms, any investment in human capital will be assessed by the fulfillment of the promise that is made to the particular investor. And the fulfillment to that particular investor will imply the fulfillment of promises made to customers, providers, and/or peers. Depending on the scale of the program, the final assessment of rewards to a particular investment may require managing a set of conversations in which assessments are made and are grounded. The impact of the investment will also depend on the scope of the people that are benefiting from the program.



I mapped these conversations as above in order to enrich the understanding of the roles and assessments involved in human capital investment conversations. Most of the failures in these forms of investments come from: being oblivious to this network of conversations and the roles in which an investment happens, not paying attention to the different roles and commitments while working, or not defining conditions of satisfaction for each customer of the program.