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Human capital management

It was always going to end in tears. Human resources managers have been banging on for years about the growing importance of their job as the contribution of employees becomes ever more significant to the success of businesses.

They have argued that HR directors need to be in the boardroom. They have stealthily changed the emphasis of their role from that of administering mundane personnel activities such as payroll management, counting sick leave days and allocating training rooms to a more dynamic involvement with concepts such as "talent management", "succession planning" and "performance management". All you need do to give the job a truly boardroom presence is to spice the language a little more with words such as "strategic" and "leadership".

Much of this changing emphasis has swept across to Europe from the US. Now there is a fashionable concept that looks as if it will be sending HR into yet another metamorphosis: human capital. The phrase has been around for a while now. The reason we should sit up and begin to take more notice of it is that it has come to the attention of the people who still call the shots in most businesses: the finance teams.

According to a report published in the US, finance executives are arguing that they need to be involved in HR issues to a far greater degree than hitherto. The report, published by CFO Research Services and sponsored by Mercer Human Resource Consulting,* reveals not only that finance executives believe they need to know more about HR but also that they expect to have acquired significantly more influence over the HR function within the next two years.

Up to now, HR has remained something of a mystery to finance directors. Employees have been viewed as a cost and HR as a cost centre that must be allocated finance every now and then in order to fund pay increases. The concept of human capital, on the other hand, views the training and development of employees as an investment that can produce measurable returns. Suddenly this is music to the ears of finance executives who understand the language of measurement and consider it part of their domain.

There is still a way to go. According to the CFO/Mercer report, on average companies spend 36 per cent of their revenues on employees but only 16 per cent of the survey responses say they have more than a moderate understanding of their return on labour costs.

This is a problem, says the report. "It means that most companies lack the ability to apply ordinary financial discipline to their largest investment ... human capital remains a vast area of spending where the finance function offers little insight beyond guidance on what the company can afford to spend." But this is set to change, according to the survey of some 180 senior financial executives.

The respondents said they understood that employee input was vital to achieving shareholder value through customer satisfaction, profitability, innovation and new product development.

But a closer look at the focus of their interest demonstrates that these particular leopards do not change their spots overnight. Increasing productivity is seen as an

important goal - as it always has been - alongside the need to build leadership skills. Measuring the contribution of employees to business performance was less of a priority among most respondents, although interest in this area appears to be growing in larger companies where executives were more likely to list measurability as a strong concern.

The relative lack of interest in measurement that emerged in the survey sample appears to be reflected in a widespread frustration with the effectiveness of many existing measures developed in HR technology. This is one area, suggests the report, where finance executives believe their teams may be able to achieve improvements. Whatever the case, nearly two-thirds of the surveyed executives said they believed they should be making decisions over HR or contributing significantly to HR policy.

In what may be seen as a note of diplomacy, most of those interviewed in the research thought that HR and finance executives should work together collaboratively and that they should both report to the chief executive. The sentiments may be genuine but there are clear signs that finance teams are squaring up for a turf war with HR.

As HR and performance measurements become increasingly sophisticated, particularly where they can demonstrably relate to the financial bottom line, their use becomes ever more attractive to the power brokers in the business. It seems unlikely that finance directors are going to stand by and see their right-hand role as guardians of the accounts usurped.

"There is something afoot here," says Dave Kieffer, a Washington-based partner at Mercer Human Resource Consulting.

"It has been a cliché in employee handbooks for a couple of decades that people are the most important aspect of the business, yet they still get laid off when times get hard. But now I think there is an emerging sensitivity to the value of human capital in a sense of its future potential to the business and its developing value over time."

This could be good news for experienced employees, who have sometimes been most vulnerable to cutbacks. People with what Mr Kieffer calls "firm-specific" skills are most likely, he says, to increase their value to the business over time.

Demonstrating the bottom line value of employees is the difficult part. But today, says Mr Kieffer, it is possible to sift through employee data to reveal patterns of employee behaviour that can be linked to a company's performance when variables such as stock market performance are taken into account. The other dimension to these developments is the role of consultancies. Human resources consultancies and the HR divisions of accountancy firms were not seriously affected by the criticisms of auditing that emerged after the Enron scandal.

A new focus on human capital is raising some optimism that they have something new to measure and something new to sell. The US-led human capital movement could lead to interesting times in HR and finance - even to the emergence of hybrid roles such as those of human resources or human capital accountants.

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