

COMPANIES WITH THE GREATEST COMMITMENT TO INVESTING IN PEOPLE REAP THE HIGHEST FINANCIAL RETURN

Although we live and work in the knowledge era, many enterprises still have an industrial era mentality as evidenced in their accounting and reporting systems. One of the more serious long term implications of this historic focus is a chronic pressure to under-invest in the development and management of people. Stock market and shareholder pressure for short-term corporate profits frequently penalises firms that invest in the development of their people. The market tends to regard investment in people as a diversion of profit. It does not reward forward thinking executive teams which invest resources in the development of people to ensure that the organisation has the capacity for future growth and success. Sustainable profitability, particularly in high cost developed nations, requires a strong focus on human capital as people provide the only enduring source of wealth creation in the knowledge era.

Studies Show Value of High Investments in Human Resources

A 2002 study of 750 large publicly-traded firms found that organisations with the best human capital practices provide returns to shareholders that are three times greater than those companies with weak human capital practices. A common cause of corporate malfunction is the failure to properly integrate the many diverse activities that combine to enable the organisation to function. Many serious problems are caused by busy executives looking at critical factors (including future plans) in isolation rather than reviewing them in the overall context of business effectiveness. The integration of corporate strategies and human capital programs and initiatives is frequently canvassed in boardrooms and executive suites – but not implemented often enough.

A 2005 national study carried out in the United States for the American Bankers Association by McBassi & Company explored the relationship between an organisation's investment in human capital and its overall business performance. A number of America's leading banks participated in the study. It concluded that "those institutions that demonstrate the greatest commitment to human capital enjoy the greatest financial returns." "The results of our initial study show that a bank's increased focus on, and commitment to, human capital factors should be expected to improve future financial performance," according to Laurie Bassi, Chief Executive Officer of McBassi & Company.

LINKING STRATEGY TO HUMAN CAPITAL

How can these executives better address the gap that currently exists between corporate strategy and human capital? A little initiative by senior executives can significantly improve organisational performance and increase profitability by ensuring that corporate planning integrates the overall activities of their respective enterprises and aligns human capital programs and initiatives with business objectives and strategies. Far too often, functional business plans are developed in isolation, reinforcing the highly problematic

maintenance of organisational silos and petty fiefdoms. To address these issues, the *Human Capital Framework* provides an integrated approach that has three complementary tiers: organisational results (both financial and non-financial); human capital outcomes; and human capital foundations – enablers, resources, operations and systems. Extensive research has shown that the categories of human capital management, covered in the *Human Capital Framework*, provide a core set of practices that senior management can use to increase the effectiveness of their investment in people and improve overall corporate performance. Organisations that focus on the specific practices listed under each category of human capital management will start to reap considerable benefits. They will be able to:

- ***Link ‘human capital’ to their business results;***
- ***Pinpoint with considerable precision the specific aspects of the work and learning environment that drive business results – both the good and the bad;***
- ***Create road maps for the human agenda – the development and management of people – that will have the biggest impact on their business;***
- ***Shift their focus from cost cutting to value creation;***
- ***Become stronger organisations and better places to work.***

The practices that are valuable to achieve this are:

LEADERSHIP PRACTICES

Leadership is the foundation for ensuring that human capital is developed, sustained, and deployed successfully. Leadership practices thus lay the foundation for the achievement of all organisational goals. Many researchers have concluded that this category is the most important driver of an organisation’s ability to retain its top performing people. These practices include managers’ and leaders’ ***communications and inclusiveness, performance feedback, supervisory and executive skills, demonstration of key organisational values, and ability to instill confidence.***

Why it matters: Low usages of these leadership practices are associated with difficulties in motivating employees and problems in retaining top performing employees.

EMPLOYEE ENGAGEMENT

This is an organisation’s capacity to engage, retain, and optimise the value of its employees. It hinges on how well jobs are designed, how employees’ time is used, and the commitment shown to employees. The most successful organisations are those proactively managing talent retention by creating desirable work environments, including ***designing jobs purposefully, ensuring that employees’ time is well used, recognising and valuing employees and their work, and providing opportunities for employee advancement.***

Why it matters: Low usage of employee engagement causes an environment where employees are unlikely to contribute their best efforts, causing problems in the important area of customer satisfaction and loyalty.

KNOWLEDGE ACCESSIBILITY

This is the extent of an organisation's 'collaborativeness' and its capacity for making knowledge and ideas widely available to employees. ***Organisations that capture, apply and re-use knowledge and best practices among departments and divisions, and have successful, collaborative team structures***, are best able to leverage their knowledge and talent for business results.

Why it matters: Low use of knowledge accessibility are associated with redundancies within and across departments and reflect factors that cause difficulties in getting cross-functional work completed in a timely and effective manner.

WORKFORCE OPTIMISATION

This is the organisation's success in optimising the performance of its employees. It does so by establishing ***essential processes for getting work done, providing good working conditions, establishing accountability, and making good hiring choices***. Since human capital represents a major portion of most organisations' total operating costs, the quality of the practices, systems and processes for ensuring that employees are effective is a foundational determinant of business results.

Why it matters: Low use of workforce optimisation causes inefficiencies and unnecessarily high costs.

LEARNING CAPACITY

This is an organisation's overall ability to learn and innovate – and ultimately, to achieve a continual level of improvement. Hence, training, development and innovation must be valued and supported in order for an organisation to have the capacity to respond to changing conditions and consistently achieve strategic goals.

Why it matters: Low use of learning capacity practices shows that an organisation has failed to take the steps necessary to enable learning and innovation. Such organisations are poorly equipped to respond effectively to constantly (and inevitably) changing conditions in the market and the economy.

CONCLUSION

A practical human capital framework provides a logical guide for future business success. The alignment of human capabilities with business objectives enhances the potential contribution of people who provide organisations with their only sustainable competitive advantage. In the final analysis people make it happen!

REFERENCES: N. Pfau and I. T. Kay, 2002, The Human Capital Edge, McGraw-Hill; L. Bassi and D. McMurrer, How's Your Return on People? Harvard Business Review, March, 2004.

*This article is published with the permission of Australian Society for Training and Development (AITD). The author is Les Pickett, Chief Executive of Pacific Rim Consulting Group and former national president of the AITD and past Board Chair, International Federation of Training and Development Organisations and **will be presenting a paper on** Utilising Human Capital: Improving Key Business Outcomes Through the Effective Utilisation of Employee Capabilities **at this year's IFTDO conference in Kuala Lumpur. He can be contacted by email at:***
lespickett@pacrimconsult.com