Mastermind your people strategy

The CFO's core task is to ensure that all the assets of the organisation produce the maximum return on investment. Many do this successfully for most assets. However, there is one key asset with which many CFOs seem to have problems – human capital, as Chris Roebuck explains.

In a business world dominated by a need to maximise performance, minimise costs and risk and deliver the best customer service even the best financial management tools won't deliver success without the effective management of human capital.

The effective use of an organisation's human capital isn't just a problem for CFOs trained in counting complex financial data, it is an issue for everyone on the board. All the top team need to think about how to create an environment in which everyone gives their best and aligns it to what the organisation needs to do. People are the asset that doesn't sit on the company's books at night, but goes home and has the option of whether it comes back the next day, and even when it is on the premises it has an option on how well it performs.

Many organisations leave the strategic management of human capital to HR departments. Often the presence of a few visible strategic HR initiatives lulls the CEO to assume, incorrectly, that the business is maximising the human capital return. In many cases the strategy may be in place but the delivery doesn't happen effectively. There needs to be a proactive human capital strategy to turn the potential into bottom line results. That begins with the CEO, CFO and the rest of top management, supported by the HR director. HR as a whole is only there to provide technical advice and support; not to take action.

The objective of a human capital strategy is the maximisation of the return-on-investment on the human capital of the organisation to impact the bottom line in the best way possible.

You achieve that by making sure that all your people are better motivated, more engaged, supported, skilled, customer focused and qualified than your competitors' people. This requires the CEO, CFO, other senior management and HR, all acting as hands-on, proactive champions to make it happen, driving and communicating down to the line managers who will then make it happen through their people.

CFOs have not traditionally been involved in the development of human capital primarily because their early professional training tends to make them more likely to focus on numbers than people. Sadly that professional training will probably not have included understanding the potential of the human capital returns and how to realise them. An Accenture study found that 46% of CFOs felt they had had little understanding of the benefits of human capital management, 30% rated themselves as having a modest understanding and 16% a good understanding. As a consequence of this, many CFOs feel that it is not their place to get involved with the human capital side of the business.

Furthermore, because human capital investment and the associated time lag to deliver a return is often not in line with the traditional cycles of annual financial and corporate planning processes it is often perceived as a distraction to real business activity.

Additionally, visible, concrete benefits from human capital initiatives are difficult to link to specific financial results using traditional financial measures, so they seem to fall outside the comfort zone. So in reality it's not surprising that most CFOs feel it's safer to leave these 'soft and cuddly' projects to the HR director.

No true professional CFO can afford to neglect this area because today the business case for driving the people agenda is beyond dispute; it links directly to share price and other key financial measures. Indeed, some corporate

Six essential elements for an effective HC strategy

- **Find cost efficiencies.** Costs are minimised by employees constantly thinking about helping the organisation save cost. Recent studies point out that over two-thirds of highly engaged employees think they can make a positive impact on their organisation's costs and efficiencies, while just 19% of disengaged staff felt the same.
- **Minimise risk**. Ensure that potential regulatory, legal or financial risk is minimised together with the loss of key personnel and damage to reputation. Increasing engagement can reduce the risk of the loss of key staff by up to 87%. Reputational risk management can be delivered through an effective "moral compass" as part of the organisation's culture.
- **Align performance**. Ensure that the effort given by people is aligned to a small number of critical deliverables rather than effort to deliver a wide range of general outputs. Lack of clarity about how everyone can focus on enabling the organisation to achieve key objectives is a common reason for poor delivery.
- **Improve performance**. Ensure that people perform at their best to deliver more at better quality in the same time. Good leadership by line managers can increase discretionary performance by up to 30% and increase staff engagement.
- **Deliver best customer service**. Activity should be aligned with delivering the best possible service to customers. All teams, irrespective of their position, identify how they can contribute to delivering this. Where possible, customers are involved in the organisations decisions about products and services and give feedback on performance.
- **Innovate constantly**. Always be looking for opportunities in the market for new or disruptive offerings.

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researchers estimate that up to 70% of a share price is now derived from intangibles. Key elements of this are made up of brand, strategy, current and future leadership capability, the success of which is determined by the quality of human capital management.

A senior management team that shows true, on-the-ground, day-to-day leadership creates the potential to improve employee engagement and productivity significantly. According to a Towers Perrin study of major companies, the 50 with the highest levels of employee engagement (defined as those where 70% of staff say they are engaged) showed operating income improvements of up to 20% over a year. Conversely, in firms with low engagement (under 70%), operating income fell by a third. In terms of other benefits, studies reveal:

- Top-tier leadership development organisations outperform their peers in total shareholder return (TSR) by 10% over a three-year period. This means the average organisation (£2 billion market cap) increases market capitalisation by approximately £200 million due to development and talent.
- Low leadership quality organisations lose about 6% on TSR and about £110 million on market capitalisation.
- Top quartile performing companies have a higher focus on developing leadership than bottom quartile companies.
- Companies with stronger leadership development systems have ROE and profit up to 7% higher than competitors.
- 85% of top performing companies hold their leaders accountable for developing talent.
- There is a direct link between good succession planning and shareholder return.

(Sources: CLC, Hewitt, McKinsey, DDI)

But such financial success will only come if the CEO, CFO and other senior managers lead this process and drive it forward as a key, non-negotiable business requirement. This means CFOs setting an example in their own areas with their own teams. The strategy should focus on six key areas of organisational performance (see box).

But is everyone doing something about it? The answer is no, hence the opportunity to beat the competition. One study by the Corporate Leadership Council showed that 54% of those questioned thought that it was vital for managers to develop people on the job, but only 24% said that senior managers do this well. However, they emphasised something more important: 'the example senior management sets influences everyone else'.

Where organisations get these six factors (or even two or three of them) wrong, the consequences can be extremely costly in terms of lost potential profit. Everything, from the content of initiatives to communication from senior management and what people are rewarded on, must align to deliver on the six key areas and be directly linked to the corporate objectives, vision and values.

It is only by ensuring that the human capital in the business is aligned with the overall objectives that real, ongoing corporate performance can be realised. Study after study shows that getting these basics right leads to ongoing world-class performance. But if this agenda is treated as an HR issue and not a strategic business issue then everyone below senior management level will draw the conclusion that it's not important and the benefits will never be realised. In all this, the CFO can play a crucial role, linking with human resources to develop and review the critical areas and create a strategy and objectives to deliver improvement, making a business case for the CEO to champion the

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HC strategy into the business as the "people and performance strategy."

Also the CFO should also ensure that the HR department has sufficient resources to facilitate the human capital strategy programme – particularly in having enough business-facing relationship managers per employee to facilitate the required changes. HR needs to step up and deliver transformational support as well as transactional services. This will, of course, depend on the degree to which a business has outsourced its HR transactional services.

The CFO's role in providing management data to the senior management in conjunction with the HRD to monitor and fine tune the implementation of the human capital strategy is also vital. Indeed, the CFOs involvement underscores both the viability and the legitimacy of the process. The CFO is also likely to have experts who maybe able to help HR deliver more effective metrics on human capital performance.

A CFO is also the leader of the financial community in the organisation. However, often CFOs who have followed a traditional career path haven't had much opportunity, or need, to develop people skills and leadership skills. But in creating, championing and being an active part of the process, CFOs need to develop excellent leadership skills. To do this, CFOs need to devise a personal strategy to enable them to develop their leadership skills further. There are many quick, simple and effective ways that even the most "technical" CFO can become a competent leader.

As far as seeing a return on this type of investment, and using some or all the activities suggested, there could be a measureable benefit within six months of implementation - others will take longer. For example a mentoring program for a key group of people or good leadership

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development programs for line managers, certainly should produce positive data within six months and then ongoing from there. Some of this return may not be demonstrated by specific, measurable financial data, but by data that will indicate a business performance improvement has occurred. New business initiatives or cost savings often rapidly come to the surface.

Examples of data that could be useful are key group retention figures, promotion rates of developed groups versus controls groups not yet developed, 360-degree feedback, level of new business ideas and their outcomes, employee engagement figures, and employee focus groups, all targeted at finding cost savings or innovations, attitude surveys, brand perceptions from customers, clients and potential employees.

In the final analysis, if your organisation wants to be the best you have to release the full potential of your human capital. There is no way to achieve this without everyone, from the top down, being determined to make it happen. The CFO must play a crucial role, working with the HR director and the CEO, leading the finance function, and providing a positive example from senior management in the organisation. It will take hard work, it will take some time but the returns on the organisation's human capital will be seen on the bottom line. More than that, the CFO will have made a real difference to the organisation and grown not only as a finance professional but as a business leader as well. ■

Chris Roebuck

Chris Roebuck is visiting professor of leadership at Cass Business School, London, former global head of talent for UBS and a leading expert on improving the bottom line through leadership.

Give finance a voice

The CFO has a vital role to play in defining a company's HR strategy, so it pays to allow the finance function to ask the tough questions in the good times. This will help a company remain resilient through economic instability, according to Judy Romano of McKesson Corporation.

'We guide management on what is likely to happen and also on what the situation will be if everything goes wrong,' says Romano.

'These processes have not changed because of the economic downturn. They have been tested by it and they have fared well, although it is true that we spend more time in discussion with management now. In the three and a half years that I have been here our processes have proven to be solid. We know what to expect in terms of cashflow and we constantly monitor it,' she adds.

As well as having the ear of management, Romano's finance team is also embedded in the operational teams across business lines and geographies, where it is allowed to ask the difficult questions that ensure a transparent, careful and rigorous approach to important decisions.

'We have good visibility of things like counterparty risk and we always believe that you should hope for the best but prepare for the worst. Finance has a seat at the table when decisions are made, and that is critical. I know about all the things that impact on the firm's financial position. I am always asked my opinion,' she says.

Importantly, the opinions of finance people about goals, metrics and analysis are expressed in ways that are understood by the rest of the business.

Romano explains: 'Analytics is where our team adds value. I pair up my finance people with management team members in every country.

They work together on prices, bookings and financial issues, so everyone is empowered. The better the quality of our forecasts, the better our assessment of risks and opportunities. Finance is objective, so can ask the tough questions. The culture of this company ensures that there is strong financial leadership across the whole organisation.'