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Headline: Success factor that's often missing

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Studies linking human capital and the bottom line underscore the importance of talent management, reports **TEH SHI NING**

FEW business leaders would deny that human capital is important – the very use of the term "capital" confers on workers a tangible value to the company. But the way a company manages its workforce is not always seen as a decisive success factor – perhaps it should.

"The growth prospects of many firms are being blighted by their failure to make the most of their human capital," says a new Chartered Global Management Accountant (CGMA) report, *Talent Pipeline Draining Growth – Connecting human capital to the growth agenda.*

More than two-fifths of the 300 CEOs, CFOs and HR directors worldwide, polled by the Economist Intelligence Unit (EIU) in July, say that their firms failed to meet key financial targets because of ineffective human-capital management.

And two in five of these respondents, half of whom hail from firms with US$1 billion or more in annual global revenue, think inadequate talent management has stymied their companies' ability to innovate.


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Weak HR hits firms where it hurts

It is not the first study to make the link between people management and the bottom line. An August 2012 report from the Boston Consulting Group found that companies assessed to be "highly skilled" in core HR practices attain up to three-and-a-half times the revenue growth and up to twice the profit margins of less HR-savvy companies.

And the 2012 edition of PwC's annual *Global CEO Survey* which looks at today's most successful companies, showed that for organisations pursuing sustainable growth, the management of human capital needs to be at the centre of business strategy.

"The war for talent over the past decade has made talent management a key strategic driver for business. It is no longer a human resource functional responsibility as it increasingly occupies the attention of the C-suite executives," says Andrew How, managing director of Hay Group Singapore.

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CEOs & CFOs versus HR heads

However, one "particularly worrying finding" the CGMA report surfaced was that C-level executives disagree with one another on critical aspects of talent management and are also often unsure of who is responsible for such matters.

So while CEOs and CFOs tended to agree on the skills and experiences needed for senior roles, the survey found that "HR directors are slightly out of kilter with the rest of the executive team".

CEOs and CFOs gave more weight to an executive's experience of emerging and fast-growth markets and different business sectors, whereas HR directors ranked strategic vision and the ability to implement strategy more highly.

That disconnect extends to what the firm's plans for human capital investment are.

Some 77 per cent of CEOs polled believed their firms would be cutting spending on workforce skills, training and qualifications over the next 18 months – a worrying trend given that a significant proportion of firms claimed to have fallen short of performance targets due to human capital issues.

But more worrying was the divergence in views, only 49 per cent of CFOs and an even smaller 18 per cent of HR directors agreed.

It is also unclear to these business leaders who holds the responsibility for measuring the effectiveness of the firm's talent management. More than 60 per cent of CEOs and CFOs agree that the head of finance has the mandate, but 83 per cent of HR directors think that responsibility lies with themselves.

There is also a disconnect in how confident senior managers are about their talent pipeline, too.

Three in four HR directors think their firms have a formal succession planning process in place, compared with 57 per cent of CEOs and just 12 per cent of CFOs. And though 36 per cent of the HR directors polled think their companies need not recruit externally for senior roles, less than 10 per cent of CEOs and CFOs thought so.

All these instances of disagreement and disconnect show that "on key issues related to talent management, the C-level team are often singing from different hymn sheets," the CGMA report said.

Embed human capital strategy into business strategy

To tackle this, the Chartered Institute of Management Accountants and the American Institute of Certified Public Accountants, which are behind the CGMA designation, say that business leaders ought to embed human capital strategy within the overall business strategy.

This is certainly something companies here can do, says Peter Ong, CEO of the Human Capital Leadership Institute (HCLI), a collaboration between the Ministry of Manpower and the Singapore Management University.

"For far too long, companies in Singapore have focused primarily on a 'results-first' strategy. Sad to say, people or human capital often come second," he says. "The human assets of a company (leaders, managers, associates) are capital, not commodities. They design and deliver projects, they sell and service companies, they research and build products. They grow and groom leaders."

All of which means that human capital does determine a company's success or failure and hence it needs to be a clear prong of the business strategy, says Mr Ong.

Organisations must also ensure clarity on where responsibility, accountability and ownership for human capital management lies, Cima and AICPA add.

On this count, the survey's findings suggest that CFOs are the natural lead and already have the mandate of their CEOs. Cima and AICPA add that they could tap on management accountants skills, to unite financial facts with non-financial information about talent development.

Companies can also "restructure for closer collaboration at the executive and operational levels", especially between finance and HR functions, the report added.

Hay Group's Mr How agrees that it is critical for senior business leaders to have a unified philosophy and approach on how to engage, develop and retain talent.

In Singapore, another common area of disagreement at the C-level is the transparency of talent management, he says.

"Put this another way: Would the talents be informed that they are talents and, if they were, would they demand more rewards and 'star treatment'? This presents a challenging dilemma as there is no easy solution.

"Companies might have an easier job of retaining talent if these individuals knew they were the 'chosen ones' in the first place. Because of the opaqueness of talent management strategies, companies have not been able to openly channel their training and developmental efforts to groom their talents," he says.

But what is "desperately needed" is for top executives to come up with a clear strategy on how to prepare talented employees to become future leaders, Mr How adds, citing General Electric, Unilever and Caterpillar as examples of companies with clear talent management strategies such as identifying "star" performers early, creating access to lateral career paths and focusing on experiential rather than classroom learning.

Using data and analytics

A clear human capital strategy that is embedded within a company's business strategy will still need to be implemented well. Here, the CGMA report threw up another "staggering area of weakness": the quality of information senior managers are receiving on human capital.

"Firms require accurate data on relevant metrics to be able to make effective decisions and investments across all areas, including talent management. Critically, they need that data translated into actionable insights," said the report.

However, only 12 per cent of CEOs polled were confident about the quality of metrics they get on human capital. And 38 per cent of HR directors claim their organisation struggles to get accurate data on human capital costs, productivity, value and return on investment.

Mr How says that an important development in HR in recent years has been a more intelligent use of data to inform decisions. "HR has moved on from backward-looking and compliance-led information, and is now using sophisticated analysis to support strategic decisions within the organisation."

For instance, he explains how it is now possible for a company to analyse capabilities and behaviours required across hundreds or even thousands of roles, and measure these against the existing workforce as well as the talent available on the market.

"This kind of analysis can form the basis of sophisticated workforce planning that has the potential to not just influence, but to drive, corporate strategy," he says.

HCLI's Mr Ong thinks being more "strategic, proactive and intentional" is critical for Singapore companies, especially as many have aggressive growth plans.

"These cannot be fulfilled with mediocre leaders, managers and associates. They cannot be fulfilled if companies are unable to attract, accelerate, optimise and retain their very best talents. The time is now. There is none to waste. Companies must treat talent management seriously," he says.

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