# Management or Administration of Human Capital?

*Did you realize that approximately 42 percent of the average company's intellectual capital exists only within its employees' heads?*
Thomas Brailsford

Your people interact with your customers to generate revenue. They introduce the small and significant innovations that move your bank forward. They set the strategic direction for your organization and then put those strategies into operation. Human capital is your most valuable asset.

It is also typically *undervalued*.

Helping the organization recognize human capital as a valuable asset and competitive differentiator is the strategic role of Human Resources.

Human Resources must demonstrate positive ROI from human capital investments. Human Resources guides the alignment of employee roles, job functions, talent, and individual performance with business results and goals. It finds, engages, assesses, develops, and retains the talent that drives the business. It manages administrative requirements such as payroll, benefits, the recruitment process, policy standards, and holiday and sick leave tracking. Human Resources also acts on behalf of employees, and in this respect is the conscience of the organization.

Three critical barriers prevent Human Resources from fulfilling its strategic role and hamper it tactically:

**Barrier 1:** ***Lack of information in defining and selling the role and business value of Human Resources***

Senior management expects every business unit to generate reports and analysis that measure performance against plan. Human Resources is no different. Research suggests that better human capital practices lead to higher financial returns and have a direct impact on share price. Investors, for example, scrutinize headcount and salary or wage ratios. Historically, however, Human Resources has focused more on managing administrative requirements than on communicating—and selling—the business value of human capital management.

While managing administrative requirements is essential, there are other critical strategic aspects of managing human capital. Fulfilling them requires that Human Resources understands the strategic objectives of the business, translates them into job skill requirements and individual capabilities, and designs an appropriate performance tracking process. Human Resources should first assign a value to each human capital asset and, by communicating this value, underline the importance of managing its performance:

Base salary expenses +
Recruiting expenses +
Transfer expenses +
Training expenses +
Bonus and/or incentive expenses +
Stock option grant value (estimate) =

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**Human capital asset investment**

Tracking these factors allows Human Resources to better manage human capital assets by asking the following questions: *What is the quality and value of the employee/employer relationship? What are the training and development needs in this specific case? How should we provide incentives and motivation for employees?* Answers may come from reports on staff turnover, high-performer retention rates, headcount growth, role definitions, job productivity, and individual performance monitoring.

Assessing comparative productivity ratios such as revenue to headcount also helps manage resource requirements, both short-term and long-term. These information sweet spots demonstrate the asset's strategic business value to the organization. Lack of such information impairs the ability of Human Resources to fulfill its strategic role.

**Barrier 2:** ***Lack of visible and consistent Human Resources practices***

The credibility and business value of Human Resources is often compromised by a lack of consistency in decisions and by insufficient information. This allows an "informal network" to bias the selection and promotion of employees. As a strategic partner in the business, Human Resources should understand and define the factors defining success for employees. *Does the bank depend on customer service? On innovation? Automation?* Based on this understanding, Human Resources can institute practices that guide employees toward consistent and measurable milestones, creating a structured process.

Implementing visible and consistent practices requires quality information. You will not achieve the consistency you need if policy documents, performance reviews, career objectives, and compensation assessments are not combined and positioned within a larger structure. Consistency requires a well defined and structured process shared across the organization.

You also need a clearly defined process for collecting Human Resources information. *How should this data be stored and retrieved? Can this mostly qualitative information be analyzed usefully, and synthesized into a metric framework?* With such a synthesis, Human Resources gains the ability to compare and contrast different performance drivers. Identifying, managing, and retaining talented individuals is a key competitive requirement, and consistent information and management practices allow you to achieve this.

**Barrier 3:** ***Human Resources has a natural ally in IT but is not fully leveraging this asset***

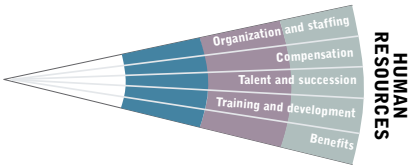
Both Human Resources and IT strive to position themselves within an organization as driving business value instead of expense. They can be seen as two sides of the same coin.

Human Resources is responsible for job design and ensuring that the right skills and competencies are developed or acquired to fill these jobs. In turn, performance in these jobs is defined and measured against goals and objectives. In this sense, Human Resources information needs to mirror the performance to be monitored, analyzed, and planned for in a given job. IT must understand a user's responsibilities in order to include that user in planning where functionality is deployed. Both Human Resources and IT must understand how software tools and skills drive greater productivity. As performance management information becomes more consistent and reliable, it will also enhance the performance and compensation process for which Human Resources is responsible.

### Earning a Place at the Executive Table

Human Resources decision areas:

- **Organization and staffing ➔** What job functions, positions, roles, and capabilities are required to drive the business forward?
- **Compensation ➔** How should we reward our employees to retain and motivate them for full performance?
- **Talent and succession ➔** What are the talent and succession gaps we must address to ensure sustained performance?
- **Training and development ➔** What training and development do we need to maximize employee performance; is there a clear payback?
- **Benefits ➔** How do we manage costs and incentives?



### Organization and Staffing

In a human capital discussion, first define the organization's requirements. *What are the job functions, positions, roles, and capabilities required to drive the business forward?* The organization chart becomes a road map highlighting staffing needs and the necessary hierarchy. From this road map, Human Resources further refines the role, position, and skill requirements needed to accurately evaluate candidates and current employees.

Organization and staffing analysis is a core Human Resources role. Typically, companies align staffing reports with information about position planning, staffing mix, and staffing transaction activities (new hires, transfers, retirements, terminations, etc.). Analyzing this data helps the company monitor policy standards and legal requirements. Human Resources must track issues such as employee overtime, absenteeism, pay/tax, and termination/retirement to ensure they are managed correctly.

| GOALS | METRICS | DIMENSIONS | |
|---|---|---|---|
| Avg. Tenure (#) | Absenteeism Days (#) | Employee Decision Role<br>Work Function<br>Decision Role | Job Types<br>Job Type<br>Job |
| Employee Turnover (%) | Applications per Vacancy (#) | Employees<br>Full-Time/Part-Time<br>Employee Name | Organization<br>Division<br>Department<br>Org. Code |
| Headcount (#) / Plan (%) | Avg. Age (#) | Fiscal Month<br>Year<br>Quarter<br>Month | Plan/Actual Scenario<br>Scenario |
| | New Hires (#) | Job Grade Level<br>Job Level<br>Job Name | |
| | Authorized Position Count (#) | | |
| | Open Position Count (#) | | |
| | Rejected Job Offers (#) | | |
| | Retirements (#) | | |
| | Sick Leave Days (#) | | |
| | Terminations (#) | | |
| | Transfers (#) | | |
| | Work Function Count (#) | | |
| | Work Time Actual Hours (#) | | |
| | Staffing Changes Count (#) | | |

In addition, when senior management discusses strategy and corporate goals, there are typically accompanying reports that show headcount by division/department, turnover rates, loss trends, and high-level project status. These reports help ensure resources are aligned with the global priorities of the bank.

| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
|---|---|---|---|---|
| Human Resources | | | | |
| | Executives | • | | |
| | Managers | • | | |
| | Analysts | • | | |
| | Professionals | • | | |
| Finance | | | | |
| | Executives | | | • |
| Audit | | | | |
| | Managers | | | • |
| | Professionals | | | • |
| IT / Systems | | | | |
| | Executives | | | • |
| | Professionals | | | • |
| Sales | | | | |
| | Executives | | | • |
| Compliance | | | | |
| | Executives | | | • |
| Purchasing | | | | |
| | Executives | | | • |
| Operations / Production | | | | |
| | Executives | | | • |
| Product Management | | | | |
| | Executives | | | • |
| Customer Service | | | | |
| | Executives | | | • |
| Marketing | | | | |
| | Executives | | | • |

## Compensation

Compensation review examines salary costs—existing and planned—across the workforce, as well as how these costs are reflected at the departmental, business unit, and global levels. This decision area defines how you need to reward your employees to retain them and motivate them for the best possible performance. Profiles on base pay, merit increases, promotions, and incentives help you decide the total compensation strategy and individual employee compensation. With this complexity comes the need for systematic methods for identifying and analyzing pay increases, bonuses, and incentive awards. Many organizations now require that performance reviews are ongoing; tracking the review process is therefore a requirement. Plans and reports on the coverage, completeness, and timeliness of the review process confirm your progress against rewards management, career planning, and development targets.

| GOALS | METRICS | DIMENSIONS |
|---|---|---|
| Avg. Compensation Increase ($)<br>Avg. Compensation Increase (%)<br>Compensation Cost ($) | Actual Salary/Salary Range Mid-Point<br>Avg. Base Compensation Increase ($)<br>Bonus/Incentive Costs ($)<br>Stock Option Grants (#/$)<br>Compensation Increases (#)<br>Compensation Reviews (#)<br>Employee Promotions (#)<br>Employees (#)<br>Base Salary ($)<br>Performance Rating (#) | Compensation Program<br>Program Type<br>Program<br>Diversity<br>Diversity Class<br>Employee<br>Employees<br>Full-Time/Part-Time<br>Employee Name<br>Fiscal Month<br>Year<br>Quarter<br>Month<br>Job Grade Level<br>Job Level<br>Job Name<br>Job Types<br>Job Type<br>Job<br>O/T Eligibility Status<br>Exempt/Non-Exempt<br>Organization<br>Division<br>Department<br>Org. Code<br>Work Function<br>Work Function |

| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
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| Human Resources | | | | |
| | Executives | • | | |
| | Managers | • | | |
| | Analysts | • | | |
| | Professionals | • | | |
| Finance | | | | |
| | Executives | | • | |
| | Managers | | • | |
| | Analysts | • | | |
| | Professionals | | • | |
| Audit | | | | |
| | Executives | | | • |
| | Managers | • | | |
| | Professionals | • | | |
| Tax | | | | |
| | Professionals | • | | |
| Customer Service | | | | |
| | Executives | | • | |
| Marketing | | | | |
| | Executives | | • | |
| Sales | | | | |
| | Executives | | • | |
| Compliance | | | | |
| | Executives | | • | |
| Purchasing | | | | |
| | Executives | | • | |
| Operations / Production | | | | |
| | Executives | | • | |
| Product Management | | | | |
| | Executives | | • | |
| IT / Systems | | | | |
| | Executives | | • | |

## Talent and Succession

An organization's talent and succession review lets management see how current and planned business skills and technical qualifications meet today's and tomorrow's requirements. Human Resources must understand both the skill gaps and talent risks within the organization and plan accordingly. Talent review lets Human Resources assess recruiting, staff transfer, and succession planning needs. Other data such as turnover analysis, average tenure, and time in position also help define succession plans.

| GOALS | METRICS | DIMENSIONS | |
|---|---|---|---|
| Employee Satisfaction Index (#)<br>Succession Gaps (#)<br>Talent Gaps (#) | Avg. Tenure (years)<br>Retirements (#)<br>Terminations (#)<br>Avg. Performance Rating<br>Avg. Skill/Experience Rating (Current)<br>Avg. Skill/Experience Rating (Target)<br>Skills Rating Gap (%)<br>Skills Rating Index (#)<br>Succession Reviews (#) | Core Competency<br>Skill Type<br>Skill<br>Employees<br>Full-Time/Part-Time<br>Employee Name<br>Fiscal Month<br>Year<br>Quarter<br>Month<br>Job Grade Level<br>Job Level<br>Job Name | Job Types<br>Job Type<br>Job<br>Organization<br>Division<br>Department<br>Org. Code<br>Work Function<br>Work Function<br>Tenure Range<br>Tenure Range<br>Age Range<br>Age Range |

| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
|---|---|---|---|---|
| **Human Resources** | | | | |
| | Executives | • | | |
| | Managers | • | | |
| | Analysts | • | | |
| | Professionals | • | | |
| **Customer Service** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| **Marketing** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| **Sales** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| **Compliance** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| **Purchasing** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| **Operations / Production** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| **Product Management** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| **Finance** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| **IT / Systems** | | | | |
| | Executives | | | • |
| | Managers | | • | |

### Training and Development

When you've defined the organization's required skill sets (to match employee abilities with position descriptions), the next logical decision area is determining the training and development needs of those employees. This decision area lets you review employee competencies and understand the value of improving them. *How much development time and training cost is being invested, and is there visible evidence of the benefit?* With training and development analysis, Human Resources gains a systematic picture of all training investment.

| GOALS | METRICS | DIMENSIONS | |
|---|---|---|---|
| Skills Rating Gap (%) | Training Cost/Payroll (%) | Employee Decision Roles<br>Work Function<br>Decision Role | Job Types<br>Job Type<br>Job |
| Training and Development Cost ($) | Employees (#) | Employees<br>Full-Time/Part-Time<br>Employee Name | Organization<br>Division<br>Department<br>Org. Code |
| Training & Development Cost/Payroll (%) | Skills Rating Index (#) | Fiscal Month<br>Year<br>Quarter<br>Month | Plan/Actual Scenario<br>Scenario |
| | Training and Development Cost Change (%) | Job Grade Level<br>Job Level<br>Job Name | Training Course<br>Type<br>Course |
| | Training Days (#) | | Work Function<br>Work Function |
| | Training Events Completed (#) | | |
| | Training Events Planned (#) | | |

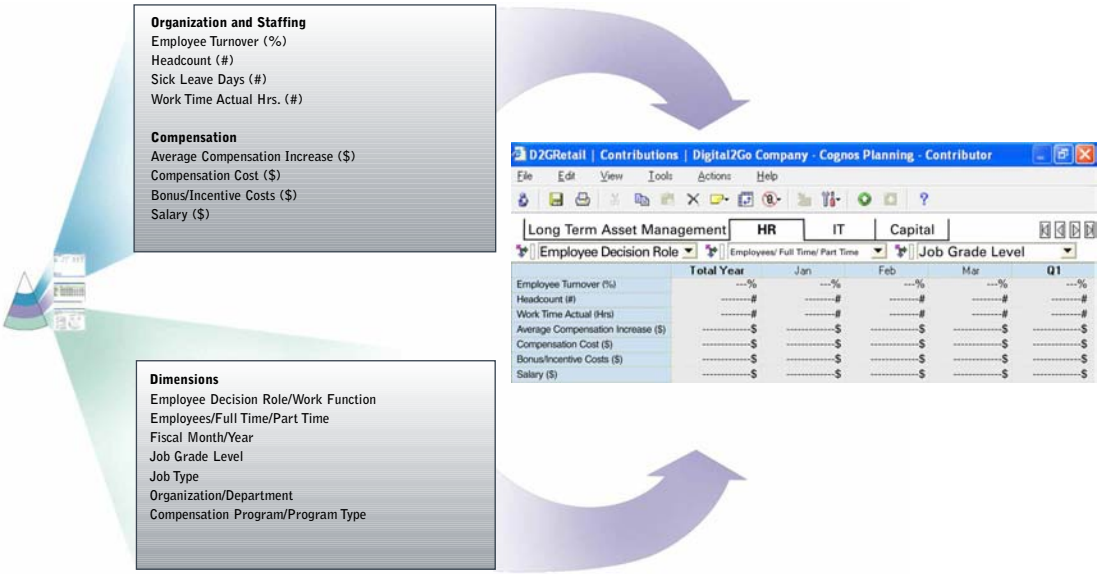
| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
|---|---|---|---|---|
| Human Resources | | | | |
| | Executives | • | | |
| | Managers | • | | |
| | Analysts | • | | |
| | Professionals | • | | |
| Customer Service | | | | |
| | Executives | | | • |
| | Managers | | • | |
| Marketing | | | | |
| | Executives | | | • |
| | Managers | | • | |
| Sales | | | | |
| | Executives | | | • |
| | Managers | | • | |
| Compliance | | | | |
| | Executives | | | • |
| | Managers | | • | |
| Purchasing | | | | |
| | Executives | | | • |
| | Managers | | • | |
| Operations / Production | | | | |
| | Executives | | | • |
| | Managers | | • | |
| Product Management | | | | |
| | Executives | | | • |
| | Managers | | • | |
| Finance | | | | |
| | Executives | | | • |
| | Managers | | • | |
| IT / Systems | | | | |
| | Executives | | | • |
| | Managers | | • | |

## Benefits

The benefits decision area lets you manage the costs of healthcare programs, savings and pension plans, stock purchase programs, and other similar initiatives. It compares the company's benefits with those of the competition. Benchmarking benefits helps determine whether you are aligned with the marketplace. As well, because investors scrutinize benefits costs for risk and liability, understanding this area helps demonstrate your company's management acumen. Employee census data on employee benefits and workers compensation insurance represent a critical benchmark used in measuring core cost changes related to Human Capital management decisions.

| GOALS | METRICS | DIMENSIONS | |
|---|---|---|---|
| Benefit Cost Increase (%) | Avg. Benefits per Employee ($) | Benefits Program<br>Program Type<br>Program | Insurance Coverage<br>Type<br>Coverage |
| Benefit Costs ($) | Benefit Market Comparison Index (#) | Claim Type<br>Type<br>Identification # | Job Grade Level<br>Job Level<br>Job Name |
| Benefit Costs/ Payroll (%) | Benefits Approved (#) | Employees<br>Full-Time/Part-Time<br>Employee Name | Loss Control Program<br>Program |
| | Benefits Claimed (#) | Tenure Range<br>Tenure Range | Benefits Communication Program<br>Benefits Communication Program |
| | Benefits Claimed ($) | Age Range<br>Age Range | Organization<br>Division<br>Department<br>Org. Code |
| | Benefits Paid ($) | Fiscal Month<br>Year<br>Quarter<br>Month | |
| | Payroll ($) | Insurance Carrier<br>Distributor/Carrier Type<br>Carrier | |
| | Qualified Benefits Cost ($) | | |
| | Employee Enrollments (#) | | |

| FUNCTION | DECISION ROLES | PRIMARY WORK | CONTRIBUTORY | STATUS |
|---|---|---|---|---|
| **Human Resources** | | | | |
| | Executives | • | | |
| | Managers | • | | |
| | Analysts | • | | |
| | Professionals | • | | |
| **Audit** | | | | |
| | Executives | | | • |
| | Managers | • | | |
| | Professionals | • | | |
| **Finance** | | | | |
| | Executives | | | • |
| | Managers | | • | |
| | Analysts | • | | |
| **Tax** | | | | |
| | Professionals | • | | |




*The Organization and Staffing and Compensation decision areas illustrate how the Human Resources function can monitor its performance, allocate resources, and set plans for future financial targets.*