

# HUMAN CAPITAL MANAGEMENT AS A BUSINESS DRIVER

## RESEARCH REPORT



Turning your human resources department  
into a business driver



**Assessment Systems** was founded in the Czech Republic in 2001 to provide the Central Eastern European market with personal assessment systems and consulting tools, and materials.

We, as qualified experts and workforce are committed to provide our customers with effective selection and development tools, on a fast paced basis, supporting business decision making and ensuring human resource-related cost-savings in both short and long term.

**Assessment Systems International** has grown due to the satisfaction of our clients. We have offices in Belgrade, Bratislava, Budapest, Moscow, Prague, Subotica and Warsaw and our services are also available in Bulgaria, Romania, and Ukraine through our representatives. We have successfully implemented specific projects in other countries of Europe and Asia as well.



Many experts would agree that high quality HR management has the ability to bring a benefit to the company from unutilized employee potential. Hard data speak clearly: wrongly chosen employees can cost a company approximately 150% of his annual salary (Hogan Assessment, 2014). Conversely, the existence of quality HR processes increase profitability 19% and productivity by 18% (Patterson and co., 1997). As this added value is realized, it is necessary to place HR strategically and provide it with a meaningful role in the organization.

In our research:

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- > we focus on how HR could be the driver of business development
- > we show the HR projects and activities able to bring the greatest added value across all business sectors throughout the region of central and eastern Europe
- > we show the key differences between the expectations of C-level management and HR directors

# UNSUCCESS OF HR PROJECTS

We asked C-level management and HR directors to tell us about their most beneficial HR projects. To compare we were also interested in budget busters. In both categories employee training was mentioned the most frequently. Training are a great tool for developing employees and maximize their potential, but only if they are done properly. Indeed, our studies show that training can be risky and difficult to realize. When training became a budget buster it was due to the following reasons:

- development needs analysis was missing with the result that irrelevant competences were trained
- participants were unmotivated or training courses were too general or unnecessarily specific
- centralized solutions were chosen without local sensitivity
- individual development plans were missing, follow-up activities were not realized or even planned.

HR is often perceived as a department that should choose the best people returning the greatest profit to the company. Therefore development of the recruitment process was mentioned most often as an HR project with the greatest long-term added value

Computerized systems were also mentioned as budget busters – systems that generally do not meet company needs. HR department and management would appreciate systems where data about employees and work could be easily located and processed. Individual goals, performance, development needs and impact on the bottom line could be effectively measured and the HR department could be provided with measurable data with which to evaluate their work.



## MOST BENEFICIAL HR PROJECT IN LAST 3 YEARS

- > Trainings and education
- > Talent programs and talent management
- > Structural or processes change



## HR PROJECT WITH THE GREATEST ADDED VALUE LONG-TERM

- > Recruitment development
- > Trainings and education
- > Talent programs and talent management



## HR PROJECT PERCEIVED AS A BUDGET BUSTER

- > Trainings
- > Administrative
- > CRM systems, IT platforms

# HR DEPARTMENT STANDING

HR departments were surprisingly well rated in the degree of perceived influence on company business results. HR is not perceived as important solely by HR directors, but also by management. The problem occurs when C-level management has to justify why they give such a high rank to the HR department. It's like saying "we have the impression that HR should be important, but we do not know exactly why". We dare say that the lack of argument in this case is not a mistake of C-level executives. As HR being useful for company's business, it needs to create first a reputation as a company's necessary part that not only "could" contribute, but that actually contributes to business development and growth. For that reason HR needs to work with specific arguments, evidence and data.

Research also reveals a "dilemma of the HR department": HR typically tries to gain standing by delivering quality ad hoc services (filling a specific position, solving a particular problem regarding the Labour code etc.). However that does not improve the standing of the HR department as a strategic part of the company; it simply reinforces the perception by executives that it is simply a service part of the company without proper insight to business. "Maid's work usually stays unnoticed." What a contrast HR directors do notice when the HR department is able to bring issues and engage in debate and decision on a strategic level. Further, it must hold this strategic position in the long-term.

## Departments in order of business impact

### C-LEVEL

- 1 Sales
- 2 Marketing
- 3 HR
- 4 Finance
- 5 Manufacturing & production

### HR DIRECTORS

- 1 Sales
- 2 HR
- 3 Marketing
- 4 Finance
- 5 Manufacturing & production

**“OUR COMPANY EMPLOYEES DO NOT EXPECT FROM HR TO BRING PROFIT, BUT DELIVER THEM ASSISTANCE.”**

QUOTATION FROM RESEARCH

# MEASURABILITY AND VISIBILITY OF HR ACTIVITIES

The key to maximize the acceptance of HR solutions and recommendations is the ability to describe and explain them in business language. Business speaks the language of numbers. Research has shown that HR cannot work with numbers. HR does not attempt to measure the usefulness of HR projects in a systematic manner (ROI studies to name one.). Even if the effort is made, companies do not have metrics to measure the success of HR solutions.

When we asked how HR directors and C-level management personally measure the efficiency of HR projects, the most commonly mentioned methods were: employee satisfaction or engagement survey, obtaining feedback (but not in a systematic manner), achieving goals and KPIs, fluctuation in the company.

Employee satisfaction or engagement surveys are used by one third of respondents as a tool for evaluating HR success. General satisfaction should not be confused with hard data when evaluating specific HR projects.

Could not tell any experience with ROI analysis, recognition of HR influence on business growth.



HR DIRECTORS



C-LEVEL

63% of HR directors stated that they have verbalized HR strategy, but just 41% C-level managers know about such strategies.

Even though 73% of HR directors said that HR processes are somehow incorporated in overall business strategy, very few of them could specify how.

“HR DEPARTMENT SHOULD PROVE EFFECTIVENESS OF HR, FIND AN EASY, READABLE, SIMPLE WAY OF SHOWING PROFIT FROM HR INVESTMENT.”

QUOTATION FROM RESEARCH

# RECOMMENDATIONS BY ASSESSMENT SYSTEMS

As we have seen, there is consensus that HR plays a vital role in corporate success, but executives seem to be unable to quantify that role because HR is considered the “soft” part of the corporate structure.

What do we recommend be done to change this outlook and to make HR contribute directly to the well being of the bottom line of the company? We have three specific suggestions:

- 1 Invite the HR executive to be a part of the long-term planning process of the company. By doing this, HR can see the needs not only from the point of view of numbers of positions to be filled, but what specific abilities are needed. Further, HR can see what personnel assets already exist within the company that can be repurposed to help meet future needs.
- 2 Install such practices as the 360 degree program which, over time, allow for the quantifiable analysis of employee contribution to the well being of the company.
- 3 Giving space and power for suggestions and establishing issues on their own, thus creating standing for HR as an active player.
- 4 Create a regular reporting regime to show top management how employee performance is producing positive results and to signal the existence of potential problems.

We are prepared to help HR executives with the needed tools to identify the best possible candidates as well as to monitor their contributions to your corporate success story over a period of time.

