"We can't solve problems by using the same kind of thinking we used when we created them."

Albert Einstein
Learning Objectives

- Learn the key skills needed to be an HR Business Partner – financial, market orientation, strategic

- Build business acumen by learning the drivers of a company’s performance

- Learn behaviors and competencies related to business acumen and the partnership role
Definitions

What is Business Acumen?

- “A keen, fundamental street-smart insight into how your business operates and how it makes money and sustains profitable growth, now and in the future.” Kevin Cope, *Seeing the Big Picture*

- “The ability to understand the building blocks of how a one-person operation or a very big business make money.” Ram Charan, *What the CEO Wants You to Know*
Key Skills

Financial Acumen – comprehensive understanding of what drives profitability and cash flow.

- Understanding of budgets, financial statements, key performance measures and how your decisions will impact value creation
Key Skills

Market Orientation – deep understanding of the external environment.

- Ability to analyze and synthesize market and competitive data, and an understanding of customer’s business objectives and purchasing criteria – in the public sector, ability to understand how different forces (law, public policy, needs of citizens) come together to influence the decisions we make about the services offered.
Key Skills

Strategic Perspective – Overall big picture understanding of the business.

- Understanding critical interdependencies across functions and divisions, and grasping the short- and long-term trade-offs of business decisions.
Why Is Business Acumen important to HR?

- “When HR professionals can speak the language of business, their peers and superiors in the organization will include them in the organizational decision-making process.”

  Regan Carey

  *Business Literacy Survival Guide for HR Professionals*
Who Says Business Acumen is important to HR?

Over one-third of HR professionals surveyed by SHRM in 2012 think that the four most critical competencies in 10 years will be:

- business acumen (42%)
- organizational leadership and navigation (40%)
- relationship management (37%)
- communication (35%)

Challenges Facing HR in the Next 10 Years - SHRM 2012
HR professionals expect the top three components of business acumen needed will be:

- HR and organizational metrics/analytics/business indicators (45%)
- Knowledge of business operations and logistics (41%)
- Strategic agility (41%)

Challenges Facing HR in the Next 10 Years - SHRM 2012
Understanding the key drivers of business and using them to make good things happen means:

- Seeing the “big picture” of your organization
- Understanding the importance of communications and data
- Using your knowledge to make good decisions
- Understanding how your actions impact key performance measures
- Effectively communicating your ideas to employees, managers and executives
What will you gain?

- Appreciation of top management’s strategic decisions
- Understanding of cash management
- Knowledge of where fraud and waste can be minimized
- Insights about the effect of legislative and legal changes
What will you gain?

- Respect from peers and decision makers
- Understanding of future financial stability
- Understanding of growth potential vs competitors
- Better decision making skills
Key Drivers of Any Business

People

- Cash
- Growth
- Profit
- Assets

Kevin Cope, *Seeing the Big Picture*
Key Drivers of Any Business

People

Cash
- Cash Position
- Cash Flow

Growth

Profit

Assets
Cash

- Cash is the fuel that drives the business
- Cash equals financial survival
- Cash and revenue are different
  - Cash flow – cash in vs. cash out
  - Cash position – cash available at any given time
  - Liquidity – how quickly cash can be generated

The only unforgiveable sin in a business is to run out of cash.  
Harold Geneen
Key Drivers of Any Business

- People
- Cash
- Profit
- Revenue
- Expense
- Growth
- Assets
Profit is the difference between what the business makes from selling products (revenue) and how much it costs to produce and sell the products (expenses).

Profit is like oxygen, food, water and blood for the body. They are the point of life, and without them, there is no life.

Jim Collins
Key Drivers of Any Business

- People
  - Cash
  - Growth
  - Profit
  - Assets
    - Strengths
    - Utilization
Assets

Assets are things that the business owns – buildings, equipment, land, supplies, cash, investments

- Asset strength reflects the ability to meet financial obligations through liquidity
- Asset utilization is how effectively assets are used to produce revenue or reduce costs
Key Drivers of Any Business

- People
- Growth
- Revenue
- Profit
- Assets
- Cash
- Profit
Long-term, sustainable, profitable growth is the primary objective of any CEO.

Growth is the increase in sales and profit year over year – top line is revenue, bottom line is profit.

You should approach growth not as an assumption, but as a well thought out decision. Edward D. Hess
Key Drivers of Any Business

- People
- Customers
- Employees
- Cash
- Growth
- Profit
- Assets
People make the decisions, supply the financial resources, buy the products, provide the labor and services, and otherwise create and contribute to everything about what we do and who we are.

In business, you get what you want by giving other people what they want. Alice McDougall
Market Orientation

Understanding the target market and current economic conditions is key to the growth and success of business

- Types of external data you may review:
  - General Business Data and Statistics
  - Demographics - People and Population
  - Consumer Statistics – Buying Trends, Sales Trends
  - Economic Indicators – CPI, Manufacturing Growth
  - Money and Interest Rates
  - Production, Sales and Trade Statistics
10 Important Business Metrics

- Sales Data
- Customer loyalty and retention
- Cost of customer acquisition
- Productivity
- Gross Margin
10 Important Business Metrics

- Monthly profit and loss
- Overhead
- Variable costs
- Inventory
- Hours Worked Per Process
Important HR Metrics

- Headcount
- Turnover
- Absences
- Employees Trained/Training Hours
- Applications Processed
10 Important HR Metrics

- 1st Year Retention Rate
- Employee Engagement
- Customer Service/Satisfaction
- Diversity
- Performance Management Scores
Lag Measures

- Information that is the result of something that happened
- Used to measure processes and outcomes to gauge organization’s performance
- Does not connect directly to the future
- Not necessarily predictive
Examples of Lag Measures

- Sales
- Profit
- Inventory
- Time to market
- Expenses
- Number of employees hired
- Number of employees trained
- Cost of training
- Turnover
Data Characteristics

Lead Measures

- Precede the future
- Predict or affect the future
- Show trends, patterns
Examples of Lead Measures

- Stock market
- Political decisions
- Changes in government
- Changes in the economy
- Engagement survey score
- Readiness rate
- L&D investment per employee
- Employee commitment level
Data Characteristics

If decreased error rate is the lag measure, here are some sample lead measures:

- Increased percent of employees completing a training course related to their job
- Increased screening processes at time of hiring staff to determine proficiency
- Increased quality of management practices as evidenced by process improvements
The Big Picture

Six Questions You Should Be Asking

- What is happening in the world today?
- What does it mean for others?
- What does it mean for us?
- What would have to happen first to get the results we want?
- What do I have to do to play a role?
- What do I do next?
What does the CEO want?

- Recent study indicates that CEOs do not place value on HR professional skills alone, but expect HR professionals to know and understand the business and its challenges, and be able to translate business strategies into their human resources implications.

- The closer we can get our business case to the business drivers, instead of HR initiatives, the greater chance we have of producing a viable business case.
Build strategic perspective

- What works today?
- What strength could you leverage?
- What doesn’t work or is missing?
- What emerging trends can HR help address?
Strengthen the Ties

- Ensure a strong link between business and HR strategies
- Align the parts of HR systems to complement talent management/deployment strategies
Becoming a Business Partner

Add Value

- Help Improve Organizational Productivity and Quality
- Strategic Recruitment/Selection Processes
- Employee Development strategies that tie to business needs
Becoming a Business Partner

HR as a Business Partner will:

- Use systems thinking to consider impact and implications of recommendations
- Understand the context of the business and its place in the larger competitive market
- Encourage discussion around issues that keep the business from moving forward
- Seek mechanisms to support the business strategy
SHRM Proficiency Definition

- Evaluates all proposed business cases for HR projects and initiatives
- Aligns HR strategy, goals, and objectives to overall business strategy and objectives
- Develops HR business strategies to drive key business results
- Demonstrates fluency in the language of business administration and senior leaders
SHRM Proficiency Definition

- Develops business strategy with top leaders of the organization
- Ensures all HR initiatives have ROI that adds to organizational value
- Maintains advanced knowledge of key industry and organization metrics - "knows the business"
SHRM Proficiency Definition

- Maintains advanced knowledge of business lines and products/services, as well as the competitive market
- Maintains broad-based knowledge of the organization and its operations
Developing Your Business Acumen

- Commit the time to study and research
- Talk with key managers
- Be proactive – contribute, then follow through
- Attend industry meetings and make outside contacts
- Find a mentor
- Learn the language of the C-Suite

Kevin Cope, *Seeing the Big Picture*
Resources

- Kevin Cope, Seeing the Big Picture
- Ram Charan, What The CEO Wants You to Know
- Regan Garey, Business Literacy Survival Guide for HR Professionals
- Harvard Business Review
- Forbes Magazine
- SHRM

@rev214
Lisa.Spencer@tn.gov