FINANCIAL ASPECTS OF HUMAN RESOURCE DEVELOPMENT

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Summary

A serious problem facing the human resource development (HRD) profession is the perception among executives that workforce competence and expertise are essential while HRD investments are optional. Studies of HRD practices report that almost no HRD functions are assessed in terms of their overall financial and economic contribution to the organization. This paper reports on the theory and practice related to the contribution HRD makes to the financial success of organizations and the individuals working in them.

Does business education provide value for the money? This is one of the pressing questions posed in the recent business book titled Gravy Training (Crainer & Dearlove, 1999). Combine this message with headlines like headline “Training falls down on the job.” (Daily Telegraph, October 27, 1997, p. 31) and the popular perception that human resource development (HRD) costs organizations more than it returns in benefits continues on in spite of contrary evidence.

1. Introduction

Any organization that remains alive will ultimately judge each of its components from a financial return-on-investment (ROI) framework and they will do it with or without valid data (Swanson, 1989). Not only will the judgement be made; actions will be taken based on the economic assessment (real or perceived economic data). These hard decisions are not restricted to private sector business and industry. Every organization is ultimately an economic entity. Organizations do not have an inherent right to continue to exist. Two examples that quickly come to mind are the closing of my childhood church over 25 years ago and a more recent closing of a non-profit ballet performance company.
To face this challenge, four views of HRD have been presented to the HRD profession. They are: (1) a major business process, something an organization must do to succeed, (2) a value-added activity, something that is potentially worth doing, (3) an optional activity, something that is nice to do, and (4) a waste of business resources, something that has costs exceeding the benefits (Swanson, 1995). Responsible HRD planners should entertain the full range of these views as being a possible financial outcome of any HRD investment.

The dominant views are of HRD being an optional activity or having costs greater than its benefits. The simple idea that HRD is not a good investment is popular and entrenched by many non-HRD decision makers. At the same time HRD professionals believe that what they do is a good financial investment. This popular belief within the profession is not backed up by practice in that only three percent of HRD programs being evaluated for financial impact (Bassi, Benson, & Cheney, 1996).

2. Framework for Understanding Financial Aspects of HRD

Top decision-makers in organizations create scenarios and strategies that provide essential and fundamental organizational direction. These decisions are ideally based on estimates of future states and what is required to attain them. While HRD theorists and leaders may think of HRD as essential, strategic, and a sound investment, it is the perspectives that top decision makers have on worker knowledge, competence, and expertise that fundamentally limits the role of HRD in an organization (Herling & Provo, 2000).

HRD leaders propose strategies, projects, and programs to top management. Unlike other managers, HRD leaders tend to resist these strategic tasks when they are tied to fundamental economic/financial issues. While much claim economic theory to be foundational to the profession (Ruona & Swanson, 1998), HRD people are not inclined toward the financial side of the organization.

3. Historical Framework

Economic thinking related to human capacity, human expertise, and human effort and the effects of each is disjointed. History provides a fairly consistent notion that there is much to be gained by being purposeful in managing these domains. Throughout history, the ideological responses to capturing the spoils of human expertise have ranged from communes, to slavery, to meritocracies.

The importance of increasing one’s expertise is confirmed in society’s comparisons of educational levels and economic success. Even so, investments in the development of its personnel are still not a clear option for most firms. Organizations can access expertise in ways other than offering development programs. For example, they can hire expertise and/or establish the expectation that employees will manage the development of their own expertise. Neither of these two options requires an organization to make direct financial outlays for HRD (Becker, 1993).

For the HRD profession, the “Training Within Industry” project (Dooley, 1945) was a watershed. This 1940-45 massive national performance improvement effort in the
United States clearly and consistently demonstrated the economic impact of HRD and the required conditions for achieving financial benefits. The role of this national effort in shaping the contemporary HRD profession (see Ruona & Swanson, 1998) and for directly connecting the profession to financial results cannot be underestimated. Unfortunately, the informed and best practices in HRD during WWII slowly eroded during the postwar affluence in a manner similar to the quality of USA produced goods.

In the 1970s a renaissance in the profession provided incentive to think more about HRD as an investment. The literature increasingly reported financial analysis methods (FAM) and studies of programs’ costs and benefits (Cullen, Sawzin, Sisson, & Swanson, 1976, 1978; Gilbert, 1978; Meissner, 1964; Swanson & Sawzin, 1975). In the 1980s this financial analysis trend continued with a greater focus on costs and the human resource management perspective versus performance improvement (Cascio, 1987; Flamholtz, 1985; Head, 1985; Kearsley, 1982; Spencer, 1986). These company-wide FAMs took an accounting perspective rather than a performance improvement perspective and got bogged down in abstract financial reporting techniques.

To the 1980s, FAM efforts in HRD did not address the decision-making dilemmas faced by organizations at the investment decision stage of their organizational planning. Difficult as it may seem, any organization can conduct an after-the-fact cost-benefit analysis. What was needed was a method for forecasting those costs and benefits, at the point of making investment decisions. The forecasting financial benefits (FFB) of HRD method was designed to fill this gap (Swanson, Lewis, & Boyer, 1982; Swanson & Geroy, 1983; Swanson & Gradous, 1988). The FFB is a practical step-by-step method for making accurate investment decisions based of forecasting (1) the financial value of improved performance projections for a program, (2) the cost of implementing a program, and (3) the return on the program investment (Swanson & Gradous, 1988). The FFB method is best suited to short term HRD interventions purposefully connected to performance deficiencies.

Questions

The problem facing the established FAMs are not easily applied to large-scale change, long-term change and to interventions loosely connected to performance requirements. As a result, the following two questions arise:
1. What are the general findings relevant to the financial analysis of HRD have appeared in the literature?
2. What financial theories and tools reported in the literature should HRD pursue to assess the HRD function and large-scale, organization-wide change efforts?

Bibliography


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