FINANCIAL ASPECTS OF HUMAN RESOURCE DEVELOPMENT

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Keywords: financial aspects, human resource development, financial analysis, FAM, FFB, HRD, financial assessment.

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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

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