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Humanizing the Financial Mindset

Financial Statements, Organizational Charts, Employee Handbooks, and all those traditional things that go into running the business are increasingly unreliable, out-of-date, and ineffective in a world driven by human and intellectual capital. If leaders of organizations are honest about high performance and creating value, then they must pay close attention to the human side of running the business.

"Unleashing Intellectual Capital . . . is about the power of unmanagement. It is grounded on the inherent genetic tendencies of human beings, which have so far been almost totally ignored by business and other social institutions."

- Unleashing Intellectual Capital by Charles Ehin

For people in finance, it can be particularly challenging to "humanize" since business finance is so driven by numbers and shareholder value. In his book *The End of Shareholder Value*, Allan A. Kennedy contends that too much emphasis on shareholder value has led many companies to mortgage their futures away by doing short-term things (such as reorganizations) to boost shareholder value, but in the long-run, such tactics end up destroying value.

"Effective organizations possess a supply of employees willing and able to make contributions to organizational success. Organizational restructuring should emphasize the most effective application of human resources to accomplish the organization's mission."

- Organizational Learning, Performance, and Change by Jerry W. Gilley and Ann May Cunich

Instead of focusing so much on shareholder value, the real focus should be on the relationships a business has with its customers, employees, partners, and other stakeholder groups. By investing in these stakeholder groups, you support those things that lead to higher shareholder value. This argument is well made in the Performance Prism, an alternative measurement model to the Balanced Scorecard; i.e. focus on your stakeholder groups before doing your strategy.

One simple approach to humanizing the financial function is to express financial metrics in relation to stakeholder groups. For example, we can "humanize" Economic Value Added (EVA) by expressing it per employee:

Value Added Employee (VAE) = EVA / Full Time Equivalent Employees

VAE has been popularized by Metric Performance (www.metricperformance.com), not unlike how Stern Stewart popularized EVA.

But we need to go beyond financial human metrics like VAE and focus on those things that enhance Human Resource (HR) Capital. In their book *The Value Added Employee*, Edward J. Cripe and Richard S. Mansfield outline three simple steps for increasing HR Capital:

1. Increase the number of high performers in the workforce. A combination of competency testing and performance evaluations are used to distinguish high performers from low performers.
2. Actively recruit high performers for building the organization.
3. Reduce or improve low performers in the workforce.

If people are the foundation behind performance and the goal is to increase shareholder value, then the real question to ask is: How do we secure a future for all of our stakeholders? A narrow focus on shareholders only has led us to witness the so-called bubble (overvaluations of publicly traded companies) and the subsequent market collapse.

". . . leadership is all about people, and if you're going to lead people you have to care about them."

- Encouraging the Heart: A Leaders Guide to Rewarding and Recognizing Others by James M. Kouzes and Barry Z. Posner

In conclusion, financial leadership requires an emphasis on those things that matter to people. Leaders need to be asking questions like: How do we build our business around the human resources of the company, what organizational structure best serves all stakeholders, and how do we improve how we manage our human resources. Those organizations that are overly pre-occupied with financial results only will be less profitable in the long run than those organizations that cater to building their human resource capital.

"Despite all the change swirling around any successful business, some things appear to remain constant for relatively long periods of time. Foremost is that business needs people to make it function, and people inevitably leave their mark upon it."

- The End of Shareholder Value: Corporations at the Crossroads by Allan A. Kennedy