

HR and Finance for
Master of Science
Strategic Human Resources

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As a business faces monumental challenges in a global economy, its Human Resources, or HR, organization can significantly influence its overall impact, clarify its purpose, and define its ubiquitous culture. An integral business function, HR produces an invaluable set of products and services that impact not only a company's core, income-generating functions but also the support functions that underpin them. Since 1960, business has evolved exponentially, as evidenced in today's ever-changing business environment. Now more than ever, organizations must clearly understand factors that have influenced the need for HR professionals to increase their financial and business acumen: the cost of human capital; the shifting landscape of intangible assets; and the vital influence of HR's alignment to the strategy and goals of the overall business.

Without question, an organization's success today revolves around its people more than any other factor. Since the cost of human capital is a company's largest operating expense, HR must increase its financial and business acumen in order to make informed decisions about talent management across the business. Daily, HR managers who understand the intricacies of business finance have a clearer awareness when reducing spending, bolstering investments, or perhaps a combination of both (Molly 2022). Furthermore, they understand more deeply how their individual decisions affect the business. Without a clear sense of human capital expenditures and a sharp financial acumen, HR managers may find themselves open to risky decision making and poor assumptions. Moreover, human capital truly differentiates businesses from each other, in many cases providing the one and only competitive edge that remains (Phillips 2016, 11). To keep competition at the forefront of organizational leadership, HR professionals must increase their financial and business acumen to advance time-to-productivity, an all-important HR metric, for new hires across the business. Equally important is the art of financial intelligence, or the ability to examine and manipulate a finite dataset to make the most accurate assumptions around the

health and wellbeing of the company's performance (Phillips 2016, 11). Costly mistakes are often attributed to missteps in employee selection and placement, as well as mismanagement of human capital. Additionally, HR managers facilitate compensation, benefits, and training for human capital across the business, all of which have financial implications for which a return on investment must be measured (McCutcheon 2014). With deeper financial and business acumen, HR professionals can help to bridge the divide between finance and HR to ensure a greater likelihood of successful human capital management.

Nevertheless, bridging the divide completely between finance and HR requires a closer look at the shifting landscape of intangible assets across the company. Intangible assets include things such as a company's research and development, patents, and branding as well as things like reputation and customer lists (Phillips 2016, 15). Understanding the importance of intangible assets requires enhanced financial and business intelligence predicated on HR's bottom line contribution to the business. "Academics and managers widely agree that a firm's ability to gain competitive advantage and generate higher corporate and stakeholder value depends on its capacity to build and nurture intangible assets" (Gambetti 2017). In a digital economy, intangible assets are predominant predictors of success for business (Bayelign 2022), and HR professionals play a key role in managing their growth. In a recent study, Ocean Tomo found that intangible assets are now responsible for 90% of all business value. "Within the last quarter century, intellectual capital has emerged as the leading asset class. Between 1995 and 2015, the share of intangible asset market value increased from 68% to 84%" (Ocean Tomo 2019). Moreover, intangible assets that can be identified are unique and typically appreciate in due time rather than depreciate across their lifespan (Knapp 1999). Unquestionably, the importance of building and nurturing intangible assets is a critical impetus for HR professionals to increase their financial and

business acumen.

Finally, the need for HR to more accurately align its contribution to the strategy and goals of the overall business has influenced the motivation for increased financial and business acumen among HR professionals. “When HR leaders understand the internal and external business, they're better able to align people programs with business needs. HR is no longer about personnel files, data entry and record keeping. Instead, today's HR leaders need to be able to implement programs that align with business strategy — and speak in management language” (Grensing-Pophal 2018). Overall, HR professionals must pivot their processes from those based on activities to processes based on results. Particularly, understanding the big picture is vital to decision making. Financial intelligence must not only be learned; it must be practiced and applied (Berman 2016, xiv). That practice and application involves analyzing the financial data to inform their decisions and manage their employees. A better understanding of the financial side of a business ensures greater alignment with the company's strategy and goals. Otherwise, decision making across the business lies completely with the accounting and finance departments. Consequently, solid analytical and strategic decisions rooted in increased financial and business acumen give HR professionals a clear view of what lies ahead financially.

Now more than ever, organizations must clearly understand factors that have influenced the need for HR professionals to increase their financial and business acumen, such as the cost of human capital; the shifting landscape of intangible assets; and the vital influence of HR's alignment to the strategy and goals of the overall business. Immense challenges are inevitable for businesses in a global economy, and its HR organization can significantly influence its overall success with a pervasive culture driven by strong financial and business acumen.

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