

April 2013

Issue: 5



April 2013 Newsletter

We're on a roll!

The first quarter 2013 got off to a great start! From our partnership with Smart CEO Magazine and their Future 50 Awards to the CEO Roundtable events we conducted ... people are talking!

More importantly, our members are thriving. While not a scientific survey, all our members had their best year ever last year. Was that because of being a CEO Focus member? I certainly think so.

Come and try for yourself.

Your people - Expense or Investment ?

What about YOUR professional development - Expense or Investment?

This is not a trick question. Are your people an expense? Are YOU an expense? An Investment? Perhaps a bit of both.

I am re-printing here and on [our blog](#), the work of my long time mentor, [Frank DiBernardino](#), of [Vienna Human Capital Advisors](#). Frank has spent the past 10 years developing a proprietary model for evaluating the ROI on human capital.

Having run several companies and consulted to hundreds more, my own views on human capital have evolved substantially. Today, with the Internet, mobile computing and apps, Amazon and Google I see people as more important than ever. To build a great company, first last and always, we need to satisfy customers. Technology helps, but it's your people who make that happen.

So enjoy Frank's article:

[Human Capital Analytics - Foundational Concepts](#)

Upcoming Events

CEO Lunch and Roundtable

**Wednesday
April 17, 2013**

Join a select group of CEOs for lunch and a discussion on how to drive growth in 2013.

CEO Workshop

**Tuesday
May 7, 2013**

The 51 Fatal Business Errors and How to Avoid Them:

From his work with thousands of business owners from around the country, author Jim Muehlhausen has identified the key mistakes business owners make that keep them from being as successful as they want.

Join other Philadelphia area CEOs and Business Owners for a lively

from The Conference Board's blog

There are two foundational concepts that underscore the financial nature of human capital: human capital is one of only two forms of business capital; and, the financial resources spent on human capital are an investment, not an expense.

The Importance of Human Capital

The two forms of business capital are cash (financial capital) and people (human capital). While cash is the lifeblood of any business, it is human capital, the body through which the lifeblood flows, that deploys the cash, and ultimately determines whether the deployed cash increases or destroys the value of the business enterprise.

Sure, patents, copyrights, trademarks, trade secrets, proprietary processes and brand are valuable business assets that help drive its value in the market. None of these assets would exist however, without both financial capital and human capital. It is people that developed the product or business method that was patented, or designed the process that drives the successful (or unsuccessful) product or service. .

A couple of the most vivid examples of the significance of human capital to the success and vitality of a business are Kodak and Circuit City. In his book Good to Great, originally published in 2001 by Jim Collins, his team included Circuit City as a "Good to Great" company. At the time, it was clearly financially vibrant enough to meet the arduous criterion for this list. Eight years later, Circuit City is no longer in existence! Despite robust financial resources, the company folded after a series of disastrous management decisions.

Kodak, an iconic brand, at one time had a 90% market share of photographic film sales in the United States. Kodak began to struggle financially in the late 1990s as a result of the decline in sales of photographic film and its slowness in transitioning to digital photography after having invented the core technology used in current digital cameras. 2007 was the most recent year in which the company made a profit. In January 2012, Kodak filed for Chapter 11 bankruptcy protection. Again, the human capital failed to successfully guide Kodak through the disruptive photography market.

In both these examples, the people in these companies squandered robust financial resources (cash and credit) ultimately resulting in liquidation in Circuit City's case, and Chapter 11 in the case of Kodak.

Human Capital Costs - Expense or Investment

The second foundational concept is the perception of the financial resources that companies spend on human capital. Is it an expense or an investment? Looking at human capital costs as an expense drives an organization to think in terms of cost management. Metrics such as Total Cost of Workforce (TCOW) as a percentage of revenue, or compensation and benefits as a percentage of revenue foster a cost management mindset. This is the natural tendency

discussion and put your company in position to make 2013 your best year ever

All attendees will receive a complimentary copy of his book

[Click here to hear what past attendees have said about the workshop](#)

because of the way financial resources spent on human capital are treated from an accounting perspective -- as expenses on the Income Statement. And you will not find the money spent on human capital in the asset column of the Balance Sheet. Thus, in part due to accounting conventions, the default view is to think of human capital costs as expenses.

Conversely, if an organization views human capital costs as an investment, intended to drive revenue and profits, the perspective changes. What's the old saw - Where you stand depends on where you sit. So is the seat you sit in that of an expense manager or investor?

If your perspective is that of an investor, you're inclined to ask the following types of questions:

- Is the human capital investment paying off (ROI/effectiveness, Productivity/efficiency)?
- How should we modify the human capital strategy to gain a greater payoff?
- Should we invest more or less, or redirect existing human capital investments?"

In summary, while cash is vital to a business, human capital is the dynamic factor that ultimately determines the success of the enterprise.

Roel Hoekstra
President, CEO Focus of Philadelphia
roel@ceofocus.com (215) 858-8659
www.ceofocus-philadelphia.com



[Forward this email](#)



Try it FREE today.

This email was sent to roel@ceofocus.com by [roel@ceofocus-philadelphia.com](http://www.ceofocus-philadelphia.com) | [Update Profile/Email Address](#) | Instant removal with [SafeUnsubscribe™](#) | [Privacy Policy](#).

CEO Focus of Philadelphia | 300 W. 2nd Street | Essington | PA | 19029