BY TOM MCGUIRE

Whenever a new budget season comes around, many HR leaders prepare themselves to deal with one unfortunate reality: anything that looks like a 'cost' invariably ends up on the chopping block. To avoid problems, HR departments need to figure out how to stop behaving like costs and look more like good investments.

If you were an investor, what would you need to know about a business in order to make an investment in it? First, you would need to understand the business model and the assumptions that make it work. Because intellectual capital makes up the majority of value growth in most businesses today, the key question to answer is: "What intellectual capital are we depending on to drive cash flow—and what talent do we need in order to create and sustain it?"

It's usually easy to identify the key intellectual capital that drives a given industry. For example, brands and trademarks form the foundation of consumer products, pharmaceuticals depend on research and patents, and engineering and technologies drive high tech. At the same time, varying strategies drive another level of intellectual capital within industries. Leading in innovation might drive one strategy, for example, whereas mastering partnerships and collaboration might drive another.

In all cases, at the heart of intellectual capital lies the particular talent required to generate it. The roles designed for this talent are the roles that require a different degree of investment from all others throughout the entire talent life cycle. This is the lynchpin to a talent strategy and a convincing investment plan for talent acquisition, talent management, and the rest of HR. With the right dose of financial discipline, HR can be uniquely positioned to express talent investments in these terms. Although management intuitively understands this dynamic, it must see it in HR plans—otherwise, it will react with uncertainty and noncommitment. Anything that falls short of this rational thinking feels like a cost rather than investment proposition.

In order to create an effective investment plan:

- State your understanding of how the business creates value for shareholders.
- Distinguish the most important elements of value in this equation.
- Identify and connect roles that are critical to the value creation process. (Critical roles are those that have a direct link to and are dedicated to the work stream that creates or sustains a particular component of intellectual capital.)
- Explicitly define which investments are required to ensure the best talent for critical roles.
- Quantify those investments in the context of critical talent and define the related returns.

The last step in that list is instrumental in winning support from the finance department. When HR calculations that would otherwise be unconvincing focus on critical roles, they then become convincing. For example, quantifying the impact of higher-quality talent becomes less of a leap of faith for critical roles than for all roles in general. Finance people and CEOs do not react favorably to the rote averaging that has become a way of life in traditional HR analysis. Rather, they want rational, pointed analysis and self-evident conclusions. ■

Tom McGuire is the managing director and founder of Talent Growth Advisors. He also provides HR consulting through his own firm, Human Capital Venture. He can be reached at tom@talentgrowthadvisors.com.