The Most Profitable Service Businesses Do This Really Well

7 min read

Key Takeaways

- The lack of a human capital strategy or having one of poor quality can be considered an overhead expense to your business.
- You can improve your human capital strategy by having an excellent employee retention rate and creating a great company culture.
- Calculating the ROI on your human capital will allow you to track profit and loss statements within specific departments or on individual employees over time.

In service businesses, what would make one run successfully with consistent profitability while another struggles through every quarter? Let's look at what happens on the inside...

Traditionally, human resource departments and finance departments have been at odds with each other within many businesses. [1]

You may not realize it, but this internal opposition is counterproductive to your business, and creates a major obstacle on the road to profitability. If your HR views finance as a force of limitation and finance views HR as an expense, it's inevitably going to be difficult for the two departments' goals to align.

This tension between HR and finance is entirely unnecessary, and according to a 2019 survey by Deloitte [2], business leaders are starting to see past the tension and beginning to realize the need to marry their financial management and human capital strategies to increase profitability and improve the work environment for everyone.

Why Financial Strategy and Human Capital Strategy Are Not utually Exclusive

In a nutshell, your business can't function and it might as well not exist without happy employees.

It starts at the top: leaders that view their employees as an expense instead of an invaluable, profit-contributing asset do not understand the big picture.

When leaders value the people that work for the business, the people in the HR and finance department shift their perspective as well. They are able to see how improving the human capital strategy will inevitably lead to less costly turnover and an increase in productivity and therefore profit.

The Cost of Ignoring Your Human Capital Strategy

The lack of a human capital strategy or having one of poor quality could, in essence, be considered an overhead expense of its own. When a company lacks an effective human capital strategy, it also tends to lack happy, fulfilled, and motivated employees. As a result, employees are less productive overall (i.e. less profitable), and the business risks include experiencing high employee turnover rates. Although hiring a new employee might not seem like a big deal, the cost of turnover is unbelievably high.

When an employee (whom you paid to train and who understands your business) quits, you'll not only lose the expertise and wealth of knowledge the employee possesses, but you'll also incur high costs associated with recruiting, interviewing, hiring, onboarding, and training new employees. Plus, your company's productivity will lag throughout the time it takes for your new employee to get up to speed in their position.

How an Effective Human Capital Strategy Increases Profitability

A good human capital strategy increases profits in two key ways:

1. Excellent Employee Retention - Retaining employees not only prevents you from incurring the costs associated with new employees, but it also means your employees are better at their jobs. With ever-increasing knowledge that can only be afforded by experience, existing employees naturally become more productive and profitable, the longer they work for you.
2. Excellent Company Culture - A good company culture cultivates high-performing, highly motivated, and (last but not least) happy employees. When employees receive a regular paycheck *and* actually feel spiritually fulfilled by their jobs, they become much more profitable. This also inevitably leads to happier clients.

I know what you're thinking...

"I want to understand this, but how do I see the ROI to know this is really working?"

Ah, good question! This is where the magic happens between your finance and HR departments.

When you have a good financial management strategy that includes actionable financial insights, you will be able to use your management reports to see the ROI. This will help inform your decision-making to drive better results.

This leads us back to the importance of having both a human capital management strategy and a financial management strategy. It's an alignment of the two that make it work.

Align Your Human Capital Strategy with Your Financial Strategy

If you want to achieve greater profitability, then you need to align the two. Start with the design of a human capital strategy that addresses all aspects of your employees' experience from monetary compensation to appreciation and values.

Infuse Your Company with Worthwhile Values

When you're in business, creating jobs, you really need to consider all the reasons why you're doing what you're doing. Of course, you want to make money and you want to provide a service. When you become an employer, however, you also become a person who must consider social responsibility toward your employees.

So, in addition to profits, you also need to consider what kind of work opportunities and experiences you want to create for your employees. You have to consider what kind of boss you want to be.

What does a high-value work environment look like? Most would describe an excellent work environment as one that offers enough opportunities and flexibility to foster a person's ability to pursue both their professional and personal goals.

For an employer, this might mean providing educational/training opportunities to employees and opportunities to advance within your business. It probably also means valuing your employees' personal lives. You can show this by allowing them the flexibility to participate in important once-in-a-lifetime events like their children's kindergarten recitals and soccer games.

When your employees know that you see and respect them as whole people – not just employees or a means to an end – they'll respect you and want to give you their best, too.

Don't Lose Sight of Your Values

Once you've established the values that you believe will contribute to cultivating the kind of company culture you want to thrive in your business, don't lose focus. In certain situations, it can be easy to lose sight of what's truly important in building and maintaining a successful business – your core values.

For example, you might find that you have an employee who is incredibly profitable, but who is also wreaking havoc on your culture. Although they single-handedly bring in a lot of money, these kinds of employees often do more harm than good. In this case, it's better to let the profitable employee go for the sake of your company culture and the continually improving productivity of the rest of your employees.

Offer Monetary Incentives

Creating a workplace with honorable values is a great start. However, we all know that employees are employees for another reason, too. They're working for an income. In addition to fostering positive relationships in your workplace, a wonderful way to motivate employees is with monetary incentives.

You can directly align monetary rewards with your company's financial goals by laying out specific goals for your employees to achieve in their positions – no matter what department they work in – and tying a predetermined monetary award to the achievement of that goal.

Create a Positive and Rewarding Culture of Outward Gratitude

In addition to recognizing achievements with monetary incentives, it's also important to show how much you appreciate hard work by publicly acknowledging accomplishments. Whether you recognize your employee's excellence during a team meeting or have an employee of the month plaque in your office, it's important that each employee feels appreciated, is recognized, and that their coworkers see their accomplishments.

This type of reward of recognition will ensure your successful employees stay motivated and that your less-successful employees can be motivated by observing a great example.

Plus, you can take a closer look at exactly what your most successful staff are doing to achieve their goals and apply their highly productive processes to improve everyone else's work.

Calculate the ROI of Your Human Capital Strategy

Calculating the ROI on your human capital and watching it trend upward can be done with a People Scorecard - this allows you to track profit and loss statements within specific departments or on individual employees over time. This is the power of what your financial management strategy can do for your business.

As your company culture and employee morale improve, you'll start to see the positive impact on your bottom line. Your human resources department and your finance department will feel the unity and never again be at odds with each other.

Learn more about how to develop a strong financial management strategy - Understand what you need to do to bridge the gaps in your business---> Speak to an advisor.

[1] https://gethppy.com/talent-management/finance-and-hr-close-working-relationship

[2] https://deloitte.wsj.com/cfo/2019/06/23/businesses-challenged-on-human-capital-issues-survey/