Maximizing Your Human Capital Investment

Research Based Strategies for Increasing Organizational Performance

Resource Development Systems LLC

Managing the Human Side of Business ℠

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For a more in-depth look at the Seven Elements of High Performance™ model and how it can help drive performance in organizations we invite you to read our book **Leadership Lessons From the Medicine Wheel: The Seven Elements of High Performance** (ISBN 978-1-59932-111-0).

Maximizing Your Human Capital Investment:

Research Based Strategies for Increasing Organizational Performance

For well over 25 years, research and popular business literature has shared the value of people in an organization, yet, most organizations still struggle to engage their employees and realize that value. Instead of maximizing their investments and increasing their returns, most organizations focus on minimizing their investments in their people. This approach results in a twenty-five percent reduction in return on their investments, lower performance levels, and a considerable handicap in their ability to compete in the marketplace. In contrast, the best organizations focus on making smart human capital investments and then maximizing their returns, allowing them to perform as significantly higher levels. It isn't about spending the most, but making the right investments in the right amounts.

By Gary Lear, President and CEO
Resource Development Systems LLC

For the past several years, the issues of employee pay and benefits have taken a lot of headlines. From lamenting about pay stagnation, to debate increasing the minimum wage, and even on to the debate about the Affordable Care Act, employee compensation (pay and benefits) has garnered a lot of attention in the news and around the water cooler. In a tough business climate, businesses have struggled with and debated about the rising costs of having employees and what to do about it, not only for now, but for the long term. Some are making savvy decisions that will provide them with great returns over the long-term, while others are only thinking about the here and now. These are cutting expenses and trying to minimize their costs, which could end up hurting them in the long-term.

This whitepaper is focused on taking a look at the various issues surrounding the kinds of things that organizations spend money and other resources directly on the people in their organization in relationship to research findings about these expenditures. Our goal is to provide a better understanding of this research, as well as some sound strategies for investing in human capital. The whitepaper is also focused primarily as a resource for the organizational executive (CEO, CFO, CHRO, CXO, etc.), but we believe that others will find it of value, as well.

Defining Human Capital

Before we begin, it would be beneficial for us to first define "human capital." Many (most?) use this term as a synonym for the employees of the organization. This became a popular term in the late 1990s and early 2000s in an attempt to recognize that employees do, in fact, provide value to the organization. Perhaps if we just talked about employees using terms that finance people valued, then perhaps we could feel better about the money that was being expended. But what tended to happen is that attempts such as this, along with the previous term "human resources," only resulted in dehumanizing employees, resulting in decisions about them being on par with deciding to retain and maintain or discard a piece of equipment. This kind of thinking ends up destroying relationships between management and employees, causing an "us versus them" mentality that becomes a drag on the organization's ability to perform.

Let's be clear up front; the evidence in the research is overwhelming concerning the value of employees and their impact on organizational performance. No organization can sustain high levels of performance without having a modern, well trained and dedicated workforce. But it goes beyond this. There was a very powerful concept about this shared in our book, ***Leadership Lessons From the Medicine Wheel***. The Cherokee word for "organization" is *Unadotlvhi* (pronounced: oo nah doe tluh he), and also means "corporation." But, as is the case with many Cherokee and other American Indian languages, the word has additional, perhaps deeper meanings. *Unadotlvhi* also means "society:" a group of people involved in persistent interpersonal relationships; a body of individuals living as members of a community.

Unadotlvhi does a great job of defining what a workplace organization really is. It is a group of people who come together, engage in interpersonal relationships. But there is more. *Unadotlvhi* also means "congregation;" a coming together of people for spiritual or other purposes. Most congregations are a group of people who gather together and support each other through good and bad times, helping them to keep focused on their core beliefs, and live their lives in a way that focuses on a higher purpose. In other words, a congregation is an exclusive society that is selective about who is involved with them, but once involved they fully support their members as if they were a family. This last definition is perhaps the best at describing what the culture looks like in those organizations who have aspired to and achieved "exceptional" status in their performance.

This means that the people of the organization cannot be viewed as "human capital," but rather, they ***are*** the organization! The employees and the managers embody the very essence of the organization. While not realizing it, the best organizations have mastered the concept of *Unadotlvhi*, putting the people of their organization at the center of it, allowing everything else to encompass and encapsulate them in a manner of support. They have a strong sense of Purpose, with Values that provide guidance on how they will interact with each other and those outside of their group, such as customers, suppliers and the community at large.

So if people are *Unadotlvhi*, if they ***are*** the organization and not human capital, then what is human capital? For our purposes, human capital is the actual investment of money, time, and other resources directly in support of the people of the organization as they strive to realize its Vision of aligned Purpose, Values, and Goals. These items include payroll; benefits such as health and life insurance and other perks; taxes; work environment; training, education, and development; and organizational support. In other words, we are not investing people, as previous definitions would have us believe, but, instead, we are investing ***in*** the people of the organization. And just like any other investment of money, time and other resources, we want to be sure to put it in the right investment vehicles, we want to be sure that we have adequately invested in them, and we want to ensure that we have the right balance.

Balancing our investments is very important. There is no doubt that we are taking resources from the organization that could be spent on a variety of other items, such as electric power, buildings, equipment, technology, and raw materials, or spending time with customers or producing products or services. So we must ensure that we have invested enough so that we can maximize our returns on our human capital, but not over invest to the point where those resources are being wasted and other areas suffer.

But the fact of the matter is that most organizations woefully under invest into their human capital accounts. The mindset is that these investments are expenditures, and, as with most expenditures, they must be minimized and reduced. But spending money on employee pay, healthcare, and training is not something that helps the organization when minimized. It simply is not the same as reducing materials waste in the manufacturing process. In fact, our analysis of our research, as well as others' research, indicates that by reducing expenditures in human capital the organization actually reduces its overall performance. Human capital investment serves to strengthen the organization's ability to perform, and reducing it is tantamount to starving the organization.

Measuring Maximization – The Payroll Efficiency Factor™

In ***The Cost of Being Good Enough***, a whitepaper we published in 2010, we shared a new formula, the Payroll Efficiency Factor™ (PEF), which we devised to measure the impact of employee engagement, or the lack thereof, on one aspect of organizational performance. The PEF is a function of the percentages of engaged, unengaged, and actively disengaged employees in the organization. The resulting factor is the percentage of the organization's payroll that is actually put to work in the organization. The average, mediocre organization has a PEF of only 63%, while the best organizations have a PEF of 78%. While exceptional organizations are only 15 points higher, those 15 points actually comprise almost 25% more performance per payroll dollar than the average organization.

This means that exceptional organizations get 25% more work done without investing any more money in payroll than the average organization, one that is trying to cut costs. So as an organization tends to cut costs, it is actually reducing its return on that investment, meaning that it is getting less work done and that work is essentially costing more.

In June 2015, the Bureau of Labor Statistics released new data indicating that the average per hour total compensation costs in the US had risen to $31.65 per hour, which translates into an approximate annual cost of $63,000 per year per employee, or $6.3 million per 100 employees. Total compensation includes actual pay plus insurances, such as health, life, dental, vision, and workers' compensation, as well as taxes, such as FICA and unemployment tax. This new rate is almost a one-third increase over rates when we first calculated the impact of low employee

Engaged Employee – an employee who, because of their positive emotional connection to the organization, engages in positive behaviors to insure the success of the organization.

Unengaged Employee – an employee who has little emotional connection to the organization; shows up for work on time, does what they are told to do, but no more.

Actively Disengaged Employee – an employee who has a negative emotional connection to the organization and exhibits negative behaviors that have a negative impact on the organization.

engagement levels in organizations back in 2010, which were based on 2009 rates. Most of this increase is from higher insurance costs and some increased taxes, with a minor increase in wages.

What this increase in total compensation rates translates into is a loss of an additional $8,400 per employee per year over our 2010 estimates for an organization with an average PEF of 63%. This provides a total loss of $23,000 per employee per year, or $2.3 million for an organization of 100 employees. This is money that the organization is already spending, but it isn't getting any value or return from that money. The organization is paying for work to be done, but is getting far less done for what it is paying.

The Cost of Mediocre Engagement Increases to $2.3 Million per Year!

Contrast this with the exceptional organizations. These organizations are seeing an additional $9,500 worth of work being done by each employee per year, or $950,000 per 100 employees annually, almost cutting their cost of lost engagement in half. But because the employees in the organization are more focused on what matters (Payroll Effectiveness), their work actually makes a larger impact on achieving the organization's goals. Not only is more work getting done per dollar, but that work actually makes a greater impact on the organization's progress. On the other hand, employees in mediocre organizations often spend time working on things that are not really important to the organization, further reducing the value of their work.

Payroll Efficiency

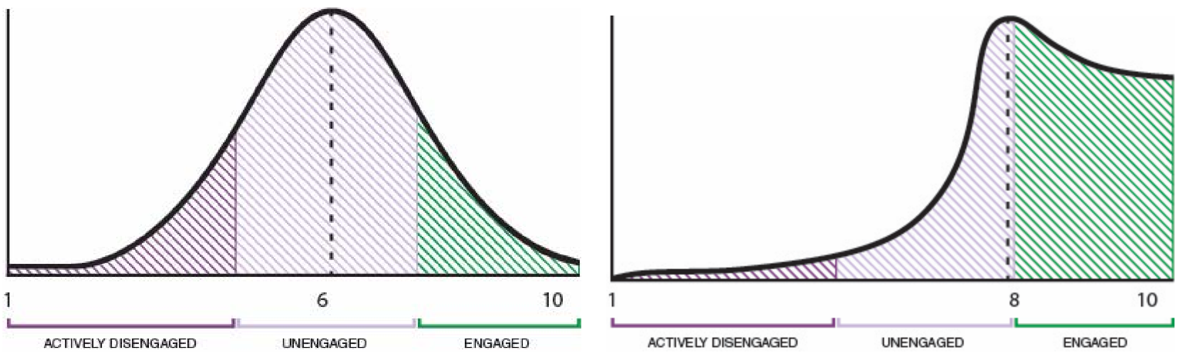
The measure of how much work is being performed in relation to the amount of payroll dollars invested. In the past this theory postulated that the more a person was paid the more work they would accomplish. Recent research indicates that this might not be true and that the real impact on work performed is that the more engaged an employee is the more work they will accomplish. While wages can be a negative impact on engagement, they aren't necessarily a driver of performance.

Payroll Effectiveness

The measure of how well the work being done is impacting on the achievement of the goals of the organization. While some employees can appear to be busy all the time, the work they are doing doesn't necessarily impact on the achievement of organizational goals. Factors that impact the ability of work to impact the achievement of organizational goals are focus and alignment of work towards those goals.

Employee Engagement Drives Maximization of Returns

The Payroll Efficiency Factor also explains how more work is getting done. In creating the PEF we utilized survey data to determine the scores provided to each group of employees; engaged (9), unengaged (6), and actively disengaged (3). As we look at the average scores we find that the mid-point for the distribution curve for an average organization is at 6.3, and not 5, as a "normal" distribution curve would be. There are also slightly less employees falling at the lower end of performance (19%) than there are at the higher end (26%). But the vast majority of employees (55%) are falling in the middle, providing just average performance.



Performance Levels
In Mediocre Organizations

Performance Levels
In Exceptional Organizations

On the other hand, exceptional organizations have the vast amount of their employees (67%) falling towards the top end of performance levels, with the most of the rest falling in the middle performance level (26%). Only 7% of employees fall in the lower performance levels. With so few low performers and so many high performers, there is no wonder that they are able to produce more work per payroll dollar.

Increasing Organizational Performance Levels

Based on the Payroll Efficiency Factor™

From Mediocre to Exceptional

Translates into Recovering

$19,000 per Week

For a 100 Person Organization

That is equivalent to having 15 additional workers!

Making Human Capital Investments

Clearly, making human capital investments in those things that help employees become engaged are beneficial to the organizations success, both short-term and long-term. In our ongoing research surrounding the Seven Elements of High Performance™, we have identified four of the Seven Elements that have a direct impact on employee engagement: Personal Responsibility, Strengths, Vision, and Trust. These four areas are of primary concern to managers when trying to increase employee engagement, yet most organizations, as evidenced by the horrible average Payroll Efficiency Factor™, do a really horrible job at managing these four elements. We have discovered that they are intrinsically linked to each other, and rely on each other for support, yet there is a natural place for beginning, and that is Trust.

As we have shared many times in the past, and especially in ***Leadership Lessons From the Medicine Wheel***, Trust is the foundation from which everything else thrives. A foundation of Trust allows employees to have those positive feelings about the organization that leads to the connection that results in being engaged. Being connected to the Vision and becoming good at one's job builds from there, resulting finally in the ability to make decisions and take Personal Responsibility. But there is no Personal Responsibility, there is no caring about one's job or the organization's Vision, if managers and employees do not Trust one another.

This leads us back to perhaps the most important Element, and a mindset that executives and managers must embrace, and that is to Put People at the Center. In other words, they must embrace the concept of *Unadotlvhi*! Your employees must feel like they are a part of the organization and that their executives and managers are looking out for them.

In American Indian culture, a Chief is not like a European King or Queen where the people are there to look after the monarch's wellbeing. Instead, it is the Chief's responsibility to look after the wellbeing of their people, often making huge sacrifices of self for their benefit.

As the CEO, CFO, CHRO or other CXO, you are a Chief of the People in your organization, and it is your responsibility to look after their wellbeing.

While there are many systems and issues that impact the Elements that drive employee engagement, we have identified three areas of human capital Investment that can have a huge bearing on gaining and retaining employee engagement, which will be explored in more detail, including research that supports our conclusions and some basic strategies for investment. These three areas are: Total Compensation; Employee Development; and Leadership Development. Keep in mind that what we will be suggesting is not intended to just "make people happy," but rather to provide a better opportunity for the organization to increase performance, sustainability, and the ability to thrive.

Total Compensation

As shared earlier in this whitepaper, there has been a lot of debate around minimum wage and the ACA over the past several years. We take no political position on either of these issues, nor should our analysis of the research or our conclusions be utilized to further any given political position, as doing or not doing either of these things impacts the market as a whole, and does not differentiate the individual organization from the market. It is what the individual organization does that makes an impact on its return on human capital investment.

With that being said, while total compensation is important to deal with, and probably one of the greatest investments of human capital that an organization will make, it does not directly increase employee engagement. But what it does do is tell your employees if you have their wellbeing as a major concern, thus, creating a spirit of *Unadotlvhi*, and Putting People at the Center. It also helps provide a good start towards Building Trust in your organization. As mentioned earlier, the challenge is to balance taking care of employees with the sustainability of the organization. Economic resources used for employee compensation are resources that are not available for the acquisition and maintenance of buildings and equipment, raw materials, marketing, organization and employee development, or reserves in case of a downturn. If we over compensate employees then these areas might suffer, along with the long-term performance of the organization. If we under compensate then we alienate employees: everyone becomes unengaged or worse; our best employees leave for elsewhere; and we struggle to attract highly qualified employees. These lead to poor overall organizational performance.

So how much is enough? There was a study from researchers from Princeton that was released in 2010 that indicated that it took a ***household*** income of $75,000 to impact "wellbeing," a short-term emotional measure regarding the removal of daily issues that can get in the way of engagement. Once the household income hit $75,000, then most of those daily issues (mortgages, food, clothing, childcare, healthcare, retirement, and fun) were able to be met. It further referenced that the mean household income was at $71,500, and that the median household income was only $52,000, placing only about one-third of the US households above the "magic" threshold.

Furthermore, it was also significant that there was no upper limit on income regarding how someone would evaluate their life if given the time to consider it. In other words, people do "keep score," and the more one "scores" the more they would tend to evaluate their life as being successful. So while wellbeing could be achieved at $75,000 per year, employees' satisfaction was not so easily achieved. There were some other implications from the research, as well, and issues not addressed, such as the impact of cost of living of a location or household size.

The study did, however, provide a huge amount of support for some earlier research by Fredrick Herzberg, which was released in 1959. In his book "The Motivation to Work," Herzberg shared the concept of job satisfiers, job dissatisfiers, and hygiene factors. When Herzberg conducted his research, he discovered that the top 5 job satisfiers were achievement, recognition, the work itself, responsibility, and advancement. If given a bit of thought, we can easily see relationships between these satisfiers and the four drivers of engagement: Trust, Vision, Strengths, and Personal Responsibility. The top 3 job dissatisfiers were company policies and administration, supervision, and the personal relationship with one's supervisor.

In other words, a lack of Trust, overly bloated processes, and a lack of Personal Responsibility lead to dissatisfied employees.

Hygiene Factors were something that, if not present in a large enough quantity, then the item would cause dissatisfaction. But once the item reached a certain threshold, this dissatisfaction disappeared, but it did not become a satisfier. Simply put, you cannot ever provide enough of a hygiene factor for it to become a satisfier, as there is always room for more. Pay was identified as a hygiene factor.

In other words, one can never earn enough money to satisfy the desire to earn more money. As a person earns more, that amount eventually becomes the "norm" for them, and the motivational element diminishes, requiring the need to offer more money for it to again motivate. This becomes a vicious circle, requiring more and more dollars to attempt to "satisfy" this motivational need. This, of course, is unsustainable. On the other hand, if an employer does not pay their employees enough money then they will become dissatisfied with their pay. Essentially, this level is the amount that was identified in the Princeton research, but again, this was a ***household*** income level, not an individual level, and local cost of living can impact that amount.

In the Human Capital Index Studies conducted a few years ago by Watson Wyatt (now Towers Watson), they discovered that the best organizations are not trying to pay their employees top dollar in their industries. They found, instead, that the best organizations were paying their employees somewhere in the 60th to 70th percentile range. This allowed them to pay better than average pay and be very competitive in the workforce marketplace, which tended to get pay out of the way as an issue. They also provided better than average benefits.

Providing better than average compensation allows an organization to both attract and retain good employees. By achieving that threshold that eliminates compensation as a dissatisfier and then focusing on those things that motivate (Building Trust, Connecting to Vision, Developing Strengths into Mastery, and Building Personal Responsibility), they

Stop Paying For Time

Many organizations fall into the trap of paying employees for time rather than value. Another year goes by and an employee gets a raise simply because they have been there one more year. 15 years later they are doing the same job at the same level of performance as someone else who might have 5 years less service; a person who is earning less money for doing the same job.

Instead of paying for time, pay for value. Provide extra pay for acquiring more skills and certifications, or for being able to do more jobs because of cross training. Pay extra when employees take on extra responsibilities, such as being a new employee OJT trainer.

Several studies, including the Human Capital Index Studies, also found that the best organizations differentiate pay between top and bottom performers, but simply paying for performance causes many problems, including de-emphasizing teamwork. As Edwards Deming's Red Bead Experiments have proven, the differences in performance across individuals varies more because of processes rather than motivation. By paying for value you avoid these pitfalls and reward for the skills and expertise that employees bring to the table.

This practice provides a fair compensation approach, and keeps people motivated to want to develop and grow.

For more information, go to our website and read our **article** on this subject.

eliminate the need to constantly try to one-up a competitor regarding pay. And those employees who do jump ship for better pay may not have been contributing as much to the success of the organization as they thought they were.

Several studies, including the HCI Studies mentioned above, had also identified that exceptional organizations provide better than average benefits, and there are a lot of reasons why an organization would want to do this. Simply put, healthy employees who are not distracted by personal or family issues will be far abler to focus on their work and do a better job. In fact, health was one of the items that was considered in the original Princeton research. The Princeton researchers shared that the household income level of ~$75,000 allowed for people to adequately deal with healthcare costs, among other items. Providing some flexibility in health insurance and other benefits allows the employees to tailor the offerings to their needs, providing a better use of resources.

Another area that dovetails with health insurance is providing employees with paid time off for medical appointments, dealing with sick family members, or to take care of other personal business. In addition to this being good for the individual employee, it is also good for the rest of the employees and the organization when someone who is sick stays home and doesn't come to work where they can get everyone else sick.

The best organizations also allow employees to participate in the success of the organization. Providing some sort of profit-sharing plan allows employees to realize greater earnings when their and their teammates' performances together collectively allow the organization to perform better. This is, perhaps, the best "pay for performance" approach that an organization can take, as it encourages teamwork and the collective innovation of processes, products and services.

Personal Finance Education

Don't be fooled into believing that just because an employee has graduated high school or college that they know how to make good financial decisions about the compensation the organization is providing them. Unfortunately, most schools, including colleges, simply do not teach basic personal and household finance. This means that most employees have little knowledge of how to best handle credit cards, finance a car, or purchase a home with a mortgage. They don't know which loans are good loans and which are bad ones, and they don't understand the power of compounding when investing.

This lack of knowledge about finance leads to making poor financial decisions, significantly reducing the value of their pay. Poor financial decisions also negate any increases in pay in the future. In essence, employees are failing to maximize their compensation, which means that the organization's investment is not maximized.

But learning how to better handle ones' finances would allow what employees are being paid to go further, making their levels of pay more valuable.

Consider offering free personal finance courses, either on your time or theirs, either onsite or at a local community college or other location. There are a number of non-profit organizations that offer these types of courses, or contact your local community college to see what they offer. There are also for-profit organizations that will also provide these courses for you.

Finally, the best organizations also provide support for employees' future retirement. There are a lot of variables, but it appears that a combination of defined benefit and defined contribution plans provides the best investment for both employees and the organization.

When deciding on additional benefits, you have to know what your Vision is for your organization and how you want to relate to your employees; in essence, your organization's culture. You also need to know the labor market issues for your location and your industry. Don't get drawn towards fad programs or perks. Make sure that whatever you decide to offer will actually help employees to better focus on their work and get more work done.

You CANNOT pay someone enough to totally satisfy them,

but you CAN pay them little enough to make them highly dissatisfied,

and that leads to Mediocre Performance!

Calculating Your Payroll Efficiency Factor™

Replace the below percentages with the percentages of the Kinds of People in your organization and multiply by the Rating for each category, and then add up.

Kinds of People	Percentage		Rating		Score
Engaged	26%	x	9	=	24%
Unengaged	55%	x	6	=	33%
Actively Disengaged	19%	x	3	=	6%

Average Payroll Efficiency Factor™ (PEF) = 63%

Your Total Payroll = $____________________________

Payroll x Payroll Efficiency Factor™ = $_______________________

Cost of Lost Engagement = Payroll - (Payroll x Your PEF)

Your Cost of Lost Engagement = $____________________________

Compensation Strategies

You have to find that right point where you have taken pay out of the equation and eliminated it as a dissatisfier, but haven't overly compensated your employees, which could have a detrimental impact to the organization's sustainability. This strategy should include base pay, along with increases for mastery attainment, acquisition of additional skills and responsibilities, and a way to share in the success of the organization. This strategy should not be overly complicated, it should be very transparent, and it should be equitable for all. It should allow employees to minimize personal economic issues, which will allow them to focus on helping the organization become successful. In the end, your compensation strategy should attract and retain great people that are interested in helping your organization become exceptional. Then it is up to you to provide the environment that will allow them to make exceptionalism happen.

- Ensure that your compensation systems are both transparent and fair. Everyone should know what others are making and the rational for that level of compensation.
- Structure your pay systems so that you pay for value. Determine job classes and pay everyone in that job class the same starting pay. This pay should be above market average, but not at the top (60th to 70th percentile). As they acquire knowledge and skills, increase the pay, as these increase the employee's and the organization's ability to perform. As they take on more responsibilities, such as being a group leader or a new employee training buddy, pay them more.
- Provide an opportunity for employees to participate in short-term and long-term successes in the organization through a profit-sharing plan.
- Provide a variety of healthcare options that will allow employees to become and remain healthy and can remain on the job and perform. But rather than simply focus on health issues from an insurance cost savings aspect, instead, focus on things that will really make an impact on employees' lives because you care more about them than the bottom line.
- Provide retirement options that will allow employees to have a stable retirement in the future. If possible, combine defined benefit plans with defined contribution plans.
- Provide other benefits that make sense for your employees and your organization's Purpose, and will help it to perform, rather than seeking out the latest fad. Fancy breakrooms with ping-pong tables and bars serving ice cream might make sense for some, but not all organizations.
- Whatever you do, do it because you care about the employee, but make sure that the investment really will provide a return to the organization.

An employee's compensation will not cause them to become engaged, but employees who are not compensated well will not remain engaged for long, returning the organization back to mediocre performance levels. Compensate employees to the point where it is removed as a concern, but don't try to compete on compensation, as you can't buy engagement. Instead, provide leadership support and a culture that will allow them to become engaged.

Employee Development

In 2010 we shared in our whitepaper ***Training's Role in Achieving High Performance*** that those organizations who invested in training saw a considerable return on their investment. As we shared at the time:

> *Despite the recent levels of unemployment increasing, resulting in a larger pool of job applicants, the potential employees with the best talent and the capability of becoming fully engaged, giving their best to provide quality products and services to the organization's customers, are still scarce. There may be a lot of bodies out there that could fill that empty position, but there still are few that can fully fit the needs of the organization. And once the organization has identified and brought those new employees on board, there needs to be a training strategy in place to insure that they will remain engaged, remain retained, and that will leverage their talents and drive.*

While we have no intention of rehashing what we shared in that whitepaper, which is still available on our website, what we learned at that time remains true still today. Employees still feel like they are not adequately trained to do their jobs and are still looking for those career growth opportunities. In fact, several recent surveys have indicated that the lack of career growth opportunities is the number one reason why employees choose to leave their current employer. The ability to become a master at one's job is one of the 4 key Elements for engaging employees, and too many organizations are failing to provide even the most basic of job training, let alone provide training that will allow the employee to grow and become a master at their job.

It is still true that when employees have been well trained and can do their jobs extremely well then their performance will increase. They are able to do their jobs quicker and with less errors; they are more energetic and positive; and managers are more likely to allow these employees to make decisions and solve problems. While time in position has some bearing on these, the greatest impact is the employee's development level, and that comes from skills training, skills development, and skills application.

As we have shared previously, do not confuse time on the job with actual experience – the acquisition, development, and application of skills. There are many employees who have been on the job for a very long time who were poorly trained initially, and who provide marginal work in quality, quantity, and speed. They are not experienced; they have just been around a long time. These long-time employees become the examples that new employees look to for how to do their jobs, compounding the problem of mediocre performance. Both of these issues could easily be overcome with proper training initially and ongoing.

It is also still true that not all training will provide the same impact on organizational performance. While research has shown that training in general does positively impact organizational performance, much of that training does not provide any actual impact. What is termed as Business Skills, such as leadership, management, sales, and customer service training provide little to no return. Any gains are offset by the cost of delivering the training. Business practices training, such as quality and new employee orientation, also provided little to no return. It is not that these things are not important, because they are (some of which we will discuss more later); it is the focus and the way they deliver these types of training programs that causes them to have such little impact on organizational performance.

The training that provides the most impact is Fundamental skills, including basic skills (reading, writing, and math), safety, and interpersonal relationships skills. The last of these is obvious, as being an engaged employee is based on relationships; it is an emotional connection between the employee and their organization – the societal structure and members of that society. Interpersonal relationships are also at the heart of Building Trust, as this is an activity that employees and managers do together with each other, and comes out of their interactive behaviors. Unfortunately, too many executives and managers think of this training as being “touchy-feely” and of little importance to making next quarter’s numbers. They couldn’t be more further from the truth. As we share in our tag-line, effectively “Managing the Human Side of Business℠” is what separates the exceptional organizations from the mediocre.

Coming in second place for providing an impact on organizational performance is technical skills training. Don’t let this term “technical” throw you off; we are not just talking about computers and software, but rather the actual skills that are needed in order for the person to operationally do their job. It might be something to do with computers, or it could be some other machine, such as a press, or a cash register. It could be about the workflow.

Squished Bread

It was early in the morning on a mid-summer day. The woman finished unloading her groceries from her cart and onto the belt at the checkout. It was somewhat of a small order: a couple of large jars of peanut butter; a couple of large jars of jelly; a huge package of baloney; and 10 large loaves of sandwich bread. The checkout clerk took each item and drug it across the scanner and placed the item in a bag. As he got to the bread he grasped each loaf in the middle and gripped it, squishing it in the center of the loaf, making a permanent indentation on each side of several of the slices of bread in the loaf. He did this with each loaf of bread, permanently squishing each loaf.

As the cashier was waiting on the lady to pay for her purchase the person behind the woman asked him if he had ever been taught how to bag groceries by the store. The clerk grinned big and said “nope” and took the woman’s money and gave her the receipt. He then began ringing up the person behind the lady who then said to the clerk, “Well, if you squish my bread like you just did that lady’s, then I’ll just walk off and leave you to put all of my groceries back. Obviously that lady probably worked at a child care center, or perhaps at Vacation Bible School, and that was a bunch of children’s lunches. Can you imagine being the child that got one of those sandwiches with the bread all squished?”

The clerk had no idea how to respond, but took much greater care while bagging the next person’s groceries.

Unfortunately, this clerk is typical, as over the course of several years we have randomly asked clerks if they had been trained on how to bag groceries and none of them have answered “Yes.”

It is all of the knowledge and skills that are needed in order for the employee to perform successfully. This training is what most employees crave, as it allows them to contribute and better meet the needs of the customer, and it keeps them from being embarrassed in front of the customer. Yet, this training seems to be what most organizations struggle with in delivering.

The War for Talent Continues

There is another reason for organizations to consider beefing up and investing more in their employee development programs --- the scarcity of highly trained candidates to fill crucial positions in the organization. According to Bureau of Labor Statistics data, as of July 2015 there are 5.2 million job vacancies in the USA, a rate that hasn't been seen since the dot.com boom of the 90's. And while hiring has increased over the past year, it is still not keeping up with the vacancies. Furthermore, it is taking longer and longer to fill these job vacancies despite the fact that there are an extreme number of people applying for any given job. In fact, some are hypothesizing that this is one of the major causes in the increase in time-to-hire. With the advance of technology for handling and tracking job applications, it is simply too easy for unqualified candidates to apply for jobs that they lack the skills to fill. While employers are eventually getting better matches, the numbers of unqualified candidates are increasing, and it is taking more time to wade through all of the candidates to get that good match.

According to PricewaterhouseCooper's annual CEO Survey, CEOs still say that talent shortage is a major concern for them. The results of the 2014 survey found that 63% of CEO's were concerned about the availability of key skills, which is an increase of 5% over the previous year. In 2015 this increased to 73%. In 2015 they also found that 93% recognized the need to change their strategies, but that 61% hadn't even taken the first step towards this change. Furthermore, only 34% felt that HR was prepared for the challenges ahead. Clearly CEOs recognize the need for change, but they are failing to make that change in order to have the talent and skills necessary for their organization to perform. Much of that talent is waiting for them right in their own ranks, just waiting to be developed, and all they need to do it is a good development strategy for their organization.

The key to this approach, however, is both simple and hard to accomplish. In 2005 Watson Wyatt (now Towers Watson) discovered that in order to capitalize on the investment made in employee development that the organization must actually retain the employees. Prior to 2000, turnover at most organizations was rampant, indicating that most training beyond the cursory was not going to provide any return because employees were soon gone. But as we closed in on 2005 things began to settle down and employees stayed longer. This resulted in a huge return for those organizations who had strong development programs in place and who were actively developing their employees.

Today the situation is different. We have a lot of stability in the workforce, but a huge gap in skills, requiring an even stronger development program for employees. Those organizations that are making these investments, if they are made across the board and not limited to just a few, will see some significant immediate and long-term performance increases. These long-term performance increases will only be realized, however, if the organization is able to retain these employees. While nothing can guarantee that employees won't leave, utilizing the Human Capital Investment Strategies contained here can have a huge impact in their retention.

Perhaps if you train your employees to be masters at their jobs they might leave.

But what if you don't train them and they stay?

Over Estimating Skill Competency Needs

But sometimes employers do over-estimate the actual level of skills that are required to do an entry level job. Their typical approach is to have HR and a couple of managers discuss what kinds of skills that they would like to see in the employees that they hire, set that level as minimum qualifications, and then go out and seek candidates with that level of skills. And if they can get someone who has even better skills, then they think that is even better. Unfortunately, this haphazard practice also leads to an increase in the time-to-hire, as well as a higher turnover rate.

We have extensive experience in conducting job profiles; an analysis of the actual skills and the levels needed in order to perform a job well. This is an extensive process where our trained staff shadow employees doing their jobs and managers are interviewed. A task list is prepared, and then this list is shared with one or more focus groups of incumbents in the job to determine the accuracy of the tasks. Then the focus group is asked about the skills needed and the level needed for each skill. What we have typically discovered at the end is that many organizations are experiencing high levels of turnover because they are seeking too high of a level of skills, and in some cases asking for skills that are not even needed to perform the job.

More skills are not better if they do not contribute to the employee's performance on the job. In fact, they can contribute to poorer performance levels, lower engagement levels, and higher turnover levels as highly skilled employees find that they have little to no opportunity to use those skills. We have also found that many organizations are seeking more skills and time in job (what they equate to experience, but we now know that is not the case), thinking that these employees will be able to immediately begin performing. What happens is that the employee is hired, tossed a bunch of forms to sign in a ritual that they call orientation or on-boarding, and the new employee is put immediately to work, with little to no training on how to do their job at this new organization. Organizational specific technical training (how we do things around here) has the absolute highest return out of all training, yet, these organizations think they are saving money by skipping it.

Creating Mastery

Gallup has recently released information that talent development is a key factor in engaging employees, sharing that performance maximization occurs when employees are placed in roles that are suitable for their talents and they have tenure at the organization of at least 10 years. This dovetails nicely with the research shared by Malcolm Gladwell in his book "Outliers" about the mastery of skills taking 10,000 hours of deliberate practice. If an employee spent 50% of their job learning and actually working at specific tasks on their job, then it will take almost 10 years to achieve 10,000 of "deliberate" practice.

Most organizations, however, do a really lousy job of matching employees' skills and experiences with their job tasks, and an even lousier job of providing a well-planned program of development for them to improve those skills to a level where they can become a master at their jobs. Instead, we provide a cursory orientation, which is often filled with HR paperwork, and then shuffle them off to their "jobs," instead of providing them with the foundational skills and knowledge of the processes that are involved in being successful at their jobs.

On the other hand, what exceptional organizations are doing is to clearly identify job families and differentiate the skills and levels of those skills needed at each level, allowing for employees to learn and grow. They clearly identify entry level skills as those that are a must to be hired, and those that they are willing to train the new hires on. They provide a long-term onboarding process that actually begins prior to the job offer, as candidates are extensively exposed to the culture of the organization to assess their culture fit, as exceptional organizations prize this above skills. These organizations have a very good understanding of the skills needed for success, have a good understanding of the skills that the employee possesses, and any skills gaps are filled. As the employee progresses they are offered continued skills development and training so that they can progress in the organization and take on more responsibilities and make better decisions.

The entire focus of the exceptional organization is to find the best fit first, and then develop the employee into the skills master that the organization needs in order to be successful. There is no wasted effort in trying to "fix" the employee so that they can do things that they don't have a natural talent for. Instead, they work with the employee to enhance the combination of the employee's natural talents and what the employee is passionate about doing. This allows for a greater amount of work accomplished in a shorter period of time and at a higher level of quality.

Having a well-rounded employee development approach can provide up to a 500% return.

Spending more than $1500 per employee per year on a targeted CORE Training Approach™ can provide a return of 2000% or more!

Employee Development Strategies

Employee development is an investment in your organization, as your employees actually are your organization. When you develop them you are developing your organization. By ensuring that they know what they need to do and know how to do it, and can do it well, it allows employees to feel confident in themselves and their organization. They make better decisions, ensure quality, and do a much better job of taking care of their customers. As employees grow they can make more and better decisions on their own, leading to greater Trust and Personal Responsibility within the organization. These all contribute to employees being more engaged, and they all directly impact your organization's ability to perform.

The challenge is to ensure that the training and development activities that you do invest in actually provide a return. Many of the typical training activities and programs simply do not provide a return on their investment. Those that do are founded in the job basics and developing those technical skills that keep the organization operating. But what makes the most impact are programs and activities that build interpersonal relationships, which allow for the Building of Trust, which is the foundation for exceptional performance.

Focusing on those key items that comprise the CORE Training Approach™ and doing them well will go a long way towards helping your organization become and remain exceptional. Yes, it takes money, time, and resources in order to do employee development right. But that investment does, in fact, provide a return. Your goal is to make the best investments so that this return is maximized.

- Objectively identify the skills needed for each level of each job family, as well as the level of proficiency needed for that skill.
- Identify those skills that are necessary for entry and those skills that are able to be provided as part of onboarding.
- Provide an onboarding program that begins well before an offer is extended. You should begin teaching aspects about your organization's culture and the job requirements early on in the process, allowing the candidates to help determine job and organizational fit.
- Provide well designed training programs that are focused on the customer outcomes, not just the employer outcomes. Too often key customer outcomes, such as bread that is not squished, is overlooked by many organizations.
- Avoid those training programs that are focused on things that do not enhance the performance of the organization, meet employee needs to do their jobs, or their ability to meet the needs of the customer.
- Provide opportunities for employees to acquire higher levels of skills that enhance their ability to perform in their current jobs or take on greater responsibilities in new jobs, allowing them to become masters at what they do.
- Utilize the CORE Training Approach to maximize your organization's return on its Human Capital Investment.
- Don't waste time trying to "fix" people; instead, develop talents and strengths. A good culture and job fit, and the development of team strengths, will overcome any individual weaknesses that are on the team.

Leadership Development

There is a leadership shortage looming on the horizon, and many CEOs are highly concerned. In 2029, the last of the Boomers will turn 65, and in 2034 they will be turning 70. 10,000 Boomers turn 65 each day, and as these employees leave the workforce, a wealth of knowledge and experience leaves with them, and many of these are in leadership positions, leaving a huge void to fill.

30% of organizations are already facing a struggle to fill senior leadership positions. 46 percent of the organizations said "leadership" was the skill hardest to find in employees and only 36 percent of employees listed "leadership" as a strength in their organization. Less than half of HR leaders said that they have an adequate pool of talent to fill new leadership roles in their company, and only 11 percent of employees indicated that they would be interested in filling a high-level executive position in their organization.

What's worse, don't look to the Millennial Generation to fill this leadership gap. Only 31% are interested in leadership positions, down from 38% for their Gen-X counterparts. In addition, out of those 11% who do aspire to *top leadership positions*, only 36% of them are women, yet Gallup indicates that women are slightly better at engaging employees than men (41% to 35%). None of this is going to change unless an organization makes it a priority to develop the leadership within the organization. Even bringing in leadership talent from the outside has to involve development, especially around the core of the organization's Culture and the Values that bind behavior.

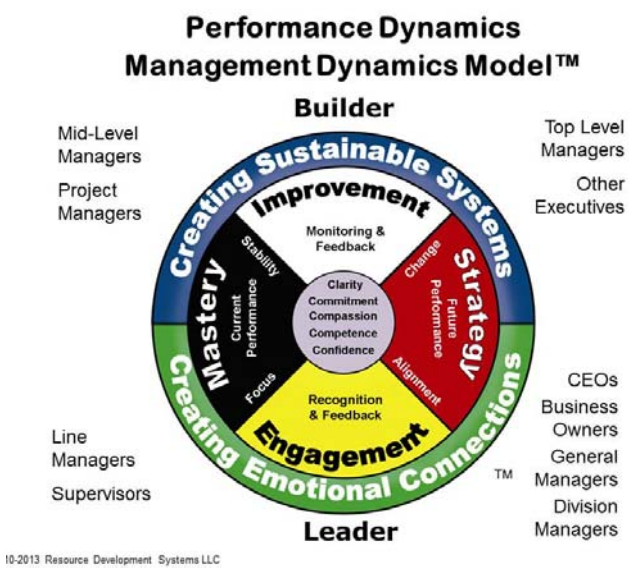
Organizational leadership is extremely important as it is the leaders of the organization that are responsible for creating the environment and culture where employees perform. It is leaders who set the long-term Vision of the organization and then connect employees to that Vision through focus and training, and get them engaged so that they can excel at achieving the goals of the organization. But a recent finding by Gallup, one of the leading researchers in the area of employee engagement, indicates that 70% of the variability in engagement levels across the organization is due to the manager, and in the average organization most managers are failing to engage their employees. What's more, only one in ten people actually possess the talents to be a great manager. As a result, we tend to do a very poor job of selecting the right people to become a manager, and then provide them with very poor development opportunities, resulting in poor leadership and poor employee engagement.

Pitfalls in Leadership Development

Managers desire support in developing their skills just as much, or perhaps more so, than the rest of your employees. In 2009, Inscape Publishing, now a part of Wiley & Sons, conducted a study asking what kind of training courses respondents felt would help them in their jobs. The number one response was Leadership Skills. Dealing with Difficult People and Communication Skills were numbers 2 and 4, with Technical Skills rounding out the top 4. Fast forward to March 2015 when Saba conducted a separate study and discovered that while 39 percent of the organizations surveyed offered leadership development programs, only 15 percent of employees feel that the training they receive is preparing them. And what about those 61% of organizations that don't offer any leadership development programs at all!!!!

Each year close to **$14 Billion** is spent on management and leadership development activities, yet, as shared before, little of this is translated into real impact on the organization's performance, providing no real return. In our previously mentioned whitepaper, ***Training's Role in Achieving High Performance***, we shared a few thoughts on why this is the case, and these still remain a problem. One of these issues was program delivery. Most programs simply try to impart a lot of information in a short period of time and expect participants to absorb it all and then go back into the workplace and apply it. There is little support and few well designed activities that put learning into action. But if we are seeking to change how we manage and lead an organization, then it will take time for these new behaviors to become mastered, and there needs to be a lot of opportunities along the way to master these new skills in bite-sized chunks.

Our continued research into this area has provided even more insight into this matter. Perhaps one of the most impactful revelations is that most development approaches separate the functions of management and leadership, but in reality, leadership is actually one of the roles of being a good manager. One cannot be a good manager without being a good leader. With employee engagement having such a crucial part in elevating an organization's performance levels, the ability to positively emotionally connect employees to the Vision of the organization and then to their jobs is a key priority and primary responsibility for every manager in the organization. This ***is*** the leadership function, and every manager must be able to do it well.



This revelation led us to the development of a new model for understanding leadership in relationship to the manager; one in which the amount of time spent in each role varies based on the type of job that they are doing. Yet, while a manager might spend a huge amount of time working on tasks in their Builder role, the priority role for every manager is always that of Leader. It is as a Leader that managers at all levels in the organization, and even those that have no direct reports, still have an impact on the culture and working environment. Just because a manager has no direct reports does not mean that they cannot exhibit behaviors that can engage others, or that they cannot do things that can quickly disengage one or more employees.

This brings about a second major revelation; leadership development efforts must move away from a focus on the individual and take a more holistic approach. Simply providing development opportunities to a limited few individuals and trying to make them exceptional is not enough. Our focus should not be on the development of the individual as a leader, but on the development of leadership capabilities within the organization as a whole. After all, the ultimate goal is not to connect employees to an individual manager, but for managers to connect employees to the organization. If an organization is to truly develop its leadership, then it must start at the top, and it must be focused on organizational leadership; those things that all leaders must do to engage employees: Build Trust; Connect to a Vision; Develop Strengths of Employees and the Team; and Build Personal Responsibility. And while we may talk about employee engagement as an organizational or department measure, we actually create employee engagement one employee at a time, with each manager at each level focusing on the four Elements that drive employee engagement.

We start at the top and work our way down through the leadership of the organization, allowing for the support of the managers from above for each successive level, ensuring organization-wide consistency and alignment in the development and application of skills to engage employees. At the same time, we must ensure that all managers within a workgroup are developed, allowing for greater team development and performance. But we also must provide the development in a well-planned program that is delivered over time; allows for the practice and application of the concepts taught; and ensure that what is being worked on in these application exercises are practical and also impact the organization's ability to engage employees and enhances the performance of the organization.

Leadership is not about making connections with the leader, but about making connections with the organization.

Developing a Leadership Support System

Developing the leadership in your organization should be the primary concern of any top executive. It isn't just for the here and now that it is important. As previously mentioned, Gallup's research indicates that only 1 out of 10 people possess the underlying talent to be a great leader. And with the steady departure of the Silent and Boomer Generations from the workplace, many of whom are in key leadership roles, organizations will soon be facing a leadership crisis, if not already facing it right now. This calls for new approaches to developing and supporting the leadership within the organization: a Leadership Support System.

This system must begin with the senior leadership team of the organization. Without their making it a priority, it will have little impact on the performance of the organization. But when senior leadership makes the development and support of leadership throughout the organization a priority, it can have a dramatic impact on organizational performance. In fact, our research indicates that, when done correctly, simply placing an emphasis on leadership development across the organization can impact the Payroll Efficiency Factor™ anywhere from 5 to 10 points on its own, providing an increase of between 8% and 16% more work being done at no increase in cost to the organization.

This dramatic impact on performance is a result of managers touching and impacting the rest of the organization. As leaders are developing their mastery as part of the Leadership Support System, they work with and impact upon the other three systems that, together with Leadership Support, comprise the Systems of Performance Dynamics™: Vision Execution; Innovation Optimization; and Strengths Mastery. By placing an emphasis on Leadership within and across the organization, the organization actually begins to develop all of the systems that allow for increased performance. While work on these other systems still remain, fully developing the Leadership Support System will take the organization almost two-thirds of the way to becoming an exceptional organization.

Developing a
Leadership Support System
Can Increase the Organization's
Payroll Efficiency Factor™
5 to 10 points!

For an Organization with 100 Employees –

A 5 Point Increase Equals $6300 per Week!

A 10 Point Increase Equals
$12,600 per Week!

That Man

She wasn't a "bad" employee, but certainly wasn't the easiest to get along with. In fact, she didn't like her manager and never called him by name. She only referred to him as "That Man." Everyone knew her displeasure with him and she never let an opportunity pass to remind people just how unhappy she was with him. Yet, no one knew exactly why she was unhappy.

This employee was what we would typically call a CAVE Dweller --- Consistently Against Virtually Everything. She was certainly consistently against her manager, and this did not provide a good working environment for anyone; her, her manager, or her co-workers.

As part of his organization's comprehensive implementation of its Leadership Support System, the manger learned a variety of skills that helped him deal with this issue. It took a while, along with a very impactful exercise that he had to do with all of his employees, but eventually she no longer called him "That Man." Their relationship took a 180 degree turn, and she became a highly productive, highly engaged employee.

The improvement in their relationship and her attitude towards him, along with him no longer avoiding dealing with this problem, also improved the working environment for all of the employees on the team. And that helped contribute to increased team performance.

Leadership Development Strategies

Leadership is the foundational system of the Systems of Performance Dynamics™, and must be a focus for the senior leadership team of any organization of any size. Without good leadership practices, employees will not be engaged and will not impact the overall organizational performance. In order to create a Leadership Support System, we recommend the following:

- Focus on Developing Organizational Leadership, NOT Individuals. You do this by developing and supporting Leadership throughout the organization and by making it a part of the Culture of your organization. This helps ensure the sustainability of the Leadership Support System and the Organization and makes it a priority.

- Focus on engaging employees and the Four Elements that drive Engaged Performance™: Trust, Vision, Strengths, and Personal Responsibility. Development activities must be focused on developing and mastering the skills that support these Elements.

- Select the right people to be leaders.
    - Don't promote great technicians, but allow them to continue where they already add value and provide other avenues for mastery and career advancement.
    - Focus on those who demonstrate good leadership characteristics, which you must define for your organization. These must also contain the Core Management Attributes of Clarity, Commitment, Compassion, Competence, and Confidence.
    - You must reward those characteristics and must continually develop these characteristics and skills.

- Create a structure that continually develops leadership skills at all levels and supports the application of those skills in the workplace. Development should take a top down approach so that those above can support those below.

- Develop processes that support good leadership behavior in your organization. Get rid of those processes that distract time and resources from being a good manager who excels at their leadership role.

Strong Leadership is imperative if an organization is going to become exceptional and exhibit sustainable levels of high performance. Failing to develop this Element will hold all of the other systems back from impacting organizational performance.

Exceptional Leadership leads to Employee Engagement;

Exceptional Employee Engagement leads to Exceptional Organizational Performance!

Three Practices that Minimize Human Capital Investment

Just as an investment account has certain items that don't do so well, or there are fees that eat into the returns of those investments, organizations spend resources, money and, especially, time, on a variety of Human Capital Investments that do not help it engage employees or better manage the business. In fact, some Human Capital Investments actually disengage employees and detract from organizational performance, costing your organization. Unfortunately, these few things have become entrenched in the lexicon and "standard practices" of most organizations, yet, most, if not all, of the organizations that engage in these practices find that they are receiving a negative return from their investments. Three of the most egregious practices that cause the most harm are briefly covered below.

Performance Appraisals

Perhaps one of the most hated and dreaded practices in all organizations is the annual performance review. Organizations spend an inordinate amount of time on this archaic practice, from managing it, to preparing for it, to conducting the appraisal session, and even in trying to avoid doing them all together. Many other organizations spend an inordinate amount of money on software and other resources to better manage the process. In the end, many employees are ticked off by their rating and they can find very little to use that can help them improve their performance. There are a number of reasons for this:

1. Performance Reviews are based on subjective judgement and tend to focus on only that performance that stands out: earliest; most recent; a major event; etc. And because they are subjective, ratings can vary vastly from one manager to the next. What stood out as important to mention will vary, leaving the employee sometimes even clueless about an event that was not memorable to them, with approaches to deal with situations often not being standardized.
2. Performance Reviews tend to be based on a "normal distribution." We learned earlier that the exceptional organization does not have a normal distribution curve, and that the vast majority of employees are performing at a 7 or better on a scale of 1 to 10, with 10 being the best.
3. Performance Reviews are focused on the past; exceptional performance is ongoing and happens in the future. In most cases, too much time is spent dissecting past performance, and any thought about how to plan to enhance future performance is usually a cursory afterthought.
4. Feedback is useless. In order for feedback to be valuable it must be timely; i.e., almost immediately. If an issue is dealt with successfully and in a timely manner, why revisit it again 10 months later? If it wasn't dealt with successfully in a timely manner 10 months ago, then now is too late to address it.

5. W. Edwards Deming proved through his red bead experiments that there are far more factors that impact an employee's ability to perform that are out of the control of the employee.

The whole experience of annual performance reviews focusses on the negative rather than accentuate the positive. Just imagine what your organization could accomplish if it ditched the annual performance appraisal, adopted good management practices that included a Focus on Strengths and Accentuate the Positive; helped employees become the best that they can be through coaching and support; and allows employees to have the information and resources that allow them to make good decisions about their jobs. How much time, money and other resources might it save, and how many employees ***and*** managers would be made happy to never have to deal with these silly forms and interviews ever again.

Yes, employees do need feedback about their performance and how to become better, but this needs to occur at the time the event happens, not months later. But employees also need the information, resources, and training to do their jobs, and then be left alone to make good decisions on their own as they do their jobs.

Progressive Discipline

The backbone of most organizations in dealing with "bad behavior," progressive discipline is another example of wasting time and resources rather than improving performance. If someone is truly intentionally causing harm through disruptive behavior, then taking the time to go through a lengthy process to remove them from the organization only causes more problems for everyone. As was shared in ***Leadership Lessons From The Medicine Wheel***, "those who destroy Trust can't stay," and must be removed immediately.

On the other hand, most problems with employee performance do not lie with the employee, but with factors external to the employee. We have identified five general factors that lead to poor employee performance that are not the fault of anything that the employee has done, but rather, are the result of poor management practices. These factors are:

1. Poor Organizational Culture Fit – The employee simply did not and does not fit with the culture of the organization, leading to any number of problems with following processes and becoming engaged. Better selection and onboarding practices can overcome this factor.
2. Poor Job Fit – The employee has been put in a position that does not allow them to play to their natural talents, strengths and skills. This is often the result of inflexible position descriptions and a focus on process rather than results.
3. Poor Job Skills Development – The employee has not been provided the basic and advanced training needed to do their job well and to advance in their ability to master their job. A well designed employee development program that focuses on delivering exceptional service and products to customers can overcome this factor

4. Poor Processes – The employee has to work within processes that are not optimized or are non-existent, allowing for inconsistency in performance across time.
5. Lack of Resources – The employee simply does not have the equipment, time, or other resources necessary to perform well. This could be because the resources do not exist, or they could be inferior, or they could simply be the wrong resource. In any case, the lack of appropriate resources impacts the employee's performance negatively, yet, the lack of these resources are out of the employee's control.

Despite these factors, most organizations chose to "punish" employees when something goes wrong, even if it is only a simple "write-up." This creates a huge focus on the negative side of the behavior, puts the employee on the defensive, and creates resentment, especially when the employee feels that they are being unfairly punished, which is most likely the case, given the five factors above. As a result, the employee becomes unengaged at best, and actively disengaged at worst.

On the other hand, Exceptional Organizations choose a different approach; one that focuses on the positive rather than the negative. Rather than focusing on the performance issue as an opportunity to fix blame and administer punishment, they use it as an opportunity to fix problems and provide learning. Instead of acting as "parents," managers act within their leadership role as a coach, helping the employee to improve and become a master of their job. They also help solve problems within the systems, which also creates a positive feeling within the employee to the organization. As a result, the employee becomes engaged, and increases their value to the organization, while also increasing their own value of self-worth.

Employee of the Month

This practice was addressed in ***Leadership Lessons From the Medicine Wheel***, and is a horrible practice. Simply put, if one employee is the winner of the Employee of the Month award, then, by definition, all the other employees are LOSERS! Is that what you want in your organization; a huge group of losers? Of course not. So why do something that creates this situation in your organization?

More often than not, Employee of the Month programs lead to resentment and destroys the Trust and teamwork that is needed in order for organizations to perform at exceptional levels. It often rewards behavior that sabotages other's work, and rewards individual effort over teamwork, yet, oftentimes the "winner" was able to do such a great job through the support of others. These contributions are often ignored, and that leads to the likelihood that the support will not be provided in the future. And sometimes the superior performance is the result of just shear good luck.

As we have shared earlier, exceptional organizations have a huge number of top level performers, with most performing at 8, 9, and 10 on a scale of 1 to 10, with 10 being the best performance. Furthermore, exceptional organizations encourage teamwork, which further multiplies the individual efforts, creating even better performance and bottom-line returns.

Instead of setting up phony competitions that pit one employee against the other, they encourage teamwork and celebrate everyone's successes, individually and collectively, as those successes happen. Just like providing corrective feedback in a timely manner is important for performance improvement, so is providing positive feedback. Furthermore, celebrating successes gives everyone an opportunity to "cheer" everyone else along, and the positive support becomes contagious, providing extra energy to everyone.

Despite what many of the reward and recognition companies tell you, it simply does not cost anything to thank an employee for a good job, or to publicly congratulate them on a special accomplishment. Just be sure to follow good behavioral styles practices when providing recognition and feedback, as some may revel in the spotlight, while others would prefer to shun it. But everyone appreciates that someone recognizes that they are doing a good job and are making a difference.

Just imagine how powerful it could be if a manager has quietly shared up the line to the managers above about a great job an employee has done, and the next time that higher level manager is in the area the stop by and tell the employee what a great job they have done and share how it helps the organization take care of their customers. Can you just imagine how the employee would feel and how much more connected they will become?

This kind of system does not take any money to operate, just manager's time to pay attention to employees and to make positive comments, but the return on this investment is immeasurable. Yes, it doesn't take much time to choose someone as a "winner" and give them a thoughtless gift or a parking place, but what are you getting in return. In some cases, the employees may just be feeling like they have been "given the bird" (see our story in ***Leadership Lessons From the Medicine Wheel*** for an explanation), and will react accordingly, working just as hard NOT to receive the award. Yikes! What is that doing to performance in your organization?

These three practices cannibalize huge amounts of resources from the organization, especially managers' time; time that could be spent on activities that engage employees and drive organizational performance. Leaving them in place results in a negative return on your investment, so eliminating that investment is a smart move. What is even smarter is to invest that same amount of time and resources into the practices that do provide a return, especially the development of leadership in the managers of your organization.

Summary

It is the human side of business that makes the difference between mediocre and exceptional organizational performance. Executives who are more effective at Managing the Human Side of Business℠ will see big returns. That means in addition to managing the culture of the organization they must also look at maximizing their human capital investments. In order to be successful, you have to have a different mindset ---- human capital is not the employees, because your employees ***are*** your organization! They are what makes your organization unique and differentiates it from its competitors. Rather than being a soulless entity, your organization is actually a society of living, breathing human beings that are working together and supporting each other to achieve goals that make a difference in the lives of the organization's customers. This sense of *Unadotlvhi*, a society or congregation, is what separates exceptional organizations from the mediocre, as mediocre organizations focus on things and activities, but exceptional organizations Put People at the Center.

Human Capital, on the other hand, is the investment in time, money, and other resources into your people, which is an investment into your organization. What we have learned through 13 years of research is that where you invest your human capital and how much you invest does matter. Spending too little or too much in specific areas can result in diminished returns, and in some cases, hugely diminished returns. Furthermore, many organizations make their investments with little knowledge or understanding of why they are investing in particular areas and what kind of return they are actually getting for their investment.

The goal of human capital investment should be to increase organizational performance through employee engagement. Remember, it is the increased organizational performance that is the goal, not employee engagement, itself. It is only through employee engagement that organizations can truly sustain exceptionally high levels of performance for the long-term. We call this Engaged Performance™. Other approaches, such as coercion and fear, or bribery via pay for performance, only result in temporary boosts in performance, and cannot be sustained for the long-term. Having employees who are emotionally connected to the organization, on the other hand, is sustainable as long as managers provide the leadership to maintain those connections.

The impact of employee engagement on organizational performance can be measured in two ways: payroll efficiency; and payroll effectiveness. Our research regarding the Payroll Efficiency Factor™ (PEF) reveals that exceptional organizations have a PEF that is ~25% more than the average, mediocre organization. This translates into a 25% increase in the amount of work that is being done for the same amount of payroll dollar, making that payroll dollar more efficient. What's more, this can be multiplied several times because this increased amount of work is now more targeted towards doing the things that matter, making it more effective at achieving the organization's goals. This is a result of leadership aligning everyone with what is important and focusing their work on things that make an impact. This effectiveness can multiply the increase in the return on the PEF by 2.5 to 5 times, and maybe even more.

This means that making investments in Human Capital is very important to any organization, and can mean the difference between dying, surviving, and thriving in an ever challenging business climate. We shared three areas that are critical for organizations to get their investments right: Employee Compensation; Employee Development; and Leadership Development. These three areas are an investment for increasing the bottom line of the organization. They are not, and never should be thought of as an expense factor that should be minimized. Instead, they should be thought of as an investment that should be maximized. If you are getting good returns for your investment, then you should want to put more into that investment. The increased work and resulting increased organizational performance from increased engagement levels can lead to providing that return. But it isn't about spending more, but spending enough, the right amount, that is key to maximizing returns.

We also briefly shared three areas where organizations need to stop making investments: Annual Performance Appraisals; Progressive Discipline; and Employee of the Month programs. These areas do not contribute to organizational performance, and sap resources from other areas, especially in the areas of time and goodwill with employees. Each of these areas focus on the negative rather than accentuating the positive, and limit the effectiveness of the organization to leverage the Seven Elements of High Performance™.

Finally, simply placing an emphasis on developing an organization's Leadership Support System can make a tremendous impact on employee engagement levels, organizational performance, and bottom-line returns. Investments in long-term leadership development can easily be recovered in a matter of weeks as employee engagement levels and organizational performance increases. As the foundational system of the four systems that comprise the Systems of Performance Dynamics, developing the leadership capability of your organization allows it to make the shift from being concerned with things to placing People at the Center of your activities. This allows your managers to then create the culture that will allow employees to become engaged and make things happen that lead to success for the organization.

Investing in the development of leadership at all levels of your organization is the place to begin when *Maximizing your Human Capital Investment*.

To **Achieve** what you have never had, you must **Do** what you have never done.

If you do what everyone else is doing, then you will get what everyone else is getting.

Most get *Mediocrity*, at best.

To **Achieve** what you have never had, you must **Do** what you have never done.

To **Do** what you have never done, you must **Be** what you have never been.

Know what you need to **Be** first.
Then you will know what to **Do** to **Achieve** your **Goals**!

Rising Above Mediocrity!

Mediocrity

The state of being only ordinary, average, or of moderate quality; neither good nor bad; barely adequate; ***good enough*** to get by.

By definition, this is most organizations. Because of this mediocrity, our research reveals that most organizations are throwing away about 37% of their payroll. This Cost of Lost Engagement is about ***$23,000 for every employee*** in the organization and is like having one-third of your organization not show up for work! This can have an even bigger impact on the organization's performance - and its bottom-line.

Exceptional

Extraordinary; unusually excellent; superior; rare;

Being the Best!

Most organizations are good; they are B-players in a world where C-players and worse continuously struggle and even disappear. This makes the B-player organizations the average organization (see the graph on page 5). The average organization falls on the upper side of a "normal" bell curve distribution. This means that when many organizations think they are performing better than average they really are the average. Average performance, B-player performance, is mediocre performance; this performance is far below exceptional performance.

The difference in being a B-player organization and being an Exceptional organization is that the Exceptional organization excels at Putting People at the Center by engaging their employees' performance using clarity and focus through extraordinary Leadership.

The research is clear. It is all about Managing the Human Side of Business^{sm} that makes the difference in organizational performance. Leaders engaging employees who engage customers; these are the drivers of success for the best organizations. Yet so few organizations achieve their best and many often struggle to just survive, with some not winning that struggle. These organizations place their management focus on the technical side of their business, ignoring the Human Side, placing little or no emphasis on the elements that drive high-performance.

The Best Organizations Don't Just Do Things Differently;

They Do Different Things!

Exceptional Organizations:

Have a clearly defined Purpose, other than to just “make money,” that inspires employees

Have a core set of Values that they actually live by, and aren’t just wall decorations and nice talk.

Focus on building a culture of excellence, founded on Trust, and Personal Responsibility.

Spend an extraordinary amount of time insuring that they hire the “right” people.

Put faith in their people and actually believe in their ability to perform their jobs.

Have managers who focus on creating an environment where exceptionalism can flourish in the organization’s culture and where employees want to come to work and are engaged; not on micro-managing people which leads to unengaged and actively disengaged employees.

If you are ready to stop being ***good enough***, then contact ***RDS*****!** We have the benchmarks and systems that have been proven to help organizations ***RISE ABOVE*** being just ***good enough*** by creating a **Culture of Engaged Performance™** which leads to ***EXCEPTIONAL*** performance.

The Seven Elements of High Performance™

- Put **People** at the ***Center*** of everything you do employees, customers, and community
- Build **Trust** as a ***Foundation***
- Allow **Personal Responsibility** through ***Individual Decision Making***
- Share a **Vision** of an ***Aligned Purpose, Values, and Goals***
- ***Create Emotional Connections*** through **Leadership**
- Focus on **Strengths** and ***Accentuate the Positive***
- Encourage **Innovation**, because ***Good Enough is Not Enough***

For more on the Seven Elements of High Performance™ check out our book

Leadership Lessons from the Medicine Wheel:

The Seven Elements of High Performance

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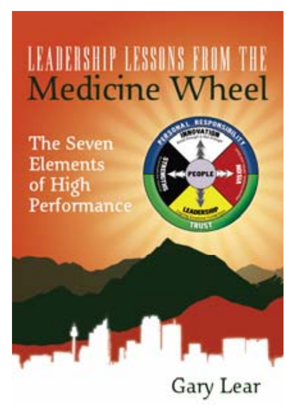

About Gary Lear, President and CEO

Dynamic thought leader in the areas of organizational performance, strategy and leadership, Gary Lear combines the teachings from his American Indian heritage with the most modern business research to help organizations achieve results by more effectively **Managing the Human Side of Business℠**. His approach is to help leaders learn how to create the high performance cultures and make the connections that unlock the hidden potential of the people they employ. With over 20 years of experience working with culture change and leadership development, Gary has worked with thousands of managers in all kinds of industries. Challenging, yet practical, Gary takes a different approach to help his clients get the results they want because he understands that the best organizations don't just do things differently; they do different things.

About *Resource Development Systems* LLC

Founded in 1997, ***Resource Development Systems*** LLC is an organizational performance consulting firm dedicated to helping its clients increase performance by being more successful at **Managing the Human Side of Business℠**.

At ***RDS*** we excel in developing the new critical competencies organizations need to prevail in the global business environment - skills like trust building, collaboration, and innovation. These skills can never be outsourced, replaced, or made obsolete, and they are absolutely key to competing successfully in the world today.

Our development programs are always designed to align people's skills and behavior with organizational strategies to create high performing organizations. That means you have the ability to shape your workforce in alignment with your organization's Vision and its strategies, because our solutions give you a complete system for creating the results you want.

We know change begins with insight, takes shape through action, is intensified by focus, and is fueled by ongoing success.

If you would like to learn more about how you can apply the **Seven Elements of High Performance™** *in your organization and help it create a* ***Culture of Engaged Performance™****, where people want to come to work and excel; where the organization not only achieves its goals, but also achieves significance; then please give us a call. We will be happy to talk with you about your needs.*

Contact *Resource Development Systems* LLC

for more information.

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www.ResourceDevelopmentSystems.com

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