

# Maximizing Your Human Capital Investment



Research Based Strategies for  
Increasing Organizational Performance

## EXECUTIVE SUMMARY



**Resource  
Development  
Systems** LLC

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Managing the Human Side of Business <sup>SM</sup>

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If you would like to use this article or parts of this article in any form, then please contact us and we will be happy to work with you to accomplish your goal. We are also available for interviews regarding the Seven Elements of High Performance™ model.

We are happy to discuss the inclusion of the Seven Elements of High Performance™ as part of any training program you may be developing. Please contact us using the information at the end of this article explaining how you would like to use the model in your training program and we will be happy to discuss with you about the authorization for use of the model.

Note: the US Navy's Center for Naval Leadership is already utilizing our model in their leadership development programs with our permission.

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).

The Seven Elements of High Performance™, The Four Behaviors that Build Trust™, the Diamond of Engaged Performance™, Culture of Engaged Performance™, Whole Person Dynamics™, The Payroll Efficiency Factor™, and **Managing the Human Side of Business<sup>SM</sup>** are properties of **Resource Development Systems** LLC.

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# Maximizing Your Human Capital Investment: Research Based Strategies for Increasing Organizational Performance

By Gary Lear, President and CEO  
*Resource Development Systems* LLC

## Executive Summary

Resource Development Systems has been working with clients for over 18 years to help them become high performing organizations. Five years after our inception we undertook a three-year study to discover what sets the best organizations apart from the rest. We discovered seven things; the Seven Elements of High Performance™. These Seven Elements kept appearing over and over again, not just in our original study, but as we have continued to research the dynamics of high performing organizations. We have now reviewed over 1500 research documents in the past 13 years, and these Seven Elements remain stronger than ever as the differentiator between the mediocre and the exceptional organizations.

One of the areas that has come to our attention are the things that the best organizations are doing regarding human capital investment. For most organizations, their “people costs” are either their first or second largest expense, so making the most of this investment makes a lot of sense. We have taken a hard look at what the research says about where organizations should invest, why that investment makes sense, as well as where not to invest. Those results are provided in this whitepaper.

The full report is fairly comprehensive, so we have provided this *Executive Summary* of the key points, along with page reference numbers to more detailed information in the full report:

- ◆ Before deciding to invest in Human Capital we need a new definition of the term. Human Capital is not, and should not be considered the people in the organization, as the people *are* the organization. Instead, we need to view it as 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. – Page 1.
- ◆ Research reveals that there is a direct relationship between having more engaged employees and the maximization of the return on Human Capital Investment. The Payroll Efficiency Factor™, a function of employee engagement, provides a reflection how much work is being done per payroll dollar. It provides an excellent measure of how well the organization is maximizing its Human Capital Investment. – Page 3.
- ◆ The average organization has a Payroll Efficiency Factor™ of 63%, meaning that 37% of every payroll dollar is not resulting in work and is wasted. Exceptional organizations have a PEF of 78%, almost a 25% increase in work being done. This also results in the work that is being done having a greater impact on the goals of the organization. – Page 3
- ◆ We have seen a dramatic increase in the cost of payroll on a per hour per person basis. The average total compensation wages have risen over the past six years to \$31.65 per hour, mostly due to a rise in insurance costs. **This Increases the Cost of Mediocre Engagement to \$2.3 Million per Year per 100 employees!** This is a cost of approximately \$23,000 per year per employee. Contrast this with the

exceptional organizations, who see an additional \$9,500 worth of work being done by each employee per year, or \$950,000 per 100 employees, over the average organization. **The difference amounts to \$19,000 per week per 100 employees.** – Page 3 and 4 (see graphs on Page 5)

- ◇ There are three primary areas for Human Capital Investment that provide huge returns. These areas are:
  - ◇ Total Compensation: 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. – Page 6; Strategies on Page 11
  - ◇ Employee Development: 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. – Page 12; Strategies on Page 17.
    - Long-term performance increases will only be realized, if the organization is able to retain their employees. While nothing can guarantee that employees won't leave, utilizing the Human Capital Investment Strategies contained within this whitepaper can have a huge impact in their retention.
    - 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.
    - 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.
    - **According to our research, 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**
  - ◇ Leadership Development: 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 then get them engaged so

that they can excel at achieving the goals of the organization. Page 18; Strategies on Page 22.

- 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. Furthermore, only one in Ten people actually possess the talents to be a great manager.
  - ***This is perhaps one of the most important areas to invest in, as everything else is dependent on good organizational leadership.***
- ◆ Pitfalls in Leadership Development: Each year close to **\$14 Billion** is spent on management and leadership development activities, but little of this is translated into real impact on the organization's performance, providing no real return. 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 (see graphic on Page 19). 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.
  - ◆ 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 translates into \$6300 to \$12,600 per week per 100 employees.**
  - ◆ Three Practices that Minimizes 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.
    - ◆ Performance Appraisals: Page 23
    - ◆ Progressive Discipline: Page 24
    - ◆ Employee of the Month: Page 2

**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<sup>SM</sup> 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! The investment, instead, is in the ability of the organization to engage employees and focus their activities on the work that really matters in achieving the organization's goals.

## 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<sup>SM</sup> 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 *Unadotlvi*, 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<sup>TM</sup>. 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<sup>TM</sup> (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<sup>sm</sup> 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**

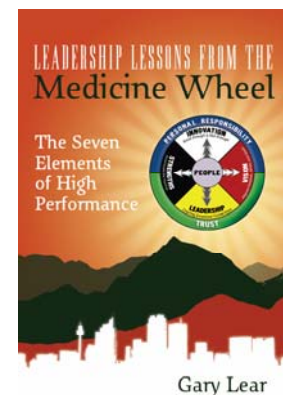
For more on the Seven Elements of High Performance™ check out our book

### 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<sup>SM</sup>**. 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<sup>SM</sup>**.

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<sup>TM</sup>** in your organization and help it create a **Culture of Engaged Performance<sup>TM</sup>**, 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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