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How to Achieve High ROI on Your Human Capital by Changing the Way People Are Managed

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At the heart of every company there is a business concept, a mission, a vision, and a strategy. All organizations strive for excellent execution of their strategy hoping thereby to satisfy their customer base and show increasing profits.

To lower the cost of doing business, strategies of many US corporations have included moving to cheaper labor zones in the world such as China and India. We suggest there is a better way of reducing your cost of labor – eliminate the many inefficient and counterproductive ways of utilizing human capital that are inherent in the way people are managed.

In working with hundreds of organizations, we have identified several ineffective processes that are taken for granted – without question. We have examined these processes and propose five new approaches. Adopted together they create a paradigm that will greatly reduce the cost of human capital and improve the effectiveness of this valuable resource.

Assigning A Unique Scorecard for Each Person

Each person is accountable for a unique scorecard. This means that the scorecard of a manager is different from the scorecard of his or her direct reports. Obvious as this may seem, it is not the case in many organizations. One clear example can be seen in sales. The scorecard of a salesperson usually includes such indicators as: $ amount sold, number of items sold, number of items sold without discount, and $ amount of returns.

What should the boss's scorecard look like? It shouldn't be a repeat of the sales person's. That's not uniqueness. The sales manager has a great influence on helping the sales people sell, and that influence should be reflected in unique measures such as, "% of salespeople selling over quota."

Why is unique accountability so important? It is because unique accountability is synonymous with unique focus and unique focus eliminates redundancy, overlap of accountability, and duplicate work. It means eliminating waste – of time, energy and resources. This translates not only to savings of human capital, but also to greater results.

Aligning Competency in Core Skills to Accountability

We are accustomed to thinking that more training is better and this thinking usually translates into spending the training budget by putting people through standard courses relevant to the business. But, is the training dollar delivering a healthy payback? Did the person who received the training really need that particular course? Was the take home learning actually applied in a way that will help the bottom line? These questions are difficult to answer. Regardless of the answers, the training department probably delivered all the courses, and got a bonus for achieving its objectives. The managers spent time away from work and gained some knowledge. Was the investment in human capital justified? Probably not.

What would be a better way? First identify each individual's required core skills. How do you determine the required core skills for each person? You use the unique scorecard as a frame of reference. The required skills should be those that would directly impact the person's ability to excel in his scorecard.

Once the required skills are identified for each person then how can you determine the existing level of competency in the skill? We recommend a simple and effective method of focusing on just two variables: the amount of effort it takes an employee to get the job done and the amount of supervision the employee needs. A person is fully competent when he or she can do a quality job applying the core skills with less effort than is required by a standard performer, and with minimal supervision.

Once the skills are identified and the level of competency is determined, a systematic process for improving competency needs to be initiated. The individual employee takes primary responsibility for improving competency, with the support and encouragement of his or her boss. The training needs are then communicated to the training department and appropriate courses should be made available.

How is this process different? The training department is responding to a specific identified need, rather than the managers responding to pre-packaged courses. This is a huge difference. When core skill needs are correctly identified and assessed, training can be truly cost effective resulting in savings and greater earnings.

Turning Teams Upside Down

A third new approach is to turn teams 'upside down'. How does this work? If you look at a typical natural team of ten people in an organization as an example, what is the team typically focused on? How do the team meetings proceed?

In most organizations teams get together in meetings to hear about each person's performance during the previous period, and to learn of what the expected performance might be during the next period.

When you turn a natural team 'upside down', you completely change the focus and the agenda of your meetings. While each of the members in an upside down team would have a unique scorecard, the focus of the team is the scorecard of the team leader, not the team members.

The team leader's scorecard is a good reflection of what the team's priority should be. The team meeting is spent on consulting and problem solving, focusing more on the future than on the past. Meetings become shorter, less defensive, and more unifying. When the entire organization functions in this way, a tremendous increase in the ROI of the human capital is evident.

Systematizing A Coaching Process for the Manager and Direct Report

How often do you interact with your boss and what is the nature of your interaction? Is it on a regular basis or is it ad hoc? Do you talk about the past or the future? Are you nervous when it happens or do you look forward to it? Are you more stressed after it is over, or more motivated?

In most organizations, encounters between managers and their direct reports are usually in the form of staff meetings. If there is a one on one meeting, it is to try to address a specific challenge or a particular task. There is also an annual performance review that often only remembers the performance of the recent past.

The new approach we are proposing is to turn the manager into a coach – a coach following a process. The process is called vertical review. What is vertical review? It is a regular one on one conversation between a manager and his or her direct report. The purpose of the meeting is to assist the direct report become a star performer, to align his or her behaviors with core values, and to improve competency and capacity. The conversation is structured and has four parts: culture, performance, development and miscellaneous. Each topic receives a small amount of time on what has happened in the past. Most of the time is spent strategizing on how the direct report can excel in the future.

The added value of vertical review for the direct report is obvious. Each person gets individual attention from the boss and is thereby enabled to develop competency and capacity to succeed. What may not be immediately obvious is that the manager also gains a great deal from the reviews. The manager becomes well informed on what is really going on, and because of this proactive process, the need for fire fighting is greatly diminished. As the manager is better able to delegate on-going issues, he or she has more time to spend on strategic issues. When you add these up the benefit to the bottom line is enormous

Linking Compensation to Contribution

The fifth new approach is linking compensation to contribution. Few people would disagree that compensation should be commensurate with contribution. It's not a new idea, and it makes a lot of sense. But, in reality, this link does not exist in many organizations. Starting from the CEO on down to the front line, dismal performance is highly rewarded in some organizations. Often the most highly compensated individuals are the ones who are actually blocking change or innovation that would greatly improve their organizations.

There are several reasons for the failure to link compensation to contribution. One important reason is that it is not easy to link compensation with contribution because it is not easy to measure a person's contribution. Further, it is not easy to change a compensation scheme that has existed over time. Any change in the compensation scheme is bound to face resistance unless it increases a person's take home pay.

We suggest that contribution can be measured. The measurement comes from the person's unique scorecard. The scorecard makes it possible to determine a contribution index for each person.

Of-course, several other important factors should also be considered in determining a person's compensation, such as education, experience, competitive pay, and future potential. Yet, the over-riding criteria for determining a person's bonus and even salary should be based on his or her contribution index.

Why is it important to link compensation to contribution? Because it is fair, and a fair process is what every jobholder expects and deserves. Further, it has an impact on increasing the actual contribution of each person, and the aggregate benefit of increased contribution is huge.

Five Unique Perspectives Work in Tandem

The new approaches for changing the way people are managed introduced in this article will work together to give your organization a unique competitive edge. By defining a unique scorecard for each person; aligning the scorecards with core skills; turning natural teams upside down; using the process of vertical reviews; and linking compensation to contribution you will greatly increase the productivity of your human capital.

A focused, competent and motivated workforce will become your greatest competitive advantage. The combined effect of all this will enable you to do more with fewer people, to increase the return on the investment of your human capital. Try this first, before heading out for greener pastures of India or China.

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