

HOW AN EFFECTIVE HR LEADER CAN HELP DRIVE RESULTS

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Many companies are becoming increasingly aware of how an effective human resource leader can contribute to the success of the business's bottom line. Consider just a few of the significant changes that have taken place in the last 10 or 15 years that represent continuing challenges for many businesses.

Your HR leader must effectively **communicate the value** of employee benefit programs so that employees can make **wise decisions**.

Healthcare costs have been rising at 3 times the inflation rate over the last 10 years.

The design, evaluation and administration of benefit plans have become increasingly complex and impactful as costs rise. There are more options for offering employee health insurance programs—HSAs, PPOs, HMOs, etc. They are complicated in themselves and they have a long tail of legal and financial consequences (think ERISA, COBRA). In addition, wellness programs are no longer optional if you want to manage the long-term trend in healthcare costs for a company. The decisions that your HR leader makes in these areas alone have a significant impact on your bottom line, as well as on your ability to attract talent.

Changing demographics in the workplace have made it necessary to offer employee benefit options that attempt to meet different employee needs. Generation Y and Millennials typically want more flexibility, both in their benefits and in their scheduling. Middle age to older workers typically want the reassurance of retirement fund options. There are exceptions in each group. Your HR leader must effectively communicate the value of employee benefit programs so that employees can make wise decisions based upon their individual needs.

The baby boomer generation has begun to hit retirement age, however, retirement patterns are much less predictable than in the past generations, making succession planning at all levels of a company an emerging and critical need. Some baby boomers are able to retire in their late 50's and some need to or want to work until they are 70+. In addition, undesirable employee turnover among key performers, from entry-level employees to management ranks, has increased in spite of the challenging economy. Turnover has increased for

a variety of reasons. This includes employees being less loyal because employers are less loyal, ability for employees to locate job opportunities because of the internet and networking events, employees getting scared off because employers have no succession plan or simply better pay or benefits.

Turnover is expensive. The competitive marketplace for customers and employees, together with the ever changing technology and business environment, have made it necessary for businesses to invest more in employee training and development programs. Therefore, more company money is riding on each hire. The Society of Human Resources Management (SHRM) estimates that the total cost of losing key employees is anywhere from 30% to over 150% of the salary associated with that position. And let's not forget the risk management side of HR. The cost of litigation related to wrongful discharges and mismanaged diversity issues has increased in the last 10-15 years.

The following pages discuss in greater depth how an effective HR leader and HR function can help a company's bottom line and develop a positive and engaging work environment. The full range of HR functions (see sidebar) is beyond the scope of this paper, but we will discuss six (6) key HR functions below:

- 1 Compensation management
- 2 Benefits evaluation and administration
- 3 Recruitment/talent acquisition
- 4 Training and development
- 5 Performance appraisal and management
- 6 Employee and labor relations

HR PRACTICES THAT SUPPORT AN ORGANIZATION'S GOALS AND PERFORMANCE:

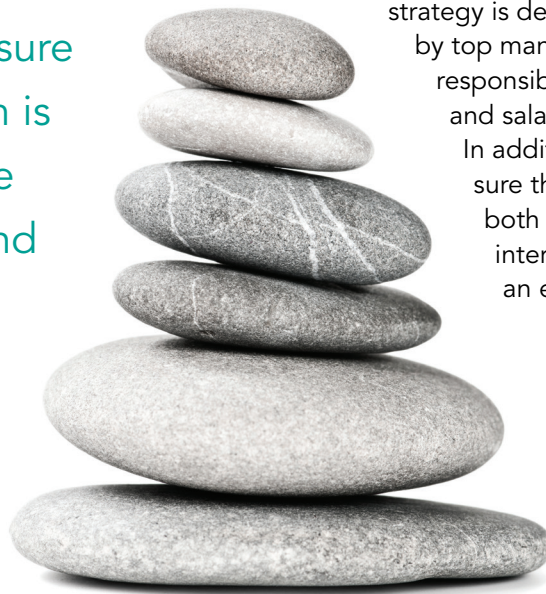
- Staffing & Recruitment
- Compensation Strategy & Administration
- Employee Benefits & Wellness Program
- Incentive Programs
- Training & Development
- Employee & Labor Relations
- Performance Management
- Policies & Procedures
- Management & Supervisory Skills
- Career & Organizational Development
- Succession Planning

COMPENSATION MANAGEMENT

Compensation expense is typically the second largest business expense next to raw materials or purchased goods. Failure to maximize the value of a company's compensation program or employee benefit program can easily cost 2% to 4% of a company's total payroll costs if the program is not effective and tied back to a company's strategy, operational objectives and performance management program.

The HR leader must make sure the compensation program is both externally competitive and internally equitable, and that's not an easy task.

In providing direction to senior management, an HR leader must develop a total compensation strategy for the different levels and/or functional groups within a company. This task includes determining the right mix of base pay, variable pay and benefits that motivates and retains high performers and aligning the salary program (as well as incentive programs) to performance markers for the company, teams and individuals. Once the compensation strategy is developed and agreed upon by top management, the HR function is responsible for administering the wage and salary program with consistency. In addition, the HR leader must make sure the compensation program is both externally competitive and internally equitable, and that's not an easy task.



BENEFITS EVALUATION AND ADMINISTRATION

Managing and controlling the increasing costs of employee benefits while balancing the needs of employees has become a very sensitive issue, especially with respect to health insurance. Offering a benefit program that may be costly to employees will make it difficult to attract and retain key talent.

There are basic questions to answer, such as whether to offer multiple benefit options, how funding for the plans should be split between employer and employee contributions and how much of the benefit plan administration should be handled internally and how much should be outsourced.

THE HR LEADER SHOULD ALSO CONSIDER BOTH STRATEGIC AND OPERATIONAL ISSUES, INCLUDING THE FOLLOWING:

- How do the company's benefits combine with employee compensation to position the overall total rewards package? Is this consistent with the desired compensation strategy (e.g., at market or above market)?
- What benefits does the employee population value most? This is important to know so that limited resources can be allocated to enhance offerings in those areas. For example, is an employer contribution to an HSA account more valuable than an employer match to the 401k plan?
- How does healthcare reform impact the company's plan provisions and design and cost-sharing model for premiums?
- How can external partners support the company's benefit administration and compliance? How will responsibilities be divided to meet company and employee needs for benefit management?



RECRUITMENT/TALENT ACQUISITION

Attracting highly qualified talent for key positions is a challenge in any economic environment.

The ability to effectively recruit talent at all levels of the organization in a cost-effective and timely manner is critical. The year 2011 saw the oldest baby boomers reach the age of 65. Their retirement begins a skills and talent drain that compounds the talent and skills shortage, which has many causes.

It will take an imaginative, well-connected, persuasive HR leader to give your company an advantage. Attracting highly qualified talent for key positions is a challenge in any economic environment. The HR leader must develop a recruitment process and strategy that results in timely hires at a reasonable expense. The cost of recruitment can vary based upon the criticality of the position, supply and demand and compensation levels. Even if a company does not use an outsourced recruiter, the total cost of hiring and on-boarding employees can be **anywhere from 8% to over 25% of a person's first year salary.**





TRAINING AND DEVELOPMENT

A motivated, engaged and well trained workforce can help increase value-added revenue per employee by \$5,000 to \$10,000 and even more.

The degree to which employees are “engaged” (meaning truly committed to an organization’s success vs. “doing a job”) has a direct impact on profitability. A motivated, engaged and well trained workforce can help increase value-added revenue per employee by \$5,000 to \$10,000 and even more. It is important to have an effective HR leader work with department heads, top management and consultants to better understand team and department needs and devise the appropriate training.

Training and development programs typically include the following at a minimum:

- On-boarding and orienting new employees at all levels of the organization
- Technical training for specific jobs or departments
- Skill development for supervisors and managers
- Diversity training
- Executive and management development programs
- Safety programs

HR leaders typically do not provide all of this training but need to effectively manage this area, whether by mentoring, contracting for off-the-shelf programs and study courses, hiring outside consultants or leveraging train-the-trainer programs offered by suppliers. Experienced HR leaders should be knowledgeable about securing training grants from local, state and federal sources when it makes sense. These dollars can be significant in some cases, bringing in \$20k, \$30k and sometimes more than \$100k per year depending on the training programs and the size of the workforce.

The right training programs should make a significant impact on profitability by getting new employees and management team members up to a productive level sooner and retaining employees by providing opportunities for growth and development. They should contribute to decreasing turnover and its associated costs, thereby increasing the quality of a company’s product and customer service and improving decision making at the supervisory and executive level.

PERFORMANCE APPRAISAL AND MANAGEMENT

Meaningful feedback is an essential requirement if a company wants its employees to grow, develop and adapt.

Employees need and want meaningful performance feedback. It is an essential requirement if a company wants its employees to grow, develop and adapt to changing business needs. HR will not perform the actual employee evaluations. These need to be performed by the employee's supervisor/manager. However, HR can design and implement the formal employee appraisal programs internally or use outside consultants to assist with the process to insure that the process and tools are aligned with the organization's goals and draw upon current best practices. In addition, HR can provide managers with the support and skills they need to effectively engage in these processes so the organization can achieve the desired results.

Effective performance management supports employee engagement; in turn, an engaged workforce is positively correlated to company financial performance and decreased employee turnover. Practical systems and processes, including training, can greatly reduce the potential for litigation and legal fees. Legal and settlement costs of a mishandled employee termination can easily reach \$50,000 to \$200,000+ per incident.



EMPLOYEE AND LABOR RELATIONS

With the economy still struggling out of recession, job-related issues are a flash point in labor relations. For example, EEOC received the highest number of employment discrimination charges in its 45 year history during its fiscal year ending in September 2010. EEOC statistics show a trend of increased filings and litigation since 2009, which is likely to continue. Similarly, labor relations consultant Oliver Bell predicts "more strident collective bargaining. Unions will claim they are pressing to regain/reclaim pay and benefits they conceded during the recession. Employers will not be ready yet to reverse this trend... Rules that lead to easier organizing for unions will drive up employer administrative costs 17-25%" in unionized vs. non-union environments. His prediction was made for 2012, but 2013 looks like more of the same.¹

Company management should evaluate how well their HR function is prepared to deal with such circumstances. Labor relations is a specialty within HR management. Smaller companies often do not hire labor relations specialists, but instead rely on a HR generalist to handle all personnel issues. While this may be adequate normally, it is worth considering other options—refresher courses in labor law for the HR generalist, outsourcing policy review and formation to a labor relations specialist or hiring one in.

HR-RELATED METRICS

When it comes to metrics, most companies focus their energies on financial and operational measures. Well-run companies also focus on various HR metrics that assess efficiency and effectiveness of training, recruitment and employee retention. In addition, some companies survey employees regularly to monitor employee engagement and the impact of HR initiatives and programs.

As with your operational Key Performance Indicators (KPIs), HR metrics matter because what you measure, you can improve. This area is becoming so important that there are seminars and books addressing the subject. To the right are a few examples of key HR metrics to follow.

THE HR IMPERATIVE

Effective HR is more critical than ever due to multiple economic and demographic trends. Here we focused on six (6) key HR functions. Beyond these, make sure your top management has the HR leadership to help drive bottom line results. Equally important, make sure top management supports your HR leader and function by involving them in your planning and major decision-making processes. HR leadership can help better align your HR practices and programs with your business strategies, resulting in greater profitability, better competitive performance and the positive culture your company desires.

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TRANSACTIONAL

- 1 Headcount of FTEs
- 2 Total jobs filled
- 3 Total performance appraisals completed monthly
- 4 Total training hours
- 5 Lost time days
- 6 Absenteeism
- 7 Training course evaluations

STRATEGIC

- 1 Employee turnover by performance level
- 2 Unwanted employee turnover
- 3 Average performance appraisal rating of new hires after one year
- 4 Employee satisfaction survey scores
- 5 Value-added revenue per payroll \$ expended
- 6 Impact of employee behaviors and/or contributions that can be tied back to training provided



¹ http://www.oliverbell.com/2012_Predictions.html