

Strategic Human Resources

Undeniable ROI

Alonos[®]

Phone: +1.469.573.1002

Email: Information@Alonos.com

Dallas, TX 75013



Executive Summary

Dear C-Suite: It's time to stop making excuses and start giving PEOPLE the priority they deserve. There's no other category of work that delivers the return on investment than *people*. This paper unpacks the ROI of the human resources function and provides clarity around the business imperative of getting human capital right for your business. We'll look at 5 areas that frame the business imperative for having a strategic human resources capability. These include the business impact of 1) an innovation culture, 2) leadership decision effectiveness, 3) employee engagement, 4) organizational culture, and 5) people and the cost-of-goods-sold. Human capital has a direct impact on the business. A business must have people to design, develop, market, sell, produce, service, and manage the business. AND, people are by-and-large an *appreciating* asset!

Is Innovation Important to You?

- Innovation is **new creation**.
- Innovation is **improvement**.

For our businesses to compete effectively and win customers, we need to continuously innovate. This is true for all companies in all industries and sectors. In business there really is no such thing as "staying the course," because if you adopt that view your competitors will overtake you and you'll soon be obsolete. Innovation comes from and through people. Not from financial capital. Not from systems or technology. Quite the opposite, all innovations in financial and physical capital come from people. Consider this quote from [Great Place to Work](#):

"Companies that have an 'innovation culture' generate more high-quality ideas, realize greater speed in implementation, and achieve greater agility – resulting in 5.5 times the revenue growth of peers."

I can only speak for myself I guess, but I certainly would like to see my company achieve 5.5X the revenue growth over our peers! To do this, it requires a diligent focus on creating and maintaining a culture of innovation, which has the following characteristics:

- **Organizational Readiness:** The organization as a whole must be nimble and agile, and it must be ready to change and pivot so that the company can effectively react to changes in the marketplace. This means that certain elements of culture are a must, such as: trust, collaboration, diversity, equity, inclusion, personal commitment, accountability, empowerment, and encouragement.

- **Creativity & Learning:** These two words go so well together. When we learn new things, we create new mental models. When we create new mental models, we spur ourselves forward to learn even more things. When we create and learn, we innovate. I still run across business leaders who fight the notion of training and developing their employees. Not developing your people is a going-out-of-business plan. Best-case, you'll have a department that stagnates. Worst-case, the company will stagnate. Innovation requires investment in learning, and that investment will generate creativity.
- **Effective Leadership Decision Making:** How you make decisions affects everything in your culture. It starts with role clarity around decision making. From there, the quality, speed, effort, and outcome of decision making drives your company's results. Effective decision making has the highest correlation to business performance of all the performance disciplines.
- **Market Orientation:** It is imperative to remain focused on customers and markets. We need to be in-tune with needs, wants, and desires and constantly looking to solve problems. This requires focused internal messaging to our employees. It also requires training and development, especially for early career employees, to provide the critical thinking skills, models, and frameworks to effectively process market needs.
- **Aligned Motivations & Relations:** All of the above needs to coexist in a management calendar that directionally-aligns the workforce. Skillful alignment ensures effective relations within the organization and helps everyone to find role clarity and deliver to expectations.

All five of these cultural dimensions are measured, reviewed, diagnosed, and championed by a strategic human resources function.

Effective Leadership Decision Making

Did you know that the search term "decision making" receives 50,000 searches per month in the United States? Books on decision making are some of the most popular around the world. Decision effectiveness matters.

Of all the business performance improvement disciplines, decision making is the least understood. As we've worked with organizations around the world, the difference in exposure to decision effectiveness compared to the other disciplines of organizational effectiveness are astounding. As an example, it is common to find that greater than 85% of business leaders have formal experience/exposure to a discipline such as organizational design/structure. However, with decision effectiveness, we have found that less than 5% of

business leaders have formal experience or exposure to the disciplines of decision effectiveness. This drastically low level of exposure costs our businesses a lot! High levels of decision effectiveness in a company correlates to higher financial performance, [improved culture](#), and improved employee engagement. [Some sources](#) report an 87% profitability difference between high decision effectiveness companies and everyone else. In peer reviewed journals, decision effectiveness has proven to have one of the highest correlations to performance among the performance improvement disciplines of organizational structure, process design, decision effectiveness, people, incentives, systems, and tools.

A strategic human resources team facilitates clear definition of key decisions, identifies roles, and facilitates team collaboration.

Start Solving for Employee Engagement

- Highly Engaged Workforce = **21% Greater Profitability**
- **Cost** of Disengagement - **\$550bn** in the United States alone!
- **61%** of U.S. Employee are **Burned-Out!**

[Source: Forbes](#)

That's a strong return-on-investment (ROI) for solving the employee engagement conundrum. Unfortunately, for most companies, their employee engagement surveys are woefully under-designed to effectively enable culture diagnostics. A strong strategic human resources function will implement [employee opinion tools](#) that enable organizational and cultural diagnostics, predictive analytics, and prescribe actions that generate cumulative improvements in organizational effectiveness.

Case for Culture

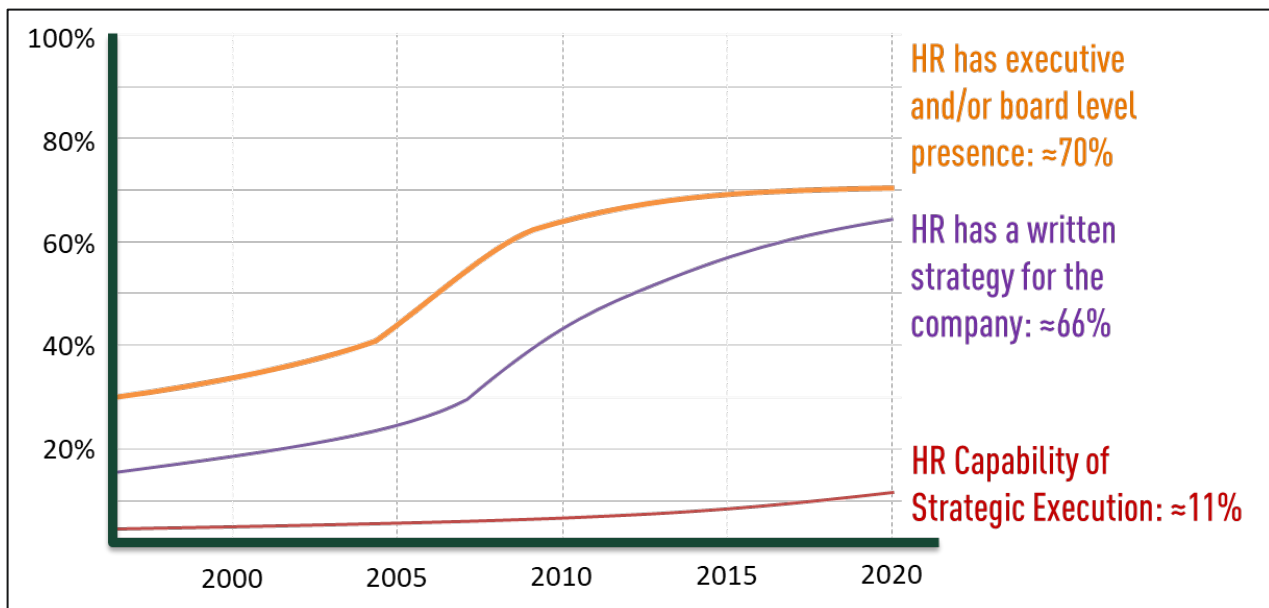
Culture is inextricably linked to all the above. Employee engagement is part of culture. Decision making is part of culture. Innovation is both a part of your culture and it's an outcome of your culture.

A positive culture can drive employee retention up to 86% and drive turnover down to 14%. This positivity in a company's culture enables the workforce to be 12% more productive than the average. Those are appealing numbers. The converse is quite scary. A negative culture can drive turnover up to 48%! It can degrade company performance by making the workforce 10% less productive. It's estimated that the gap costs U.S. businesses \$300bn per year in lost productivity. That's 1.3% of USGDP/year! When solid GDP growth year-over-year is 2-4%, a lost productivity number of -1.3% of GDP should get our attention.

A strong strategic HR function champions and sponsors a high-performing, diverse, equitable, and inclusive workplace culture.

State of the Strategic HR Function

What's the status of the strategic human resources department? There has been some good movement over the past twenty-plus years. Take a look at this figure:



Sources: [SHRM](#) & [Deloitte](#)

- Human Resources has made good progress “getting a seat at the table.” The orange plot shows that HR presence at the executive and board level has doubled, moving from 35% to 70%. That’s great progress.
- The ability of human resources departments to put in place a HR strategy, in support of their companies (purple plot,) lags behind. Today, 66% of HR departments have a formal written strategy in support of their business. It does seem to be catching up, and at that trend trajectory, one can project that it will catch up in the next 5 years.
- The last plot is one that should cause all of us **great concern**. Strategic HR capability remains abysmally low at only 11%. It has barely moved over the last twenty years.

It doesn’t surprise us that this capability gap exists. In business and education we just do not develop strategic capability in our human resources professionals. Do some searching and take a look at university curricula designed to prepare people for a career in human resources. Most programs do a good job of covering the administrative and transactional

elements of labor law, compensation, recruiting, record keeping, health benefits, etc. Few, if any, address strategic elements such as building a human capital plan that enables business strategy. Or, diagnosing culture and planning culture change to achieve high-performance. Even in the case of university-level masters programs, the situation just repeats itself. Master-level HR programs repeat the same administrative and transactional elements and completely miss the strategic importance of human capital.

This is why we partnered with one of the country's leading business schools, The [University of Texas at Dallas](#) to develop a [Strategic Human Resources program](#). This program directly addresses these skill gaps and prepares HR professionals to "KEEP their SEAT at the Table." It is our aim to make the Chief HR Officer and the Chief People Officer the default successor to the CEO role. In the famous words of Patrick Lencioni, "Not Finance. Not Strategy. Not Technology. It is **teamwork** that remains the **ultimate competitive advantage**, both because it is so powerful and so rare" [emphasis mine].

Contact Us

Our offices are based in Dallas, Texas. We operate a network of qualified consultants globally to meet your needs wherever you do business.

Email:
information@alonos.com

Phone:
+1 (469) 573.1002

About the Author

Dr. Dale J. Albrecht is Principal Consultant in Human Resources and Leadership for Alonos. He is the author of "Organizational Design *that Sticks!*" and "DECIDE to Thrive." He is also an Adjunct Professor for both the University of Texas at Dallas and Texas Woman's University.

Dr. Albrecht has fulfilled executive leadership roles in Human Resources, Consulting, and Organizational Development. He also has significant career experience in project management, engineering, technical operations, and workforce education. He has worked in several industries including retail, manufacturing, telecommunications, medical devices, construction, and Department of Defense. He has considerable experience consulting with most corporate functional areas including supply chain, engineering, software development, sales, marketing, human resources, information technology, and service/support.

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