Investing in Employees to Generate Business Returns

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Shareholders and business owners typically invest significant capital in a business, and look to maximize returns on that investment by monitoring indicators such as return on investment (ROI), return on assets (ROA), return on equity (ROE), and a host of other measures.

These indicators typically gauge investment in physical and working capital, and often miss the most impactful investment area: human capital. How does a business owner determine whether the current investment in human capital is effective? There are several methods, including evaluating recruitment and retention measures, employee engagement, and more importantly – productivity and profitability. Employers who are truly effective in aligning their human capital investments with employee needs are often called “employers of choice.” This means they are paying appropriate salaries and benefits, are profitable and growing, are attractive to current and future employees, and are able to provide a stable environment for career development.

The money invested in employees is a large part of the total rewards package offered by the organization. Total rewards refers to all incentives, including cash compensation, healthcare benefits, retirement and any other tool that employers use to attract, retain and engage employees; it is a key driver of a successful organization’s employee value proposition.

OPTIMIZING THE TOTAL REWARDS PORTFOLIO

It’s vital to know how and where total rewards dollars are invested in order to maximize the return. Often organizations are unaware of how their rewards are allocated, unsure if employees value the current offerings and uncertain if the existing rewards structure aligns with organizational needs. Without this insight, employers can face significant gaps and miss opportunities to improve return on investment. Here are some key considerations:

- **Organizational Positioning within the Industry** – It’s very important for employers to have a thorough understanding of their organization and industry. This includes knowledge about their employee value proposition, competitors and general market trends.

- **Human Resources Strategy Aligned with Organizational Goals** – The total rewards strategy should filter down from the overall organizational and human resources strategies, and be aligned with both the short-term and long-term business goals.
• **Employee Preferences** – Employee surveys and focus groups can be used to determine and highlight which rewards programs employees value. The value employees place on specific rewards will probably vary across a diverse workforce. Often, holistically assessing the alignment of all rewards with demographic needs brings to light recommendations for improved engagement across the board. For example, a defined contribution strategy on a private exchange platform such as the Gallagher Marketplace may be the right path to provide employees with flexibility and choice. This solution can also help the organization reallocate scarce labor dollars.

• **Communication** – Organizations will improve their ROI through clear, targeted communications. Aligning communication tactics with demographic preferences ensures the message is best received by employees, and will lead to enhanced understanding and engagement. For example, a pre-retiree professional and early career professional may perceive and value information differently, and planning for those varied viewpoints and needs can help an organization be seen as an employer of choice—a place where people want to work.

• **Review and Recalibration** – Just because a great total rewards program has been created for the current environment doesn’t mean it will work forever. Organizations benefit from an annual review of the programs and their alignment with overall strategy and employee preferences. If the alignment is off, then the investment in employees (total rewards) will not maximize the returns and risk mitigation (organizational results).

THE ADVANTAGES OF A TOTAL REWARDS-DRIVEN APPROACH

A strategic and holistic approach to total rewards supports these outcomes:

• **Improved Recruitment and Retention** – A competitive, fair and well-communicated total rewards program that’s aligned with the workforce will help attract and keep employees. Securing the right talent decreases employee replacement costs and helps preserve performance quality, by preventing the loss of organizational knowledge, skills and relationships.

• **Reduced Risk of Employee Discrimination** – Creating a fair rewards program that pays employees based on legal and objective factors mitigates the risk of potential employee discrimination claims.

• **Improved Labor Dollar Control** – Organizations that take this approach to total rewards will have a clear understanding of where labor dollars are going and why. This makes it easier to reallocate these precious dollars as necessary.

• **Stable and Developed Workforce** – Attaining the first three advantages will help maintain a stable workforce. This stability allows organizations time to train and develop employees and lessens their concern about retention.

A strategic approach to aligning total rewards with both your business strategy and employee needs is a smart investment in your human capital. Many organizations are missing the opportunity to measure and manage one of their most important investments—talent. Taking the time to identify and address any potential gaps within a total rewards strategy can lead to enhanced status as an employer of choice, as well as improved returns on organizational objectives.

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