The truth on how to achieve great ROHC

By Hans Steckling and Serge Roux-Levrat

Summary: Most companies claim that their people are their most important assets. Many of them do spend significant amounts of resources in trying to get the most out of their people. Yet only a few actually manage to reap a great return on their human capital. Why is this so? How can this be corrected? Five forces at work need to be leveraged to change the situation. Are we courageous enough to do it?

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In a recent article, "Making talent a strategic priority", McKinsey consultants state that the war for talent has never ended, and that, if anything, the shortage of talents remains acute. This is not surprising as all industries increasingly and rightfully rely on their human (and social) capital to win in the market place. It is people who make the ultimate difference at the end of the day, not processes, systems, products or even brands – these just give you the right to compete. A number of companies would probably not agree with this statement. Others openly claim that their human capital (HC) is the main source of their competitive advantage. The fact is that only a few companies are great at managing their HC to reap a full return.

How can this be? We must admit that this issue puzzled us for many years. We came up with many hypotheses attempting to explain this reality, but our findings proved us wrong most of the time. What enabled us to put the pieces of the puzzle together is the combination of our activities: talent sourcing and talent agenting. As talent "hunters", we see the recruiting side of managing one's human capital and of assembling top performing teams. As talent agents, we see the other key side of human capital management: retaining talents, ensuring their further growth and unlocking the collective potential of employees.

What conclusions did we reach? Five forces or factors at work prevent companies from achieving great returns on human capital (ROHC): being content with the average ROHC that they currently generate; a too pronounced hardware/hard factor/process orientation; having too many leaders who possess weak people judgement and body-language reading skills; not really knowing their talent pool, hence developing or offering inadequate leadership development programs; and not being courageous enough and sufficiently passionate to upgrade their HC and take tough decisions.

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First things first: move northeast, not horizontally. Will we ever achieve high ROHC if we are content with average ones? Strange as it may seem, many companies are happy with the average ROHC they generate. They believe that they have reached the point of diminishing returns and that further human capital management (HCM) investments will not be translated into increased performance. Very often, they have arrived at this (flawed) conclusion by underestimating the gains that they could reap and overestimating the costs involved.

Several factors contribute to perpetuating this flawed conclusion. Among them: employee surveys that render "satisfactory" results, and relying too much on benchmarking (a tool that pulls you towards average returns, not great returns).

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In order to move northeast, we need to realize that some teams - regardless of the industry they are in or the environmental situation they face - do operate at significantly higher levels of performance than others. How do they do this? First of all, statistics show that performance and the level of engagement of employees are positively correlated, and that the main factor influencing this correlation is the unit leader. Secondly, the facts amply demonstrate that HCM strategies that focus mostly on the “A players” do poorly simply because a feeling of inclusiveness and of “I matter here” must prevail in *all* employees. What does this tell us? That achieving superior ROHC is possible if one cares enough to implement consistently and patiently the right HCM strategy and culture.

Who is often a roadblock to going northeast? CEOs. Indeed, being busy with business strategies and growth programs, many cannot envision what their company’s performance would look like if they started going for great ROHC. Why is this so? We strongly believe that this is due to the fact that they haven’t themselves experienced or seen the power of going for great ROHC in the companies they have worked for.

What many CEOs – but also most business/team leaders - forget is that you first have to believe that you can attain great ROHC *before* you will see results. Unfortunately, few leaders are prepared to walk by faith on this issue, and do not realize that the longer you walk on the right HCM track, the higher your ROHC will be and the more difficult you will make it for your competitors to catch up to you.

Demanding nothing less than great ROHC is the only way to unlock the full potential of your human capital and achieve sustainability. Do not settle for average - go northeast.

Secondly, boost your ROHC by focusing simultaneously on soft factors. Ensuring that a company’s hard factors (e.g. products, systems and processes) are as effective and efficient as they should be is necessary if a company wants to win in the marketplace and reap economies of scale and scope. However, focusing predominantly or exclusively on the hard factors will not help a company achieve great ROHC. There must be a simultaneous emphasis on the soft factors. Let us give you here a simple, yet telling, example. How many “honest” discussions take place in companies? The answer may surprise you: very few, at all levels. As a result, the level of trust between employees and managers is low or average. This situation does not set the foundation for a great potential-unlocking performance.

The problem is that many HR-related systems and processes give a wrong picture of the true state of a company’s human capital. For instance, most, if not all employees, are usually integrated into a company’s annual performance review (APR) process. They set their objectives at the start of the year and have them reviewed and approved; and, at the end of the year, their managers assess as well as discuss their performance.

Most companies will happily boast that 90 percent of their employees, if not more, are successfully completing their APR process. Yet, increasing evidence suggests that a growing number of employees are dissatisfied with this process. They complain that the APR process does not give them what they really need: appreciation, recognition, honest, caring, actionable feedback, a real dialogue or coaching and so on. They feel that the primary objectives of this process is to select the “A players” from the rest, not to help the ordinary employees deliver extraordinary performance.

In many companies, APR-related activities have become a matter of routine and are done without a caring human touch. Worse still, many such activities take place via the company’s intranet, i.e. with few face-to-face interactions. Have you ever asked yourself how much quality time you spend with your team and how many honest discussions you have with them?

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What causes this unhealthy hard factor / soft factor imbalance? The answer is not as obvious as one might think. It has to do with the predominant type of managers and leaders that tend to power companies nowadays. They overwhelmingly tend to be "hard-factor" oriented and to suffer from a soft-factor deficit. Why? Because their education and early work experience often put a heavy emphasis on the development of skills and capabilities that are needed in order to excel at dealing with or managing hard factors.

Worse, as they get promoted to a managerial (or leadership) role, most executives naturally continue to rely on the main set of skills and capabilities that they mastered until now and that made them successful. Too many companies make an underlying assumption, which often turns out to be wrong: that these executives can come to master the soft-factor skills needed with some time, coaching from their own managers and attendance to a number of leadership development programs. The reality, however, is that this only works for very few. Most never get to excel at mobilizing, enthusing, engaging, and unlocking the collective potential of employees.

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To correct this unhealthy hard/soft factor imbalance, companies have no choice but to recruit and promote to key leadership positions executives who have developed both sets of skills. The longer we take to act on this issue, the lower our chances to generate great ROHC.

Thirdly, seek to strengthen the people judgement and body-reading skills of your leaders. We all know it: people decisions matter and are hard to make. And the higher we go up the corporate ladder, the more important people decisions are to our success and that of our company. How can we have any chance of consistently appointing the right person in the right job if we do not possess superior people judgement skills? Very low! Yet, an increasing body of evidence suggests that a large percentage of executives possess, not strong, but weak people judgement skills. In order to improve, we can go up to a certain level of proficiency by ourselves, but we will never reach the level that we need so as to make consistently and successfully great people decisions without further specialized education, training and coaching.

Too often, executives are blind to their weaknesses. It is also fair to say that having superior people judgement skills has never really been demanded of executives or taught in the corporate world. Many executives believe, for example, that they are great at matching people to jobs or challenges simply because they have some experience in this field. But the facts tend to suggest otherwise.

When we examine the recruitment track record of an executive, it is not unusual to find that less than 40 percent of the persons that he recruited matched the profile at hand. In many cases, candidates where shortlisted based predominantly on such hard factors as level of education attained, school attended, companies worked for, positions/functions held and so on. Little attention was paid to such soft factors as: how success was achieved, what motivates a candidate, how does he confront difficulties (does he run away or works through them), level of emotional maturity, and so on.

Worse still, our experience suggests that a fair percentage of executives are poor interviewers as they lack the body-reading skills to identify key clues that candidates send during interviews. Hence, they end up recruiting the wrong ones. What a waste of time and money!

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Where else are body-reading skills important? When it comes to communicating a key message to a person or a group. Unless the person or the group is in the right mood, our communication could be completely misunderstood. We will then have to spend many times the level of energy and time required, had we waited for a more opportune time.

Body-reading skills are also important in order to determine who genuinely is aligned with what we just said, who is not sure, but not expressing his concerns, and so on. Without such clues, our ability to influence, mobilize and engage people is considerably reduced. How can we then hope to achieve great ROHC?

Fourthly, refocus leadership development programs on the most critical levers. If leadership development programs are supposed to help managers and leaders become more effective in their leadership and ability to generate great ROHC, then most company programs do not focus enough on the right things.

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Indeed, we have already seen how hard-factor oriented most leaders tend to be and how weak their soft-factor (people judgement and body-reading skills being just two) skills tend to be. Yet, few leadership development programs help executives close the critical gaps they suffer from. Changing the curriculum can therefore deliver great results.

Nevertheless, it is important to note that the acquisition and mastery of soft skills happen best on-the-job and through coaching, not by attending classes (which works best for hard skills). This reality poses a serious problem for most companies, as the majority of their managers cannot serve as coaches. One way out is to engage external coaches competent in the soft-factor skills that need to be strengthened. Another option, which often generates the highest ROI, is to pair a number of leaders with competent talent agents who are specialized in helping successful executives master the key soft-factor skills required to achieve high ROHC. Over time, these leaders will be able to act as talent agents themselves to their direct reports, helping companies to multiply the value of their initial investment and increase the number of teams which outperform. As time passes and the investment is sustained, the ROHC will definitively move Northeast!

What danger lies ahead? Across-the-board cuts. A company should never make across-the-board cuts with its leadership development programs. Should circumstances require that some cuts be made, then those cuts should be targeted, first and foremost, to all those programs that do not support the strengthening of the soft-factor skills of executives. After all, these skills should be classified as strategic ones, and not as extras, since the company's ability to come out victoriously and timely out of a crisis is directly proportional to the strength of the soft-factor skills of its leaders.

Finally, display more courage and inject more passion to lift further your ROHC. Markets are crazy, the outlook is uncertain, risks are becoming more complex, pressure to deliver keeps increasing, the talent war is exacerbating, customers are ever more sophisticated… but the good news is that this is fertile ground for outperforming competitors. What will be required to succeed are: wisdom, courage and passion.

Of the three, courage (not to be confused with "market/business" risk taking) and passion are most often missing in executives. Yet, all the most important activities of a leader require courage. Let's take a few examples: recruiting, delegating, promoting, upgrading a team, removing a top performer that refuses to live by the company's values, fostering honest discussions, communicating, providing honest feedback, and triggering and managing healthy conflicts. All of these managerial and leadership activities entail assuming and managing some risk. And, without courage, we are incapable of taking risks.

However, without taking some risk, we stand little chance of generating great ROHC. Now, is there a way to reduce these people-related risks? The following seven key steps should help:

- Firstly, by enabling executives to take risks while the cost of an error is limited (e.g. in junior managerial positions)
- Secondly, by ensuring that executives learn the lessons once a risk has materialized
- Thirdly, by helping managers and leaders become excellent people-judgers, body-readers, conflict-managers and communicators
- Fourthly, by regularly holding honest talent-review and decision (TR&D) boards
- Fifthly, by inviting a competent external talent agent to participate in the TR&D board meetings in order to ensure the right questions are asked and also to bring true objectivity to the process
- Sixthly, by holding leaders personally responsible for the development of their direct reports in all the key strategically-defined soft-skill areas
- Finally, by rewarding those leaders who consistently make the right people decisions

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Regarding "passion", you may be wondering why it is so important to inject it into everyday activities in order to increase further the ROHC. The answer is very simple: without passion, everything becomes drier, harder and, let's face it, more boring.

Executives must passionately: care about their people, live by the company's values, lead by example, communicate, create and sustain an appropriate culture and so on. Passion helps teams overcome the everyday burden of the business life, find new energy levels, go the extra mile, etc. Passion tends to unite people around a common objective, help them move mountains and lift your ROHC to new heights!

Too many leaders are afraid of showing their passion because they believe that this would lower their credibility. However, they could not be more wrong. You can be passionate and pragmatic. Being passionate is not the same as being a dreamer. The key is to combine passion with top soft skills as well as execution capabilities.

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How many companies still believe that they can motivate their people or gain their loyalty through their compensation system (a hard factor)? How many companies still think that it is better to recruit externally than to promote people from within? Too many! How many leaders really care for their people? Too few!

CEOs and business/team leaders have to decide where they stand: Do they believe in the fact-based evidence that clearly demonstrates that a company can achieve great ROHC and act upon it, or will they continue to rely solely on hard-factor levers? One path will lead to outperformance, the other to a questionable future.