

## WHAT IS THE ROI FOR INVESTING IN YOUR BANK'S HUMAN CAPITAL?

Over the past two years *The Findley Reports* and I have written about the need to invest in the Human Capital of your bank. We have talked about how engaged employees are more productive than disengaged employees. We have shown you the costs of making the wrong hiring decision (usually 2.5 times the employee's salary in direct and indirect costs). We have written about how proper performance management should be aligned with the long term vision of the bank, and how you can achieve that. We've shown you how to be a coach, and to develop your people. And we even described how your bank can create its own Human Capital Plan.

The benefits of each of these activities have been proven again and again by the top management researchers, and have been the focus, during the past two years, on my Human Capital articles. It is through this research and our conversations with bankers and professionals that we have created Human Capital Banking. As we formally launch Human Capital Banking, I thought that a refresher on what I have been writing about the past two years would be appropriate. Most of you don't have the time or desire to go back and re-read two year's worth of articles, but if you desire to, they will soon be available at [www.HumanCapitalBanking.com](http://www.HumanCapitalBanking.com) and at [www.findley-reports.com](http://www.findley-reports.com). For the rest of you, I have decided to bring all of those benefits together in one article focusing on the ROI (return on investment) for investing in your bank's Human Capital.

Let's start with a 2004 article in the Harvard Business Review "How's *YOUR* Return of People?" While most managers claim that "people are our most important assets," they don't always act like it. Investing in people is usually one of the first things cut in tough times. So a couple of researchers decided to put some money where their mouths were. They decided to create three stock portfolios made up of only companies that spent more than twice the average on employee development. These portfolios have all dramatically outperformed the market, as the three portfolios have been producing returns 17% to 35% greater than the S&P 500. Not only were these companies outperforming the market, but they were having a higher cost base. They were outspending the market two to three, to even ten times the average cost of employee development. The return you get from employee development is significantly greater than the cost. The ROI is worth the investment in your bank's Human Capital!

### Human Capital Banking is About Developing Your Management Team and Your Employees

The Human Capital Banking process begins with helping your board and management team refine and finalize their long term vision. We will help you answer the toughest question out there: "Why do we exist?" If you think this is an easy question, then ask it during your next board or management team meeting. From our experience, no two executives have the same answer. We have seen board meetings where some members thought the bank was on the trajectory to becoming a \$1.0 billion bank, while other members wanted to remain in the \$400 million range. This kind of misalignment is more common than you think. Human Capital Banking's first step is coaching your leaders, and ensuring that you are all aligned with the vision of the bank.

Studies on the ROI of executive coaching & development programs show:

- Companies that have used professional leadership coaching for business reasons see a median return on their investment of **7 times** their initial investment. (Study commissioned by International Coaching Federation and conducted by Price, Waterhouse, Cooper & Associates.)
- **86%** of companies using leadership and executive coaching see at least 100% return on investment. (Same study by Price, Warehouse, Cooper, and Associates.)
- Leadership coaching has an average ROI of **6.8 times** the initial investment. (Study conducted by MatrixGlobal.)

- A global telecoms company identified that their coaching and development programs earned the company **5.2 times** ROI, and significant intangible benefits to the business. Additionally, the financial benefits from increased employee retention boosted the ROI to **7.8 times** initial investment. (Study conducted by Drake University professor Merrill C. Anderson.)
- In a survey of senior level executives of Fortune 1000 companies who have received development coaching, the average return from the development programs was **5.7 times** the initial investment. (Article published in the Manchester Review in 2001.)

The facts are clear. Investing in the development and alignment of your management team will pay itself back, and then some. The ROI can be quite significant. Employees take their guidance from their managers. If the manager isn't walking the talk, and fully driving the long term vision of the bank, then certainly the employees won't either. From my personal experience leading culture change programs in international organizations, I always start with getting the managers to lead by example. When the managers were personally committed to a culture of success through human capital, the employees were quick to follow. By starting with your leadership teams and managers, Human Capital Banking helps your bank take its first steps towards its vision of success.

But Human Capital Banking doesn't stop with leadership development. We will help your managers create development plans for all of your employees. Each plan will be crafted between the manager and the employee and will be suited to fit the development needs of the individual, while also meeting the development needs of the bank. Employee development should not be for the sake of development. Human Capital Banking will also help you identify the developmental gaps that are between you and your long term vision. By knowing the competencies and skills your bank will need in five years, you can start growing and hiring the right people with the desired abilities.

## **Human Capital Banking is About Aligning Employee Performance to the Bank's Vision**

One of the critical services of Human Capital Banking is helping your bank ensure its employees are aligning their goals and performance targets to the long term vision and core values of the bank. Most banks we have seen are not using a standardized performance management process, and when they are, the process does not support the long term health of the bank. The best processes ensure that employees are measured by not only on **WHAT** they have accomplished, but also by **HOW** they have accomplished it. Short term success at the cost of the bank's core values is not really success.

Research has identified the following benefits of using a performance management process aligned to the vision of the company:

- Reduces costs and waste in the organization as everybody is aligned to the same goal.
- Improves productivity of employees as they focus on the critical tasks.
- Improves employee engagement because everyone understands how they are directly contributing to the organization's strategic goals.
- Creates transparency in the achievement of goals.
- Improves management control by providing a clear process that can be adapted to the strategic direction of the business.
- Helps optimize the incentive plans towards specific strategic goals, which increases drive towards sales and growth targets.

But employee performance is not just about setting goals focused on the bank's vision. It is also about recognizing and rewarding great performance in your bank. So in addition to a clear performance management process, Human Capital Banking looks at your recognition programs and guides you in creating a rewards and recognition culture that cultivates your core values, and motivates your employees to achieving the bank's long term success.

## Hiring the Right People is Critical for the Success of Your Vision

In order to grow your bank, you will need to continuously infuse your bank with high quality talented people. Hiring the right people can make or break your bank's future. The right people will match your bank's core values and drive the bank to new success. The wrong people will cause confusion, misalignment, chaos, drama, and disengagement from the rest of the team. While it is true that you can overcome some bad hires, why not make it easier for you and your bank?

In HR studies, the common viewpoint is that a bad hire will cost the bank 2.5 times the employee's salary. Think I'm wrong? These are the potential costs for your bank if you hire the wrong manager for one year with an average salary of \$100,000:

Salary Costs = \$100,000 (This is a sunk cost. You paid \$100,000 but got little benefit from the money.)

Direct Costs = \$95,000

- Advertising for the replacement = \$5,000
- Search fees from a professional recruiter = \$33,000 (usually 1/3<sup>rd</sup> of starting salary if the candidate/new hire stays three months)
- Candidate travel = \$200
- Lost Productivity = \$30,000
- Legal fees = \$15,000
- Severance fees = \$8,000
- Training of the new candidate = \$4,000

Indirect Costs

- Lost productivity due to an open position
- Lost productivity due to onboarding process
- Opportunity cost of missed business or opportunities
- Customer relationships may have been damaged
- Time of the manager in recruiting / interviewing the candidates
- Morale of the employees who worked under the bad manager
- Retention issues of talented employees who did not want to work under the bad manager

The salary and direct costs of \$195,000 are easy to calculate. Adding in the more difficult to calculate indirect costs that impact the bank for the wrong hires can be quite significant. Hiring the wrong manager or the wrong employee can set your bank in a hole that is difficult to dig out of. Human Capital Banking will help you by tailoring some of the best in class selection techniques to your bank's specific core values and vision. The next time you hire someone, you will be able to be certain that this new employee matches the values of your bank and will help build your bank's legacy.

## Human Capital Banking is All About Alignment

All of the different components of the Human Capital Banking portfolio have their own benefits to your bank, and, in truth, your bank may already be doing one or a few of them. But the true value of your Human Capital Plan does not come from the components, but from the entire whole. Using a "top of the line" performance management system is great, but if it doesn't drive the bank's vision, it isn't that impactful. Using the best practices to hire candidates is good, but it is a waste if you are not hiring someone that matches the bank's core values. The unique offering of Human Capital Banking is that it aligns all the different steps in the employee life cycle to meet the strategic vision of the bank.

This month we are pleased to announce the creation of Human Capital Banking through the joint venture between *The Findley Companies* and **Young & Associates**. Through this venture, Human Capital Banking is able to align all of its offerings with the rest of the group's services and offerings, because it doesn't just end with Human Capital. We are here to make sure all the different aspects of your bank are aligned to your vision. Both *The Findley Companies* and *Young & Associates* have been around for decades, focused on meeting the needs of community banks and assisting them in achieving true and consistent "*Premier Performance.*" We are here to make sure that your bank is perfectly aligned when it comes to your vision, your strategy, your people, your relationship with the regulators, your products and offerings, your corporate structure, and your financial standing. Over the next few months, Gary Findley, through the *Directors' Compass* will be exploring what differentiates an exceptional bank from a normal bank, and he will show you how alignment across all the components and relationships in a bank are critical for success.

Human Capital Banking is worth the investment because the ROI is achievable and sustainable. As we look to this next decade, banks that truly want to be exceptional in the future need to make the right investments today. At Human Capital Banking we believe that future success will be won or lost by your investments in ensuring the quality of your people. Human Capital Banking can be your partner in your journey to hire, develop, and manage a top tier banking organization, and, with us as a partner, you will see your ROI!

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