

Spring, 2007
Volume 10
Valuing Human Capital

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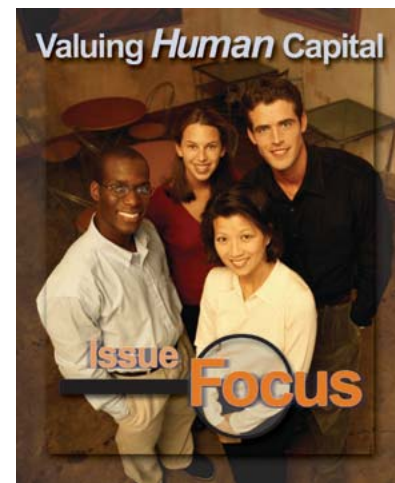
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Looking Beyond the Numbers ... Valuing Human Resources (People) Starts With De-Valuing Money

BY GREG RICHARDSON, SPHR, MA-HRD

This article has one simple goal: Accept the demonstrable fact that until we (yes, probably you and I) focus more on human resources, organizations have little chance of achieving a workplace that truly capitalizes on its people talent. Most of us can agree that the primary goal of business is to make money. I would not dispute that, but simply point out the positive impact of emphasizing the human element more in our business strategies. "No," you say, "we really do value our people." The answer is, "of course you do" ... but more than the money that they produce? It is fairly obvious that money is our primary focus. Just observe virtually any business meeting, organizational planning or assessment of productivity. By calculating the percentage of time or emphasis that is placed on money (a result) and not on people (the producers of money), you might be shocked.



In organizations across America, the Human Resource function is far more passive and reactive than leading the charge as the guardians of the only resource with the power to shape and use the other resources. We hear it every day: "If our IT [Technology Resources] goes down, we're dead!" or "If we don't get that contract [Financial Resources] we may not survive!" You just have to smile when you analyze the significance of these perceived ruinations. Who in the world *created* and *used* the IT? People did. Who submitted that contract or will fulfill it? People will. Who crafted a solution for any problem we faced? *People!* Who will overcome virtually *all* organizational catastrophes: *The People!!*

Why is there so much emphasis on the non-air breathing "resources" versus people? Just a hunch, and you are welcome to your theory as well, but mine is all about trust. Yes, trust. We seem to have more trust in inanimate objects than people because most often what you see is what you get - not so with people. On any given day do we really "trust" that every person will come through as expected? A historical review of

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Developing Effective Human Resource Metrics

BY STUART LEINENBACH, SPHR, CMS

Achieving financial goals that promote continued success and growth depend on each functional area of an organization adding value to the business. For those in human resources, the questions revolve around how effectively the HR function is contributing to the implementation of the organization's overall strategy and maximizing its human capital. Traditionally, HR areas such as recruitment and selection, employee retention, employee development, employee safety, absenteeism and employee attitudes that have a direct economic impact on an organization have been the foundation for measuring the HR function.

An effective measurement system can assist in:

- Determining how well an organization is achieving its mission
- Communicating results
- Promoting accountability
- Improving the decision making process
- Focusing efforts in areas determined to be significant
- Understanding how well an organization is utilizing its human capital

Not only is it important that information be quantified, it is also critical that it be presented in the language of business, i.e. numbers. In developing an effective measurement process, a systematic approach should be followed. Consider the following step-by-step approach:

Step 1: Identify your business goals. Determine what needs to be measured since collecting and compiling information takes a significant amount of time and effort. Allocate resources to compiling the information that will have the greatest impact.

Step 2: Identify the functions that have a direct relationship or impact on the business goals. The performance of HR needs to be incorporated into the larger system that reflects the strategy and implementation processes of the organization, such as in a Balance Scorecard approach, for example.

Step 3: Determine ownership. Key to the success of any measurement process is establishing who is responsible for the functions that are to be measured. Also, it is critical that the identified owner have meaningful control over the resources and processes. Without ownership and meaningful control, there can be no accountability.

Step 4: Determine outcomes. Specify what end results are expected, thereby providing a rule or measure of success.

Step 5: Identify the activities, actions or processes required to achieve the end result. This stage of the process requires the development of specific actions and plans to achieve the overall goal.

Step 6: Identify the sources of information and build reports. Determine the best sources for informative and meaningful data collection. Develop a quick, reliable and repeatable method to synthesize the collected data into easily understandable reports. The process should be one that is easily replicated so that management can obtain the necessary information to respond to changes quickly and effectively.

With effective metrics in place, management decisions can be based on data and results, assisting management in answering questions such as: How should I allocate resources? Did I make the correct decision? What should we do next? □

Measuring Performance—Establishing Accountability

BY PAUL C. SCHMIDT

Your approach to your work is generally organized and orderly. Clear goals must be set and communicated to your staff and workers; but how do you know whether the goals are being achieved? What type of measurement systems exist that can give you confidence that everyone is working toward the same objectives?

We can manage only that which we can measure. We must be able to quantify the contribution that our collective efforts have made, or will make, toward the desired objectives. Many of our best attempts fall short of measuring real outcomes, because it has become common to focus more closely on activity and effort rather than on actual results. Although effort is commendable, what value is it unless it contributes toward the desired and defined result?

The Balanced Scorecard

Effectively managed businesses and organizations have several strategic areas they are working to improve. They are usually linked to far-reaching, high-end goals that define the future of the company. Usually, these strategic areas fall into categories such as:

- Profit Potential
- Process Proficiency
- People Preparation
- Product/Service Presentation

Some organizations may have initiatives that require a special category, but these customary groupings are critical to the success of virtually every business or organization.

We Treasure What We Measure

Many of the leadership and management systems that were embraced and applied during the 1970's and 80's, although implemented with honorable intentions, contributed toward a lack of effective measurement. In businesses and organizations throughout the country and the world, initiatives were launched with the objective of building teamwork and collaboration. These efforts were often successful in accomplishing this, but people got bogged down in busy work by participating in endless meetings and completing lengthy reports that were never read. While many businesses and organizations developed creativity and innovation, they fell short on implementation. The result was mass layoffs at several junctures during the past 30, years while these organizations got back to the basics — focusing on results and the integral actions that contribute to the desired outcome.

The foundations of many of these previously popular leadership systems are good. They involve developing people, establishing a customer focus and defining consistent processes and systems. However, if people are being measured by which or how many meetings they attend, or how much their report weighs, they will respond accordingly.

Therefore, the measurement systems should be designed to indicate the level of contribution toward the company's profits and goals.

Establishing Meaningful Measurement

Having the ability to develop effective measurement systems presumes that specific and measurable goals based on an overall company direction have already been established. If they have not, the best attempts at measuring productivity and throughput will fall short of inspiring maximum performance. The measures define the finish line and milestones along the way. It is difficult to tell if you are on the right track if the race has not been charted. Yogi Berra once said, "If you don't know where you are going, any road will get you there."

Once the foundation has been established, you can set up the proper measurement systems that will indicate progress toward your organization's goals by using a worksheet that can be specifically designed for this purpose. Adapt the measures, categories or periodicity to your areas of concern. Some of the indicators may have an element of subjectivity to them, but the benefits that you will experience from your focus on achievement of results cannot be overstated. Even so, these indicators should be as quantifiable as possible.

Avoid trying to measure too many elements of any particular goal. Doing so gives people the impression that you are micro managing, and you will fall back into the "activity without outcome" trap. Instead, encourage each person, group, or tier within your organization to establish the measures pertinent to the realistic contribution potential at that level. This drives decision-making to the point of action, and you will find that most people will place greater challenges on themselves than their leaders will. In fact, it might be necessary to scale back their expectations to realistic levels. Setting standards so high that they can never be reached is an exercise in futility, and can diminish the energy level of your people.

Conversely, be careful not to set the standards too low. Goals that require employees to stretch — with a reward system for achievement — can do wonders for profitability. If you and your employees meet every goal you set, you probably are not challenging yourself to the full level of your potential. Some people will need your encouragement and help to establish meaningful thresholds and develop strategies for achievement.

The Need to Lead

Leading by example is an excellent way to drive home this philosophy of measuring achievement. Too often, leaders believe that these progressive techniques are good for their subordinates, but they sometimes think that they need not subject themselves to such tactics. This shows a lack of discipline and only a fractional commitment to the objectives of the organization. A leader's failure to adhere to his or her own spoken standards will make people feel as though they have been set up, used and abandoned.

On the flip side, leaders who make it known that they are holding themselves to the same principles to which others are being held exhibit the kind of consistency and integrity that people find inspiring. This creates a willingness — even an eagerness — for people to participate in this drive for results. You can use this enthusiasm to your advantage, and propel both your organization and your people toward excellence. This represents a significant accountability challenge.

Achievement is electrifying and energizing. Ambitious people seek it, and they have a strong need to know when they are progressing toward the desired objectives. Providing an atmosphere that encourages it — by measurement and by example — offers the nurturing kind of leadership that people find appealing. Giving people something to strive for — and a system that tells them when they have achieved their goals — imparts the type of environment that fosters fulfillment. If you can successfully do this, you will find that people will be loyal, courageous, creative, content and of course productive. Providing targets for achievement and measuring progress toward these targets generates energy, the kind of energy that you most likely want to build in your organization and work group.

Give It All You Have Got!

Start working on your Balanced Scorecard today, and create an environment in which your people can be fulfilled.

1. Record the goals of your position or work center.
2. Determine which of the critical area/s is/are served by achievement of each goal.
3. Establish a statement of expectation for each goal — state how achievement will enhance the organization's capabilities in the critical area(s) to which it applies.
4. Apply a measurement period for each goal and a level of progress that will be achieved at each milestone.

By employing valid measurement systems to individual and organizational goals, you will prepare yourself, your team and your organization to achieve excellence. Should anything less be expected of you? Do you expect anything less of your people? □

About the Guest Author:

Paul C. Schmidt, Director of Management Consulting Services for Goodman & Company has assisted public and private sector clients for over 20 years in areas such as strategic planning, operations review, purchasing and inventory controls, compensation studies and meeting/retreat facilitation. Many organizations have relied on his services to develop breakthrough work processes, as well as facilitate the development of their strategic business plans. In addition, he is a certified facilitator and has presented such courses as "Conflict Resolution" and "Win-Win Negotiating". He has also provided professional development and mentoring for a significant number of individuals. Mr. Schmidt serves clients from all of the Goodman office locations and can be reached at 757.624.5155.

Strategic Human Resource Management

BY LORIANN PENMAN, MBA, SPHR

In recent years, the role of the Human Resources Department within an organization has been expanding. Gone are the days of the “Personnel Department” that acted only as an administrator of benefits and the gate-keeper of employee files. Although these tasks remain a function of human resources, the new model has a much more pivotal role in the organization. Today’s HR professional is a business partner and strategist, someone who is an integral part of the management team, helping make the corporate vision a reality. Many people within the HR profession are aware of these changes and are enthusiastic to contribute to the bigger picture. However, the challenge is in making others within the organization (executive management and employees alike) aware of the significant contribution human resources can make in orchestrating the success of a company’s many goals and achieving its vision.

A 1995 study published in the *Academy of Management Journal* was one of the first that linked company performance to strategic human resource management. The study showed the positive effects of having strong human capital management systems in place not only in short- and long-term economic goals (i.e. financial), but also at the employee level of staffing, turn-over and productivity. Since human resources is the go-to department for hiring, termination, training and employment compliance, it seems logical that this same resource would be included as a partner in strategic management. This paradigm shift is gaining acceptance and acknowledgement by many executives; however, where walls still exist, a more direct approach should be considered by those desiring change.

One suggestion to accomplish a more strategic position within an organization is to work with a mentor, someone from inside or outside the organization (e.g. an association member, a departmental head, a college professor, etc.). Learning from someone else’s experiences will help to see the path more clearly. In addition, having access to first-hand knowledge and advice will be a guiding force through the process.

A second action item to consider is to become more visible and involved in the day-to-day operations of the organization. One of the reasons that HR is still viewed as purely administrative is that the HR staff is usually found working diligently at their desks, behind their computers. If possible, consider working in some of the other departments. Get to know those jobs first hand, understand what is working well and identify areas for improvement. This hands-on knowledge will not only provide a valuable perspective, but also confidence when making recommendations to corporate officers and/or board members.

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The Value of Human Capital

BY JAN WALTERS, MBA, PHR

Ask any business owner or top executive what their company’s most valuable asset is and chances are he or she will look past the physical fixed assets or the net operating income and point at the people that make up the organization. Even at the smallest companies, the drive, determination and successes are fueled by the human elements making up the workforce. This “human capital” is what determines a company’s ability to meet its goals and be successful. As top performing companies realize this and see the value of their human capital, more and more are focusing on how to strengthen and develop it.

Let us take a moment to clarify what is meant by the term, “human capital.” In essence, human capital is the combination of all the education, knowledge, experience, skills, motivation, and potential that make up the *people* in an organization. As a key revenue driver in today’s service oriented economy, human capital is arguably the most valuable asset of an organization. As with any high value asset, attention should be paid to maximizing and maintaining its potential.

In this new economy, people, not machines and equipment, are considered the foundation of a company’s competitive advantage. Just as organizations invest in physical assets, companies today realize the need to invest in their employees as well. Some studies suggest that up to 70% of an organization’s expenses are related to human capital, and top performing companies experience a greater return on investment (ROI) when financial resources are invested in human capital.

In order to develop programs that cultivate and develop human capital, companies must rely heavily on the Human Resource function. As “managers” of the company’s investment in its workforce, HR decides where to allocate funds and chooses areas for concentration, keeping in mind the primary goals of optimizing talent and gaining a significant return on the company’s investment. By developing sound, highly-involved human resource management programs that directly contribute to the bottom line, these goals can be achieved. Highlighted below are some of the most influential programs that have been effective in providing a high ROI for many organizations:

- **Recruiting and selection:** Building a talented workforce starts with recruiting and selection. After all, good employees do not simply materialize. Marketing and branding your organization and developing a strong recruiting program will help attract top talent and ensure that sound hiring decisions are made.

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Strategic Human Resource Management

Lastly, learn and understand the corporate mission. Although much time and energy is spent developing the mission and vision statements, how many people, other than the C-level executives (CEO, CFO, CIO) really understand and internalize them? By realizing *why* the company exists, *what* sets it apart from others in the industry and knowing *how* it plans to accomplish its goals, the human resource manager can start to align his or her departmental goals with this larger vision.

These are just a few of the many possibilities that will help position the Human Resource function as a strategic partner within the management team. As with most organizational change, to be successful and seamless, buy-in from other team members is crucial. By developing a clearly planned path with measurable results, acceptance will be gained and strategic human resources will soon be an indispensable commodity. □

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The Value of Human Capital

- **Compensation and benefits:** A strong compensation and benefits program attracts people to your organization and helps retain them. Developing a solid compensation program that ties individual performance and rewards to organizational goals has proven to be effective in top performing companies.
- **Training and development:** The investment in these programs directly relates to production levels. Remember, knowledge is expandable and transferable. When employees are given opportunities to participate in continuing education and other work related training courses, they will internalize and utilize this new-found skill or knowledge. Furthermore, establishing progressive development plans for employees increases motivation, goal orientation and retention.

Top performing organizations realize the value and potential of their human capital. By nurturing and developing their employees, they show that people are one of their most valuable assets and continue to benefit from this investment. Not only are gains recognized in the ROI, but also a more intangible benefit is realized. Taking care of human capital contributes to a positive working environment where employees want to remain, being productive and adding value to the organization. □

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Looking Beyond the Numbers ...

people-related disappointments, disloyalty, irresponsibility, over emotionalism, incompetency, hidden agendas, etc., could easily uncover at least part of the mystery. We “value” people, but all too often for any number of reasons, they are not present and accounted for, so our faith in them erodes. Meanwhile, our trusty computer patiently awaits the caress of our initiating index finger and all those dollars, desks and chairs sit poised for someone to engage them.

So what is the point exactly? Let me leave you with a couple of themes to try balancing competing elements better in tomorrow’s workplace, and they all have about equal value:

1. Evaluate our love affair with money.
2. Shift the weighted focus (and support) to Human Resources as the basis for virtually all organizational success.
3. Work diligently using every available technique to methodically surround yourself with employees prepared to “be present” and make a difference.
4. Grow and develop people (invest) with training, work assignments, challenges, feedback, coaching and any other method of development.
5. Make sure that every person knows how much they matter and acknowledge their contributions in every way imaginable.
6. Provide exit opportunities for those folks who simply are not compatible with your organization or their role and avoid a poisonous culture from developing.
7. Expect and empower each person to be the “Consummate Professional” and reap the rewards.

Hopefully, these few thoughts might prompt a subtle, but important, shift in how we view people (our Human Resources) in the workforce before, not after, we focus on the money. □

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Alan D. Luba, SPHR / Director, HR Management Consulting



Alan brings over 26 years of experience in the Human Resources field as both an HR management executive and private consultant. Specializing in HR compliance as well as compensation and performance system design implementation, he is a graduate of The American University and certified as a Senior Professional in Human Resources. His extensive consulting experience includes government contracting, not-for-profits, healthcare, retail, financial and engineering firms. Alan is an active member of the national and Northern Virginia chapter of the Society for Human Resource Management (SHRM).

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LoriAnn specializes in recruiting accounting and financial professionals for clients. LoriAnn started her career in sales and personnel recruiting and spent ten years as a corporate accountant and Controller. Her industry experience includes financial services, real estate, staffing and public accounting. In addition to her accounting expertise, LoriAnn has extensive knowledge of human resources, software training, and business process engineering. She holds a Bachelor of Arts from SUNY Geneseo and a Master of Business Administration from Averett University and her SPHR certification.

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Franchaun is a diversified HR professional with over 20 years experience in all facets of human resources including recruiting, employee relations, strategic planning, employee benefit planning administration, compensation, training and development and regulatory compliance issues. Most recently, she has served as an HR Director and Senior Technical Recruiter for several major government contractors in the Metropolitan D.C. area. Franchaun is a member of the Society of Human Resource Management and is pursuing the Professional in Human Resources (PHR) certification.

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Greg directs the Human Resource Services Division and spearheads client support capabilities designed to optimize human performance in the workplace. He routinely conducts training and development sessions that focus on team-driven collaboration and integrating diverse workstyles. Most recently, he was a contributing author to the books, *Leadership Strategies that Work* and *Mission Possible*.

Greg is known for the advancement of leadership development for managers and supervisors, facilitation of executive retreats and coaching programs. In addition, Greg is a trained career coach and has provided individual and group outplacement (transition) support to over 1,000 people from staff to senior executives. He is certified as a Senior Professional in Human Resources, has a second Masters Degree in Human Resource Development from The George Washington University, and has been a professional member of the National Speakers Association (NSA) since 1995.

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Stuart is an experienced HR executive with an extensive background in the management of human resources and organizational development, noted for his expertise in succession planning strategies, designing and delivering leadership development and training programs, employee performance, total rewards programs, strategic planning, change management, and conflict resolution. Stu is certified as a Senior Professional in Human Resources (SPHR) and a Compensation Management Specialist (CMS). He holds a

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Jennifer S. Biel, PHR / Recruiter and HR Coordinator



Jennifer has over five years of experience in Human Resources and Marketing. She is rapidly becoming an accomplished recruiter. Previous to joining Goodman & Company, Jennifer was the Human Resources and Payroll Administrator for a five-star vacation resort. Her areas of expertise include benefits, payroll processing, recruiting, workers' compensation and unemployment proceedings. Jennifer graduated from Christopher Newport University with a Bachelor's degree in Business Administration with a concentration in Marketing and has earned her PHR certification.

Jan Walters, PHR / Recruiter and HR Coordinator



Prior to joining GoodCo Jan was an HR Coordinator for the largest privately owned real estate company in the country, specializing in human resource information and payroll systems. Jan completed nearly 50 retained searches her first year. A graduate of California State University with a degree in Business Administration with an emphasis in Human Resources, she has earned both the Professional in Human Resources (PHR) designation and certification as an Abra Software Trainer. Jan completed her Masters in Business Administration.



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