Where We Are Spending Corporate Money vs. Where We Should be

No matter how financially successful a company may be, smart leaders know how to spend funds wisely, efficiently, and effectively. Yet, so many organisations squander their budgets with little or no reward when it comes to hiring and retaining the best talent.

Companies worldwide continue to struggle with the problem of employee engagement and retention. An article in the Harvard Business Review[1] cites a survey, that analysed responses from 200,000 employees across 40 companies in 60 countries. The research foundunsettling results: Employees with the deepest knowledge of the company typically are the least engaged, and highly engaged senior executives are likely to underestimate the discontent on the front lines.

With that unhappy finding, one wonders what employers are spending money on – at least those organisations that strive to address employee disengagement? Budgets traditionally go toward training, benefits, rewards, and other typical components of an employee package.

For example, US training expenditures—including payroll and spending on external products and services—took an upward trajectory, soaring 14.2% to US$70.6 billion[2]. Beneficiaries of various training programmes included executives (10%), managers/exempt (22%), non-managers/exempt (32%), and non-exempt employees (39%). The cost for training can be high, according to HR Factbook 2015: Benchmarks and Trends for U.S. Organizations": Mature human resources organisations – integrated into the business – spend US$4,434 per employee on average, compared with just US$2,112 among those at the lowest level of maturity[3].

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In addition, global employers spend, on average, 31% of employee salary. Unfortunately, in spite of this hefty outlay, well-meaning benefits are often misdirected, as illustrated by the following statistics[4]:

- While nearly 90% of employers view attracting talent and improving engagement as their top objectives when offering employee benefits, only 7% of global human resources professionals consistently deliver against their benefits plan objectives.
- Nearly half (46%) do not use analytics when devising and managing their benefits strategies.
- Human resources teams struggle to make communications relevant to a globally diverse employee base, but often fail to make their messaging personal enough to resonate with their target audience. The proof? Over 60% of employees are dissatisfied with their benefit plans.
- Almost 70% of employees in global organisations want benefits around key life stages, but only 46% of employers use this opportunity to engage with their workforce.

Overall, companies spend over US$720 million each year on employee engagement, a figure that is projected to rise to over US$1.5 billion. Once again, despite the huge outflow of funds, employee engagement is at record lows — 13% according to Gallup[5].

The Need for a Different Accounting System

To get a better handle on the success of company strategies, an article in the McKinsey Quarterly suggested a forward-looking alterative[6]. “Companies focus far too much on measuring returns on invested capital (ROIC) rather than on measuring the contributions made by their talented people. The vast majority of companies still gauge their performance using systems … based on metrics that don’t take sufficient notice of the real engines of wealth creation today: the knowledge, relationships, reputations, and other intangibles created by talented people and represented by investments in such activities as R&D, marketing, and training.”

An analysis of industry averages, in the following chart, provides an interesting perspective on revenue per employee[7]. Oil and gas companies make at least twice as much revenue per employee than other sectors, while healthcare and utilities companies also have high ratios. A possible explanation involves the cost of doing business. Oil and gas companies spend billions of dollars on capital expenditures to build and maintain plants and rigs, while paying extra taxes and royalties. Healthcare companies spend a lot on R&D to stay competitive, while utilities maintain vast amounts of infrastructure. These sectors generally hire specialised employees and pay higher salaries for such expertise and knowledge.

Rank	Sector	Avg. Revenue Per Employee (US$)
#1	Energy	$1.79 million
#2	Healthcare	$0.89 million
#3	Utilities	$0.81 million
#4	Consumer Staples	$0.70 million
#5	Financials	$0.65 million
#6	Telecommunications	$0.61 million
#7	Materials	$0.60 million
#8	Tech	$0.48 million
#9	Consumer Discretionary	$0.42 million
#10	Industrials	$0.32 million

What, Then, Should Companies Spend Their Money On?

The answer lies not so much on implementing costly HR programmes or purchasing expensive tools, but in taking practical, common sense steps. Whether or not corporate funds are abundant, leadership should recognise the urgency to allocate resources in ways that will garner the most profitable results in terms of revenue, shareholder satisfaction, and employee engagement. Throwing money at

traditional human resources systems and approaches that have been proven to fail (or, succeed only minimally) is not the answer to ensuring alignment of employees with corporate strategies.

A key ingredient of success is getting to know your workforce. If you understand the needs and desires of your employees deeply, in conjunction with company goals, the result will prove beneficial to all parties. Listening, interacting, and responding – essentially, communicating – represent the commonsense approach to determining how best to engage lackluster employees.

About the Author: Ali Kursun is a Senior Consultant at sparkChief & Co., a consulting firm that helps organisations to engage, develop and retain only the right people to grow their business.

[1] Rob Markey, "The Four Secrets to Employee Engagement," Harvard Business Review (January27, 2014), citing a survey by Bain & Company, in conjunction with Netsurvey.

[2] 2015 Training Industry Report, cited in Training Magazine (November-December 2015).

[3] Press release "US HR Organizations Spending Increases, Following a Rise in Employee Turnover" (January 14, 2015).

[4] Stephen Miller, "Missing the Mark: Employees Don't Appreciate Benefits Spending," SHRM.org (October 3, 2016), citing Thomson's Online Benefits report, Global Employee Benefits Watch 2016/17.

[5] Cited by Susan LaMotte, "Employee Engagement Depends on What Happens Outside of the Office," Harvard Business Review (January 13, 2015).

[6] Lowell Bryan, "The New Metrics of Corporate Performance Profit per Employee,"McKinsey Quarterly (February 2007).

[7] Jeff Desjardins, visualcapitalist.com (June 15, 2017).

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