



Making the Connection Between Human Capital Management and Operational Performance

Prioritise people. Many manufacturers don't make the connection between human capital management and operational performance. And, it's costing them. Companies need to act now to get to the root causes of operational misses and put solutions in place to ensure a productive, profitable 2021.

Key Takeaways:

- Operational performance misses are often directly tied to human capital management problems including turnover, absenteeism, and lack of leadership. But many companies overlook this link.
- Creating KPIs and measuring human capital tasks tied to performance are critical first steps in improving operational performance.
- Winning in 2021 will ultimately require stronger human capital management processes including acquisition and retention procedures that help build a culture of operational excellence.
- Now is the time to begin unwinding pandemic-era policies and start the return to normal operating procedures and policies.

12/03/20 | Shannon Gabriel

The right people, in the right places, can help make the operational performance problems of 2020 a thing of the past

If one thing is consistent among the manufacturers we talk to, no one wants to see a repeat of 2020 in 2021. Yet, getting to the root causes of this year's operational problems and making the necessary changes isn't always a clear path. Even before the pandemic, hitting operational performance goals—including productivity, OEE, and throughput—had become increasingly difficult at many companies. And, the inability to find and retain top talent at all levels of operations is a big reason why.

While it's easy to point to operational misses—those numbers are typically tracked—it's harder to draw the line to the root causes for those misses, especially when the problem comes down to people. Companies struggling with daily absenteeism and lack of leadership on the production floor are likely to see some combination of productivity, quality, scrap, and/or rework issues show up sooner than later. But manufacturers often fail to directly connect these issues to their human capital issues, and they don't realise exactly or just how much people problems are undermining performance.

This is costing your organisation good people and good money. Here's how you can change that now.

4 Ways to Improve Human Capital Management –and Operations Performance—Fast

1. Take stock of your people problem
2. Connect the dots between human capital management and operations performance
3. Prioritise onboarding and training
4. Get back to business as usual

1. Take stock of your people problem

New automation technologies notwithstanding, people at all levels—from the shop floor to the top floor—are the heart of middle market manufacturing operations and will continue to be so for some time. They are the key

to successful operational improvement programs and creating a competitive advantage. Ultimately, people are more closely tied to operational excellence and reaching factory-floor goals than perhaps any other element of your business.

Unfortunately, many manufacturers struggle to find and keep good people. While COVID-19 isn't responsible for creating today's human capital issues, it hasn't improved the situation either. Rather, it's shining a spotlight on weaknesses, exacerbating many of the issues that were already there, and negatively impacting productivity to a significant degree.

If nothing else, operations and HR leaders together need to have an open and honest conversation about the 'state of the union' and talk through the people-related issues that may be plaguing the company right now.

Human Capital Issues Affecting Operational Performance



Absenteeism

Absenteeism is a good place to start, especially if your business has adjusted attendance policies to suspend point systems or make them more liberal to allow for quarantining and COVID testing. While necessary, the lax policies have opened the door to abuse within many organisations. On some shop floors, absenteeism has become a daily struggle, making it impossible to consistently hit operational goals.



Remote working

If you've had gaps in your operational leadership team for a while now, you're probably feeling the pain with increased acuity if the leaders you do have in place aren't physically in place. Again, remote working is necessary in many cases. But it's not doing shop floor morale or productivity any favors. When leaders miss face time and regular interaction with managers and employees, knowledge transfer often comes to a halt. Whether formal or informal, the coaching and mentoring that used to happen on the lines isn't happening at all, or it isn't as effective in a virtual format. It's hurting performance and stalling cultivation of your talent pipeline.



Lack of candidates

If your business, like many, was hoping that the increase in unemployment would bring an influx of highly qualified candidates to your door to help with absenteeism or with filling vacant leadership roles, it's probably time to accept that this isn't likely to happen. Middle market manufacturers just aren't finding the leadership or the experienced talent they need on the unemployment lines. They aren't having a lot of luck coaxing it from other organisations, either. The reality is, best-in-class leaders, if they are let go at all, are usually snapped up quickly. And, given the uncertainty that persists, many employees prefer to stay where they have tenure and credibility than to start over at something new.

2. Connect the dots between human capital management and operations performance

Taking the time to assess human capital issues in your business is a great first step. Now it's time to understand the impact and reach of these problems.

Use diagnostics to dig into how human capital issues may be directly and negatively impacting the shop floor and operational performance.

If you are not already, start tracking and measuring human capital metrics so you can put real numbers to the human capital issues. When you have data and meaningful measurements, you can better define what good looks like and build out KPIs across the entire plant (Exhibit 1). You can then use analytics and technology to identify correlations between human capital and operational misses and accurately diagnose the root causes of your performance problems.

EXHIBIT 1:

3 Human Capital Metrics Every Manufacturer Needs to Track

You can't improve what you don't measure. Start keeping track of the following information to establish your baseline and set your improvement targets.

1. **Measure absenteeism by stakeholder, department, line, and shift**
2. **Identify attrition rates by department, line, and shift**
3. **Measure retention by leader and department**

Running Kaizen events is another extremely effective tool for understanding what, exactly, is contributing to your people problems. We recently helped a client conduct such an event to find an explanation for its high turnover. By closely analysing hiring, onboarding, and training processes, we identified several critical improvements to the hiring process that will help the company do a better job of vetting candidates while giving potential hires a clearer picture of job requirements and performance expectations. By adopting a more stringent selection process, the company is putting an end to its revolving door, improving its culture, and positioning itself to meet production targets consistently in the upcoming year.

3. Prioritise onboarding and training

When manufacturers start investigating what's happening on the people side of their businesses, more often than not, onboarding and training emerge as weak links. These programs were one of the biggest causalities of the pandemic. But in many organisations, they were lacking even before COVID-19 came along.

We work with one manufacturer that had grown its first facility very organically with a lot of success. The company was blessed with many long-term employees and new hires were often brought in via family and friends. When the business opened a second plant in a different location, however, the lack of formalised training and onboarding processes soon became an obvious problem, leading to productivity, delivery, and quality issues.

In other organisations, we've seen a lack of onboarding and training create a revolving door, leading to cultural and reputational problems. To make sure the people you put in place stay in place and that they have the knowledge they need to do their jobs and hit their goals, formalised training and onboarding processes, along with KPIs for staying accountable and on track, are all musts. While social distancing might mean you have to tweak or rethink the ways in which these processes play out, the current crisis can't be an excuse for letting these critical procedures fall by the wayside.

We're currently working with several clients to help make onboarding and training more successful in the COVID era. This includes recording videos so candidates can get a better sense of the environment and see specific tasks they will be expected to perform before they sign on. We're doing plant tours remotely. We're even seeing some companies embrace cutting edge [visioning technologies](#) for training purposes. When all else fails, companies that want their employees to succeed, put on masks and gloves, wash their hands, and get their people trained.

4. Get back to business as usual as much as you can

No one knows for sure how long COVID-19 will stick around or how long stringent safety precautions will be necessary. Still, 2021 can be an opportunity to reset your standards, transition out of the survival mode you may have been operating in for the past six or seven months, and get back to a winning mentality.

Good employee communications will be essential as you make changes and return to operating procedures that were in place at the beginning of this year. Your team needs to understand the whys, whats, and hows involved in your return to normal policies (Exhibit 2). Sharing as much information as possible will help ease the transition and set the tone for the winning culture you want to reestablish for 2021.

EXHIBIT 2:

4 Policies and Procedures to Establish or Re-Establish Now

1. **Set aggressive but achievable targets and KPIs for both operations and HR**
2. **Bring managers and leaders back into the facility when it is safe to do so**
3. **Slowly unwind attendance and paid time off (PTO) policy changes and migrate back to policies that were in place pre-pandemic—establish a buffer zone or use incremental adjustments to reintroduce policies, such as point policies for attendance, for example**
4. **Handle COVID cases individually instead of excusing all absences out of hand**

Commit to the future you want.

Hope it not a strategy for the future and it won't help you turn the corner or launch a successful new year. Doing what needs to be done to put your business back on the path to success and growth will. For 2021 to be different from 2020, you need people running and staffing your lines who are capable of and committed to bringing the business back to its full potential. And you need human capital management policies and procedures that are results-oriented, measurable, and sustainable long-term. Don't settle for anything less.

Meet the TBM Expert



SHANNON GABRIEL
*Managing Director,
Leadership Solutions
Practice*
sgabriel@tbmcg.com

Shannon helps clients identify and resolve weaknesses within their organisational structure and hiring process, build bench strength and engage our strategically embedded operational leaders to facilitate growth and drive immediate performance improvements.

She works with our client engagement teams and practice leaders to assess current leadership capabilities, identify gaps or risks, and develop effective talent management processes that attract, nurture and retain the best-possible operational talent.

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