

Return on Investments

Why It Pays To Invest in Employees

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What You Need to Know

Resources designated to employees may offer some “soft” benefits like improved morale, but is there any financial benefit to investing in employees?

Investing in human capital is critical for improving on-time customer delivery and driving higher revenue.

Pouring resources into the very people that keep your company running is just good business—in theory and in practice.

The idea of investing in your employees sounds good in theory. In fact, many would say that this is a trend among manufacturers as they try to find ways to address the widening *skills gap*.

But as any metals executive knows, theories don't pay the bills. Resources designated to employees may offer some “soft” benefits like improved morale, but is there any financial benefit to investing in employees?

Research shows that the answer is yes: Investing in employees does offer a good return on investment (ROI). In an article published by *Harvard Business Review*, Alex Edmans, professor of Finance at London Business School, says that research of stock market data clearly reveals that the benefits of investing in employees outweigh the costs and that employee satisfaction improves firm value.

“I studied 28 years of data and found that firms with high employee satisfaction outperform their peers by 2.3% to 3.8% per year in long-run stock returns—89% to 184% cumulative—even after controlling for other factors that drive returns,” Edmans writes in HBR. “Moreover, the results suggest that it's employee satisfaction that causes good performance, rather than good performance allowing a firm to invest in employee satisfaction.”

According to Edmans, the findings have major implications. “For managers, they imply that companies that treat their workers better, do better,” he writes. “While seemingly simple, this result contradicts conventional wisdom, which uses cost control as a measure of efficiency.” (You can see all the details of Edmans' findings here.)

Research conducted among forges and other industrial metal-cutting organizations show similar results. A *benchmark study* conducted by the LENOX Institute of Technology provides evidence that investing in human capital is critical for improving on-time customer delivery and driving higher revenue. Specifically, the survey of 100 industrial metal-cutting operations found the following:

- 64% of organizations that cite their operator turnover is decreasing year over year also report that on-time job completion is trending upwards—a critical correlation.
- 51% of organizations that reported reduced levels of operator turnover also said their revenue per operator had increased.

With data like this, it is hard to argue against the value of investing in employees. And while most executives think of pay raises when they think of employee investment, the good news is there are several ways forges can invest in employees. The following are just four possible approaches that go

beyond pay:

1. **Listen.** Operators that work with equipment every day are a valuable source of information. Be intentional about collecting feedback and implement some of their ideas.
2. **Equip.** Invest in an employee's future with incentives like continued education or management training. This shows employees that you value their personal success and provides them with new skills that can benefit your operation in the long run.
3. **Communicate results.** Regularly share performance reports with employees by either posting them or discussing them in staff meetings. According to the white paper, Accounting for Operator Inefficiencies in the Metals 2.0 Environment, sharing report results encourages accountability, provides motivation, and reminds operators that they are a critical aspect of the company's success.
4. **Reward.** Studies continue to show that goal setting and incentives are effective motivational strategies. Empower your operators by letting them set their own goals. This also holds them accountable for their work and promotes long-term "buy-in" and loyalty.

Investments of any kind usually present some risk, but in the case of human capital, it seems unlikely that there are any real threats or disadvantages. As research confirms, pouring resources into the very people that keep your company running is just good business—in theory and in practice.

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