

THE WORKFORCE MODEL EVERY ORGANIZATION SHOULD USE

Linking Employees to Organizational Performance: A Framework for Driving Success

— AN EXECUTIVE WHITE PAPER DEVELOPED BY THE —

FORUM
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■ Introduction

Businesses regularly measure cash flow, revenue, market capitalization, growth and profitability. Now, human capital can be added to the list of regularly measured variables. In coming years, the term Return on Talent is likely to be as pervasive in the business lexicon as Return on Investment. That's because new, more accurate employee-based metrics are being developed and receiving more attention than ever before.

This white paper is based on a comprehensive study conducted by the Forum for People Performance Management and Measurement entitled *Linking Employees to Organizational Performance: A Framework for Driving Success*. The authors of this research project – Frank Mulhern, Associate Dean for Research, Medill School, Northwestern University and Manya Wang, a former graduate student in Medill's Department of Integrated Marketing Communications – examined

numerous books, academic papers, journal articles and industry and private reports on many aspects of employee engagement, organizational performance, customer satisfaction, customer loyalty and human resources management. They immersed themselves in studies addressing the ways that people, primarily employees, drive financial performance. While organizations

measure and evaluate an abundance of employee-related constructs such as output, efficiency, satisfaction and engagement, few companies have systemic ways to assemble these constructs into formal processes that calibrate the long-term relationship between people and organizational performance.

In addition to providing an overview of several approaches that have been created to manage and measure performance, the authors introduce a new conceptual model, the Workforce Measurement Model that organizations can use to make a full linkage between their investment in human capital and organizational performance. IBM, Zurich Financial Services and American Standard are presented as outstanding examples of how companies can successfully achieve positive financial outcomes by improving people performance. The complete study can be found at http://www.performanceforum.org/The_Economics_of_Humanity_in_Business.79.0.html.

Defining Organizational Performance

Organizational performance comprises the measured output or results of an organization as measured against its intended goals and objectives. The most common performance measures for business are financial. Other common metrics are customer satisfaction, innovation, reputation, product quality and productivity.

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■ The Current State of People Performance/ Human Capital Measurement

Over the past two decades, new methods of performance measurement have emerged, including activity-based costing, throughput accounting and shareholder value analysis. While new measurement frameworks, most notably the balanced scorecard, have taken the business community by storm, we still have a long way to go in terms of perfecting effective measurements that companies and organizations can utilize for optimal benefit. The following is a broad overview of three of the existing people performance and human capital metrics.

THE BALANCED SCORECARD

The Balanced Scorecard measures a company's activities in terms of its vision and strategies to give managers a comprehensive view of the performance of a business. By focusing not only on financial outcomes but also on human issues, the Balanced Scorecard helps provide a comprehensive view of a business, which in turn helps organizations act in their best long-term interests. The four processes of a Balanced Scorecard implementation typically include:

- Translating the organization's vision into operational goals.
- Communicating the vision and linking it to individual performance.
- Business planning.
- Feedback and learning and adjusting the strategy accordingly.

Since the late 1990s, improved versions of Balanced Scorecard methods have emerged such as The Performance Prism, Results-Based Management and Third Generation Balanced Scorecard. While the Balanced Scorecard approach addresses the link between people and organizational performance, its central premise is not people-based; it is metric and outcome-based. This allows for the flexibility of having metrics of all types

fit into the framework. For organizations where the performance of people is of primary importance, the Balanced Scorecard is likely to under-represent the impact of people-related inputs on overall performance. Even when organizations try to include people-based metrics in performance analysis, the lack of clear and widely accepted standards results in a variety of measures that vary in specificity, relevance and objectivity. An important objective of formal approaches to people management and measurement is the development of standard, systematic metrics that can be applied universally.

HCM SCORECARD

Most traditional HR performance metrics – such as employee turnover rates, average time to fill open positions, and total hours of training provided – don't predict organizational performance. The HCM (Human Capital Metric) framework addresses this issue with five major categories: leadership practice, employee engagement, knowledge accessibility, workforce optimization and organizational learning capacity. By employing rigorously designed surveys to score a company on the range of HCM practices across the five categories, it's possible to benchmark organizational HCM capabilities, identify HCM strengths and weaknesses, and link improvements or backsliding in specific HCM practices with improvements or shortcomings in organizational performance.

PROFIT PER EMPLOYEE

Most measurements of business performance are geared to the needs of 20th-century manufacturing companies. Today, companies need to redesign their financial performance metrics by placing greater weight on "intangible"



capital. One such measure is Profit per Employee. The difference between Profit per Employee and traditional financial measures is that viewing Profit per Employee as the primary metric puts the emphasis on the Return on Talent. This approach focuses the minds of managers on increasing profit relative to the number of people a company employs. If a company's capital intensity doesn't increase, profit per employee is a good proxy for the return on intangibles. Another advantage of profit per employee is that it requires no adjustment for accounting conventions. Since companies expense their spending on intangibles but not on capital investments (which are usually depreciated over time), profit per employee is a conservative, output-based measure. And since it is based on accounting conventions, companies can easily benchmark it against the comparable results of competitors and other companies. Optimal organizational performance comes from increasing either a company's profit per employee (without offsetting reductions in the number of employees or offsetting increases in capital intensity) or the number of employees who earn that level of profit — or both.

■ A New Workforce Measurement Model

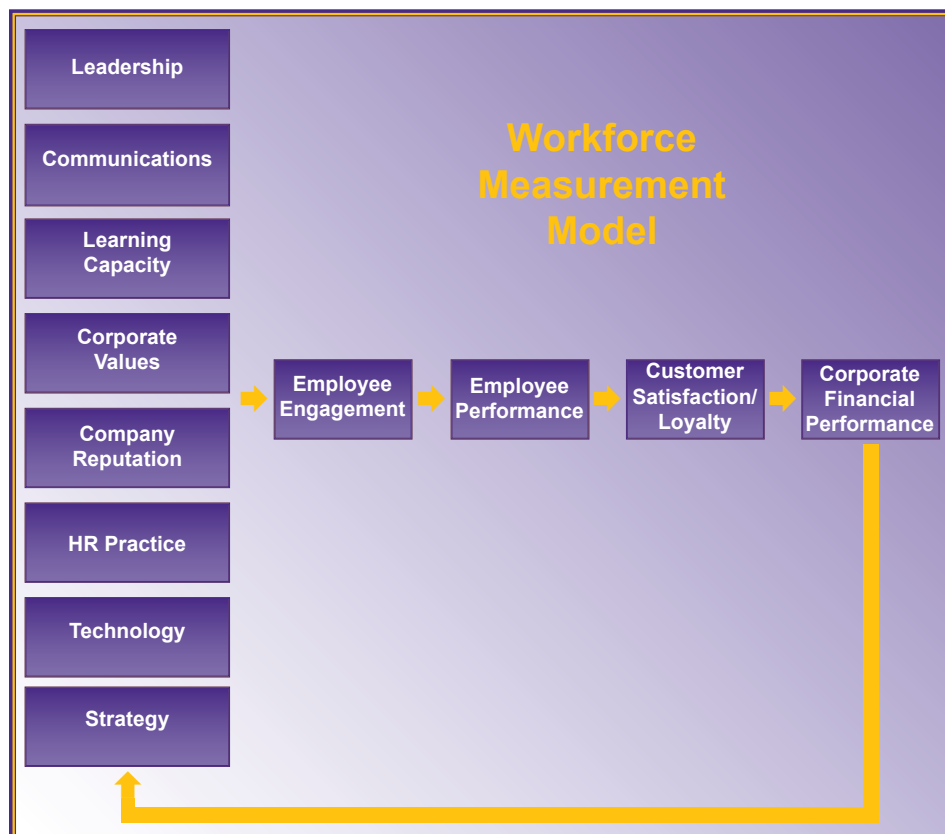
The authors of the study introduce a new model that illustrates how employee performance connects to corporate performance in a systematic way. The Workforce Measurement Model incorporates a set of human capital drivers, gleaned from academic and industry literature, which relate to organizational performance. Those drivers are:

- 1) **Leadership:** The supervisory and executive skills of the managers to eliminate barriers, provide feedback, and inspire confidence.
- 2) **Communications:** Management's communication is open, relevant and effective.
- 3) **Learning Capacity:** The willingness to learn and pursue excellence, and welcome innovation.

- 4) **Corporate Values:** The core values of the company, that is, something employees can genuinely support.
- 5) **Company Reputation:** Good company reputation can facilitate the excellence of human capital.
- 6) **HR Practice:** The hiring, selection, and monitoring system. This also includes training, education, career development, and total rewards (benefits, compensation, work-life, and recognition). It also includes HR's strategic role in human capital, such as acquisition, deployment, retention, attrition rate, and turnover.
- 7) **Technology:** The driver of information sharing and efficiency. This is becoming increasingly important because of intranets and online communities.

When managed properly, these seven drivers generate employee engagement and positive behaviors that directly affect

performance. Specific people-based components of the framework serve as the connecting mechanisms between employees and financial outcomes: A) employee engagement; B) employee attitudes and performance; and C) customer satisfaction and loyalty. The survey explores these variables, and their interconnectedness, extensively. The Workforce Measurement Model diagram below shows how human capital drivers affect corporate financial performance through employee engagement, employee performance and attitudes, as well as customer satisfaction and loyalty. The main emphasis of the model is how employee feelings and behavior relate to customer feelings and behavior, and how the behaviors of both link to financial measures of performance. The general flow of the model is from left to right – people drive performance. The framework presents a way to evaluate organizational performance from the perspective of the people-related inputs that drive it.





“... it is not primarily products, technology, or administration that drives results; it is the performance of people in the workforce.”

■ Conclusion

Going forward, what is needed, is a set of metrics that can be incorporated into standard financial statements that take into account an organization’s intangible assets. Or if the value of these assets is determined independent of the financial evaluation, the establishment of a model that is universally accepted and recognized. In order to achieve this goal, additional research should be conducted on the direct link between employee engagement and corporate financial performance. Doing so will provide

business leaders more understanding that in today’s increasingly information and service-based economy, it is not primarily products, technology, or administration that drives results; it is the performance of people in the workforce.

■ Look for the full study, *Linking Employees to Organizational Performance: A Framework for Driving Success*, available on the Forum’s Web site: www.performanceforum.org.



The Forum for People Performance Management and Measurement, which designed the study, is a research center within the Medill Integrated Marketing Communications (IMC) graduate program at Northwestern University. A central objective of the Forum is to develop and disseminate knowledge about communications, motivation and management so that businesses can better design, implement and manage people-based initiatives both inside and outside an organization.