Human Performance

How to boost your workforce performance ROI

By Peter Cheese and Robert J. Thomas

A new diagnostic tool can not only demonstrate conclusively the link between human capital development practices and total shareholder return. It can also provide practical guidance for which investments are likely to yield the greatest return.

Investments in workforce performance lead to improvements in business performance, right? Most people believe so, or at least say they do.

Trouble is, evidence about the relationship between human capital investments and a company's financial performance has always been largely anecdotal. Case studies have been suggestive but not persuasive. It's hardly surprising then that, lacking solid evidence, few companies bother to measure either their investments in human capital or the return on those investments.*

All of that is about to change. A team of researchers led by the Accenture Institute for Strategic Change has made significant progress in a two-stage effort not only to demonstrate conclusively the link between human capital development practices and total shareholder return, but also to provide practical guidance for the investments likely to yield the greatest return.

Diagnostic tool

In the first stage, the team developed and field-tested what Accenture calls the Human Capital Development Framework, which enables an organization to diagnose its strengths and weaknesses in key human capital practices, prioritize investments to bolster the strengths and address the weaknesses, and track the results of those investments. The framework combines best practices in the fields of human resource development, learning and knowledge management with state-of-the-art measurement techniques to identify specific company needs and target interventions.

The second stage, based on initial work with companies, has begun to empirically establish the link between human capital investments and shareholder value. Though results from the second stage are preliminary, they are nonetheless encouraging about the validity of the Accenture Human Capital Development Framework as both a diagnostic tool and a predictive model.

Making the case

To make the case for why such measurements are vital, the team began with comprehensive research, looking at the academic and business literature in this area to see what had been proven and what had not. From this, we isolated five guiding principles for how an organization's human capital assets and capabilities affect its financial performance.

1. Employees who value their work and work setting make the kind of effort and contributions that enable an organization to create the highest level of shareholder return. In other words, positive individual attitudes and a supportive organizational culture matter when it comes to a company's financial performance. For example, studies have shown that companies with the most respected or admired organizational cultures (those, for instance, on *Fortune*'s "100 Best Companies to Work For" list) consistently outperform the S&P 500.

2. An organization's investments in human capital development processes like learning and training must be thoughtfully deployed to have a positive effect on employees' sense of engagement.

* According to "The High Performance Workforce," a recent Accenture study based on a global, cross-industry survey of 200 executives, 57 percent of participating companies rarely or never measure how their training initiatives affect factors like employee turnover. And the same percentage rarely or never measure the impact of their HR initiatives on employee satisfaction. About 70 percent rarely or never measure the impact of HR or training initiatives on innovation.

A company invests in resources and technology, but it also needs to assess the effectiveness and maturity of the processes through which those investments are actually delivered. For a company that is trying to improve the effectiveness of front-line workforce performance (which leads, ultimately, to superior business results), increasing its spending will not help if the investment does not reach the right places.

3. Organizations whose human resources and human capital development practices are both valued by employees and aligned with business strategy will achieve superior results in key business performance drivers such as productivity, innovation and customer satisfaction. The biggest impact of human resources and human capital development interventions on financial performance will not be direct and instantaneous. Improvements will more likely occur incrementally, indirectly and over time, realized through the investments' effects on intermediate outcomes like productivity, quality and customer satisfaction rather than through sudden increases in share price.

4. Organizations invest in human capital development to enhance their capabilities in key areas—for example, their ability to change in response to shifts in critical markets, or to rapidly reconfigure work units and business processes to take full advantage of new technologies. That is, in addition to achieving sustainable incremental improvements in employee engagement and business performance, effective human capital development practices enable organizations to flex, expand and contract, and to accelerate when necessary. These capabilities are rarely measured directly or managed as seriously as HR budgets; if they were, they could dramatically enhance a company's future growth opportunities.

5. Organizations that achieve superior performance—both capital efficiency and growth—in productivity, innovation and customer satisfaction will be rewarded in the marketplace by investors and analysts. Equity analysts may not explicitly measure or factor these considerations into their estimates of a company's future earnings potential. However, there is a growing body of evidence that suggests that qualitative assessments of these factors do influence analysts' judgments.

Armed with these general principles, the team then set out to develop the conceptual framework and methodology to allow a particular organization to evaluate the effectiveness of its current human capital initiatives, establish metrics for spending and return on investment, and then design and deliver human capital programs that realize a better financial return.

Keeping score

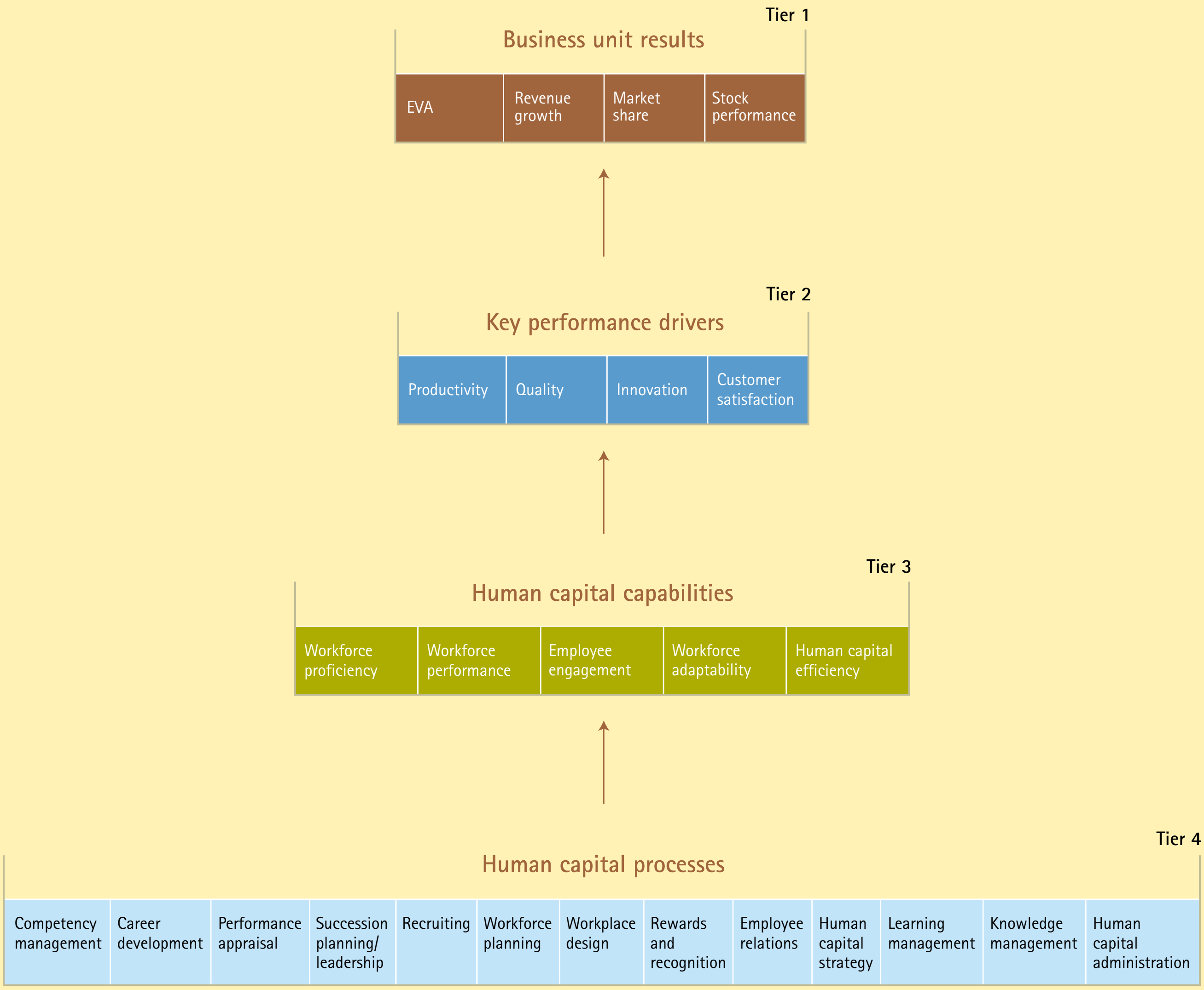
The Accenture Human Capital Development Framework is an analytical, measurement and planning tool that enables an organization to identify and measure the human capital factors that affect organizational performance, whether they do so directly or indirectly, in a contemporaneous fashion or in stages. Its measurement methodology is repeatable—that is, it can be carried out over time and, therefore, allows an organization to track its performance.

Using the Accenture Human Capital Development Framework also allows an organization to establish a database so it can set benchmarks for itself

A human capital development scorecard presents an organization's ability to use human capital to generate business results.

The Accenture Human Capital Development Framework

The Accenture Human Capital Development Framework is an analytical, measurement and planning tool that enables an organization to identify and measure the human capital factors that affect organizational performance. As shown in the figure below, the framework uses four distinct levels of measurement to assess an organization's human capital practices and determine the benefits it receives from investments in people.



The resulting scorecard from these measurements can be used in three distinct ways.

- As a diagnostic assessment that highlights areas for performance improvement and/or value creation;
- As part of a recurring measurement activity—for example, one aligned with an organization's core planning processes; and/or
- As part of a large-scale organizational transformation, in which the goal is to reshape traditional HR functions to bring them in line with a new business strategy.

The scorecard has such a wide variety of uses because, unlike other diagnostics that focus solely on human resource practices, it is linked to overall corporate performance and is also forward-looking; that is, it is concerned with value creation, not just with cost control.

against its competition in key human capital development areas. Finally, the tool makes it possible to predict a return on investment from specific human capital investments and/or interventions. Here's how it works.

The approach uses four distinct levels of measurement in arriving at an assessment of an organization's human capital practices and in determining the benefits it receives from investments in people (see chart, page 64).

- Tier 1, *business unit results,* consists of measures of organizational performance (for example, conventional financial measures like EVA, revenue growth, market share and stock price).

- Tier 2 deals with those *key performance drivers* that directly contribute to business unit and/or enterprise results; they are the intermediate organizational outcomes (for instance, productivity, quality, innovation and customer satisfaction) often captured on a balanced scorecard.

- Tier 3, *human capital capabilities,* consists of the most immediate and visible (though not always measured) people-related qualities needed for achieving critical business outcomes (for instance, employee engagement or workforce proficiency). Their influence is felt through key performance drivers.

- Tier 4, *human capital processes,* consists of granular measures of human capital processes that drive human capital capabilities. The levers and interventions that can enable an organization to understand and correct its human performance problems reside, for the most part, in this fourth tier. Note also that Tier 4 focuses greater attention on process maturity than on simple budgetary allocations.

This simple framework provides a foundation for assessing an organization's current capabilities with regard to human capital development. The economic benefit an organization can realize as a result of a human capital development initiative varies in direct proportion to the quality of its human capital processes (Tier 4), resources and operations, as well as the capabilities it has developed in workforce performance, proficiency, adaptability, engagement and efficiency (Tier 3).

The stronger an organization is with regard to these factors, the greater will be the benefits from an investment in human capital development. The Accenture Human Capital Development Framework is superior to other approaches that look only at budgets and expenditures; what companies really want to know is whether those human capital development expenditures actually lead to positive business outcomes.

Data are collected at all four tiers of the framework. Business results and financial metrics (Tiers 1 and 2) are collected through an electronically administered survey completed by the organization's finance and line executives. This is supplemented where possible by publicly available reports.

Date from Tiers 3 and 4, for the most part, are collected through online questionnaires completed by the organization's HR unit and frontline employees.

The result is a human capital development scorecard that presents an organization's ability to use human capital to generate business results. The scorecard uses numeric and graphic terms suitable for benchmarking (that is, it uses a red-yellow-

By relating human capital to intermediate business metrics and financial goals, business executives are better able to understand the value of human capital.

green reporting system: each performance measure is scored using a 3-point scale, ranging from red, for competitive disadvantage, to yellow, for improvement suggested, to green, for competitive advantage) to provide a fact-based foundation for making recommendations for the development and management of people that will result in improved business results. Shortly after the completion of the Tier 3 and Tier 4 assessments, a detailed scorecard is issued to the participating organization.

The results can then be compared with the results of scorecards done previously for the same company, for another business unit in the same company or for other companies in the human capital development benchmarking database. Because the assessment is built around a predictive capability model, recommendations to improve in a specific factor area are fairly clear. These recommendations help the organization focus on interventions having to do with human capital enablers, resources and operations that can, in turn, drive improvements.

Emphasizing people

A case in point is American Standard Companies, which credits much of its success in recent years to a dramatic improvement in its ability to develop and manage people. The global, diversified manufacturing company has transformed itself from a loose confederation of companies into a corporation that leverages common technologies and marketing channels. The result has been impressive financial gains: increased revenues from 1999 to 2001, and a stock price that climbed by more than 40 percent from January 2000 to January 2003.

According to Larry Costello, American Standard's senior vice president of human resources: "We have changed our company's performance because of our emphasis on human capital. This emphasis has enabled us to achieve an edge over our closest competitors."

Despite this success, the executive team knew it had only begun to realize the value of American Standard's human capital. The company identified several critical goals: assess the level of maturity of its human capital processes relative to its competitors, measure the impact of marketplace and business changes on the company, and expand the human capital effort to include more strategic initiatives aimed at improving employee effectiveness.

To pursue these goals, American Standard employed the Accenture Human Capital Development Framework in April–May 2002. The scorecard bolstered its conclusion that although it was a more difficult year than usual for the company, the human capital improvements that had been made in the preceding two years had indeed served it well during the economic downturn.

The scorecard also revealed, however, that none of the performance measures gave the firm a competitive advantage. In fact, three of the measures that most affected financial performance through employee productivity—time to competence, employee satisfaction and innovation—were red, indicating that the lack of capabilities in these areas could place the firm at a competitive disadvantage. In addition, many of the human capital infrastructure scores indicated average, but not superior, capabilities in those areas.

Costello explains, "I could almost guess the financial performance of a particular business by seeing the results of the scorecard. The more the color red showed up in a business unit, the worse the financial performance of the business unit was."

Armed with an objective assessment of the company's human capital capabilities, Costello has taken steps to further improve American Standard's ability to leverage its people. For example, Costello has instituted development, performance management, HR planning and succession, and 360-degree feedback processes.

The company already seems to be achieving value from these processes: The number of internal promotions is on the rise, and recruiting top talent has become significantly easier as the company becomes known as a place that values and develops its people. The scorecard has also prompted the company to start measuring employee satisfaction and productivity, establish a learning and development council, revamp its job and work design, and improve teamwork and collaboration.

By relating human capital to intermediate business metrics and financial goals, business executives are better able to understand the value of human capital and to see its connection to their own goals and objectives. Confirms one American Standard executive, "The scorecard has established a common dialogue and vocabulary between HR and business unit executives; they can both look at the scorecard to determine where they are, where they want to go and how to get there. Many of the business unit executives have already made compelling changes based on these conversations. Without the scorecard, for example, we would probably never have been able to obtain the additional support and investments in resources that are needed to transform the way we work and maximize our human capital."

To further cement this link between human capital initiatives and enterprise-level performance, assessments using the Accenture Human Capital Development Framework will have to be collected from multiple organizations over time. With each new use of the framework, we will expand our database with time-series information on human capital processes and capabilities, business outcomes and total shareholder return. This database will enable us to rigorously and comprehensively link human capital capabilities with business performance.

As the American Standard story indicates, some forward-thinking companies have established a solid foundation to support their human capital. But that's just part of the answer. By prescribing specific investments, and helping to manage toward measurable returns, the Accenture Human Capital Development Framework can help companies develop superior human capital capabilities. ■

About the authors

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