Best Practices in Workforce Diagnostics

Diagnose, Analyze, Act and Measure

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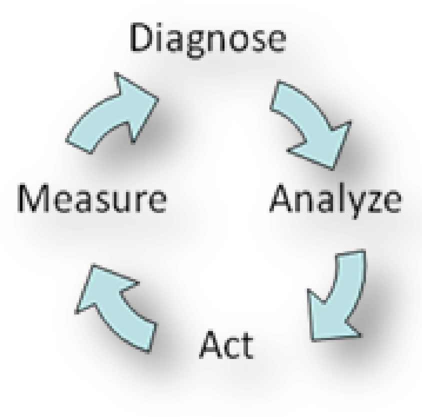
Introduction

"If you're in sales or science, you're expected to show what your value-add is. Similarly, in HR you can't just hire people and not worry about costs or how long it takes. HR has to be able to measure what it's bringing to the table."

– Jeanne Hugg, Director of HR for Avalon Pharmaceuticals, Gaithersburg, Maryland

It takes talented people to create competitive goods and services and to drive profits. Indeed, investments in human capital consume about 70 percent of organizational costs in U.S. organizations.[1] Talent represents both the largest costs and the most critical assets, thus decisions about talent are among the most important any organization will make.

Accurate Human Resources (HR) Diagnostic and Assessment tools are vital to organizations in order to prevent expensive mistakes in hiring, training, deploying and managing the performance of talent. The use of diagnostics and careful analysis promotes a proactive approach to problem identification and prioritization before moving forward on projected plans. Acting on the insights gained from diagnosis and analysis, and then measuring the results, completes the virtuous cycle.



[1] "*Human Capital Assessments – The Symptom or the Disease*", *http://www.amajorc.com/blog/human-capital-assessments-the-symptom-or-the-disease*

Human Capital diagnostics and assessments can provide HR managers with an analytical framework to make better decisions and to predict and prevent potential problems. Unfortunately, the diagnosis, assessment and analysis aspects of human capital management are often sacrificed in order to focus investment on the initiatives themselves. As might be expected, misdirected investments and a slew of unfinished and abandoned projects are often the result, leading to low morale, high turnover and sub-optimal performance.

This paper addresses the opportunity that Human Capital Diagnostics offers to achieve advantages. It also provides insight into some of the tools available today and their application.

The Business Case for Human Capital Diagnostics and Assessments

While some organizations are hampered in their diagnostic efforts by limited budgets, others are overwhelmed by the sheer number of choices to research and choose from. However, the ability to implement diagnostics is not the only challenge – analyzing and correctly interpreting the results, and then implementing appropriate HR measures can create a true strategic difference in the business. Some are frustrated because they are using diagnostics correctly, but continue to see a gap between the expectations and results[2]. See ***Exhibit 1***

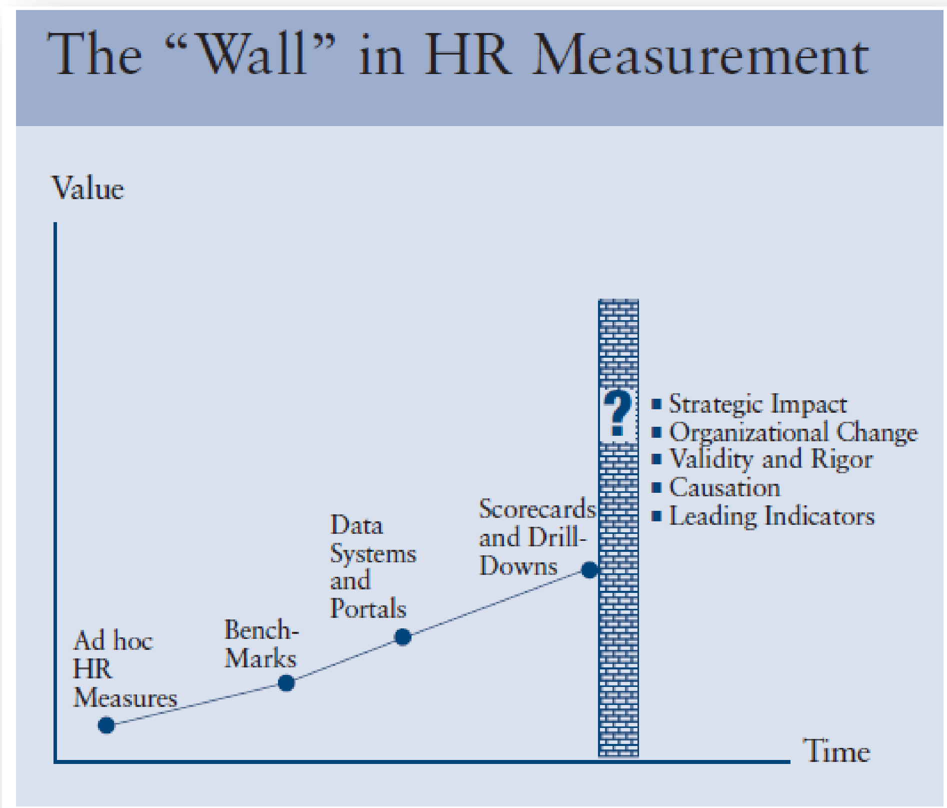


Exhibit 1

Source: Marshall.usc.edu

[2] *"Talentship and HR Measurement and Analysis: From ROI to Strategic Organizational Change", http://www.marshall.usc.edu/assets/048/9986.pdf*

While a minority of organizations may be using diagnostics well, various research has shown that HR is not fully committed or prepared to apply and interpret the results of diagnostics. A presentation at the Human Capital Measurement State of Readiness Conference (2005) revealed the following Board research findings[3]:

1. Fully 78 percent of businesses routinely track and report people measures (i.e. turnover, absenteeism, compensation, etc.)
2. Only 31 percent of HR departments have anyone on staff who understands the company's strategic Key Performance Indicators (KPIs).
3. Only 25 percent of HR departments have anyone on staff who can both understand the company's KPIs and link them to people measures.
4. Only 19 percent of HR departments deliver people measurement reports to all levels of the management team (business partners).
5. Only 12 percent of firms use human capital measures to help the company meet its strategic targets of KPIs.

According to the Conference Board, only 19 percent of HR departments believe their IT systems are worthy of data gathering and of distributing briefings on people measures to all managers.[4]

Throughout his career as the "father of human resources measurement", Dr. Jac Fitz-Enz, has emphasized the need for assessment and diagnostics. For example, Fitz-Enz advocates understanding the differences between the priorities of top and average performers and to promote those belonging to highest-level workers. Top performers tend to be focused on teamwork, customers, fair treatment of employees and initiative and innovation. Average workers are often more concerned with minimizing risk, respecting the chain of command, supporting the boss and making budget[1]. The priorities of average workers are the mark of employees staying within the boundaries, while those of top performers promote growth. Without the proper assessment, it is difficult to understand the differences and the priorities and to strike the right balance.

[3] *"Using Human Capital Metrics", http://www.slideshare.net/steveboese/using-human-capital-metrics-presentation*

[4] *"Making the case for people measures", http://www.hrmguide.com/performance/people-metrics.htm*

According to USC professors, John W. Boudreau and Peter M. Ramstad in "Talentship and HR Measurement and Analysis," the evolution of HR and HR measurement requires a sound "decision science" for human capital that truly informs and enhances decisions about human resources wherever they are made[5]. Boudreau and Ramstad believe this new decision science will accelerate our current focus on delivering excellent HR programs and processes by providing a framework to identify what decisions about human capital are most crucial, and how to connect those decisions logically to organizational effectiveness.

Using Boudreau and Ramstad's Talentship methodology, organizations can diagnose and better understand human capital value to determine the most effective and efficient ways to improve organizational performance. FedEx, for example, knows that one of the top few critical components of its success are shipping time and efficiency. Disney knows that visitor experience in the park is key. In both cases, HR, armed with diagnostic tools and the right questions, can determine what measures to take (in these examples, training investments) that are most likely to result in the largest difference for the organization at the lowest cost See ***Exhibit 2***.

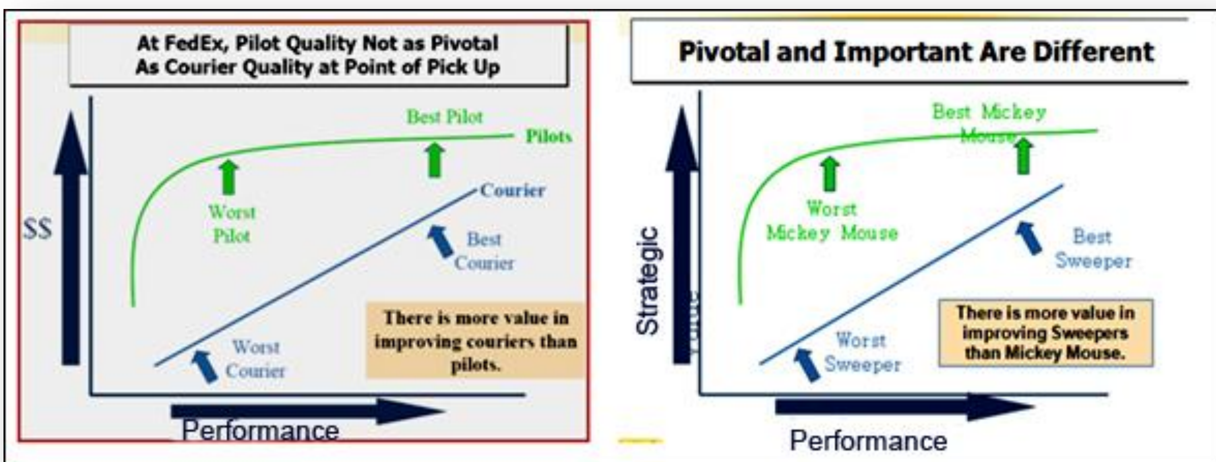


Exhibit 2

Source: Talentship at FedEx and Disney, Boudreau and Ramstad, 2009

Boudreau and Ramstad's decision science called "Talentship", "reveals opportunities by identifying strategy pivot points and the optimal talent and organizational decisions that

[5] *"Talentship and HR Measurement and Analysis: From ROI to Strategic Organizational Change", http://www.marshall.usc.edu/assets/048/9986.pdf*

address them". By understanding their organization's unique strategic pivot points, HR, can initiate diagnoses of their own to choose initiatives that will target those pivot points. In the cases illustrated in ***Exhibit 2***, HR at FedEx and Disney used the methodology to understand where their interventions might have the largest positive impact.

Talentship and other diagnostics help HR think analytically about talent and budget resources. HR programs and processes will earn credibility using decision science type assessments, as in the examples of FedEx and Disney above. Where HR can have a direct and demonstrable impact on the top drivers of corporate revenue and competitiveness, the value it creates will be irrefutable. Assessments like the above are particularly useful because they do not require enormous amounts of data, rather simple questionnaires and structured, logical thinking – a diagnostic framework, in other words.

The examples above demonstrate the power of simple diagnostics combined with an "ROI mentality" or approach to allocating resources. This process can be applied across all aspects of human capital management.

Importance of Human Capital Diagnostic Measurement

In reviewing the strategy, structure and services required of HR, diagnostics will help decide the extent to which existing practices really aid in employee recruitment, engagement and retention. Comprehensive review can provide a rational basis for HR strategy and budget. It will help to decide what is required, along with the order of priority and the parameters of each[6].

The downturn in the current economy has made it imperative for businesses to make the most of resources using cost-effective methodologies. Because there is so much scrutiny on profitability and headcount, the measurement of ROI and the value of tangible assets are increasingly critical.

The most challenging assets and programs to measure, however, are those with largely intangible outcomes. The effectiveness of HR programs and Human capital itself falls into this category. Nonetheless, numerous and credible research clearly links better HR practices and quality talent to revenues and profits.

Human Capital Diagnostic Tools

If HR professionals seek to help their organizations remain competitive, they will need to align their processes and skills in such a way that all HR services and human capital metrics are working toward the overall business goals of the enterprise—the stated goal of CEOs. The following are HC diagnostic tools to consider for that process.

Predictive Analysis

Predictive analytics lies at the basis of assessment and diagnosis. The objective is to gain insight into potential challenges and opportunities in order to prevent potential problems and seize on potential opportunities. Predictive analysis (PA) is a process HR (and other business units) can

[6] *"HR On-Demand", http://www.hr-ondemand.com/business_perspectivetab#1*

use to build better budget requests and to provide insight so that better decisions can be made. The following are some decision examples shared by Cathy Missildine-Martin, SPHR[7].

1. One company is using Predictive Analysis (PA) to profile successful candidates using engagement, performance, educational, tenure and certification data. This profile can be used during recruiting so candidates stay longer and perform better.
2. Another company is using PA to predict turnover using historical, demographic, engagement and performance data. By doing so, succession planning can be customized to revamp and/or create retention strategies.
3. Another organization is using workforce PA to predict what skills sets will be needed, how many and when.

The emergence and development of the Predictive Management Model was published in an article by Dr. Jac Fitz-Enz on humancapitalsource.com in 2009. It defined the model's phases along with appropriate software. In the end, model users will be able to accomplish the following:

1. Create a human capital plan that supports the strategic business plan.
2. Coordinate with senior management to facilitate necessary changes in the organization.
3. Audit HR processes and redesign them to meet future needs.
4. Implement a workforce plan that is linked to institutional initiatives and budget processes.
5. Provide integrated HR services to optimize the institution's investment.
6. Design a future-facing measurement system with strategic performance metrics, leading indicators and intangible measures.

The HR function can guide management to the optimum deployment and development of its human capital with a model such as this and through the use of assessments and diagnostics in the PA process. This capability can position the human resources function squarely in the middle of strategic organizational management. See ***Exhibit 3***.

[7] *"Predictive Analysis", http://intellectualcapitalconsulting.blogspot.com/2010/09/ramblings-from-road-hr-metrics-summit.html*

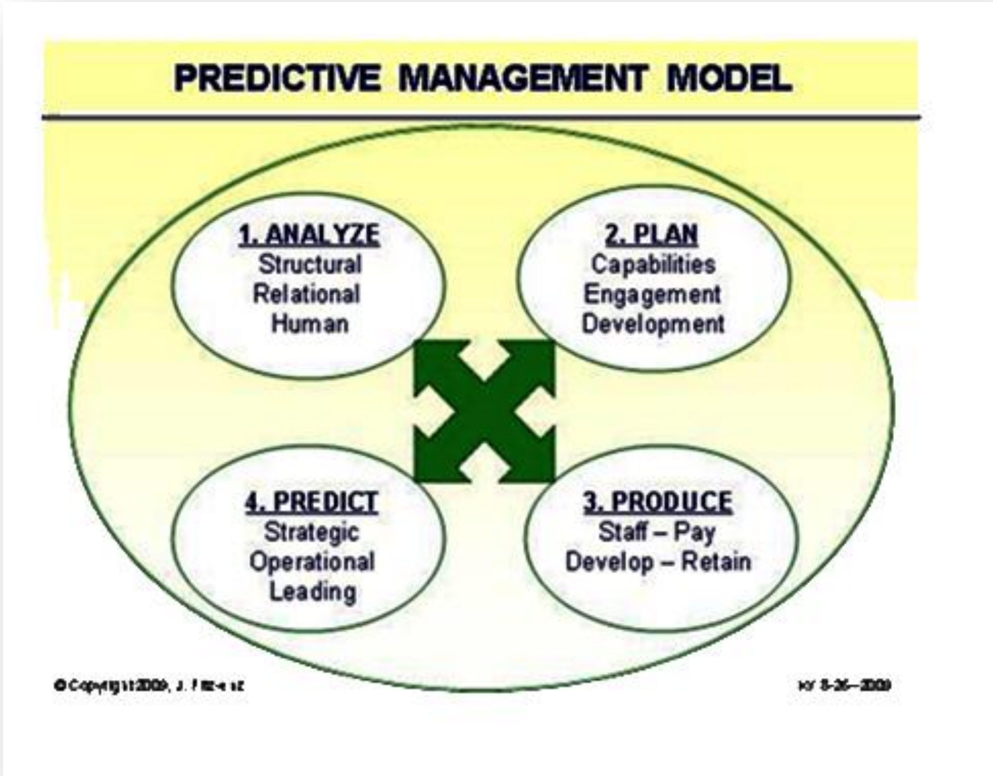


Exhibit 3
Source: Human Capital Source

The need for information about the future has become increasingly important in these uncertain times. “Lagging indicators” provide useful data but are based on what has already happened. On the other hand, market research that determines consumer confidence is a “leading indicator” and among the only formal approaches to gleaning reliable information about the future used in business and economics[8]. If consumer confidence is increasing, the economy is probably set for an “upswing.”

[8] *“Beyond Benchmark”, http://humancapitalsource.com/drjac2009/article-archive/241-beyond-benchmark.html*

Leading Indicators in HR

Some lagging indicators have the potential to be leading indicators. Retention or turnover is one, employee engagement is another. A deeper look at turnover, which tells us what percent of the workforce left in the past year, can yield indicators of current and future effects. How is turnover currently affecting our ability to serve customers? If turnover continues along its present trend, what does that imply for the future?

Studying who left, why they left, and at what point in their career they left, allows us to see what can be done in the future to reverse the trend. We can also examine the effect of unwanted turnover on productivity, quality or service. By tracking turnover trends in parallel with organizational outcomes, we can uncover increased cost, late delivery of services or unhappy customers. And, we can look for correlations between absence and turnover or other employee activity. One ten-year study of absenteeism, for example, revealed that as absence rose, turnover increased within a six month period[8]. Monitoring absenteeism allows us to prevent it in the future.

An even more powerful leading indicator is employee engagement. Committed employees have a low absence rate, work effectively with co-workers, contribute ideas for better ways to work, produce more than the average worker and speak well of the company. Moreover, high engagement scores have been shown to be leading indicators of better customer satisfaction and higher revenues/profits in the future. The connection between engagement, customer satisfaction and revenues is perhaps best illustrated in the Harvard Business Review case study: "*The Employee-Customer-Profit Chain at Sears*", in which store managers are able to closely predict changes in revenue six months into the future based on current employee engagement survey results[9]. ***(Exhibit 4)***

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[9] *Anthony J. Rucci, Steven P. Kirn, and Richard T. Quinn, "The Employee-Customer-Profit Chain at Sears", Harvard Business Review, October 1999*

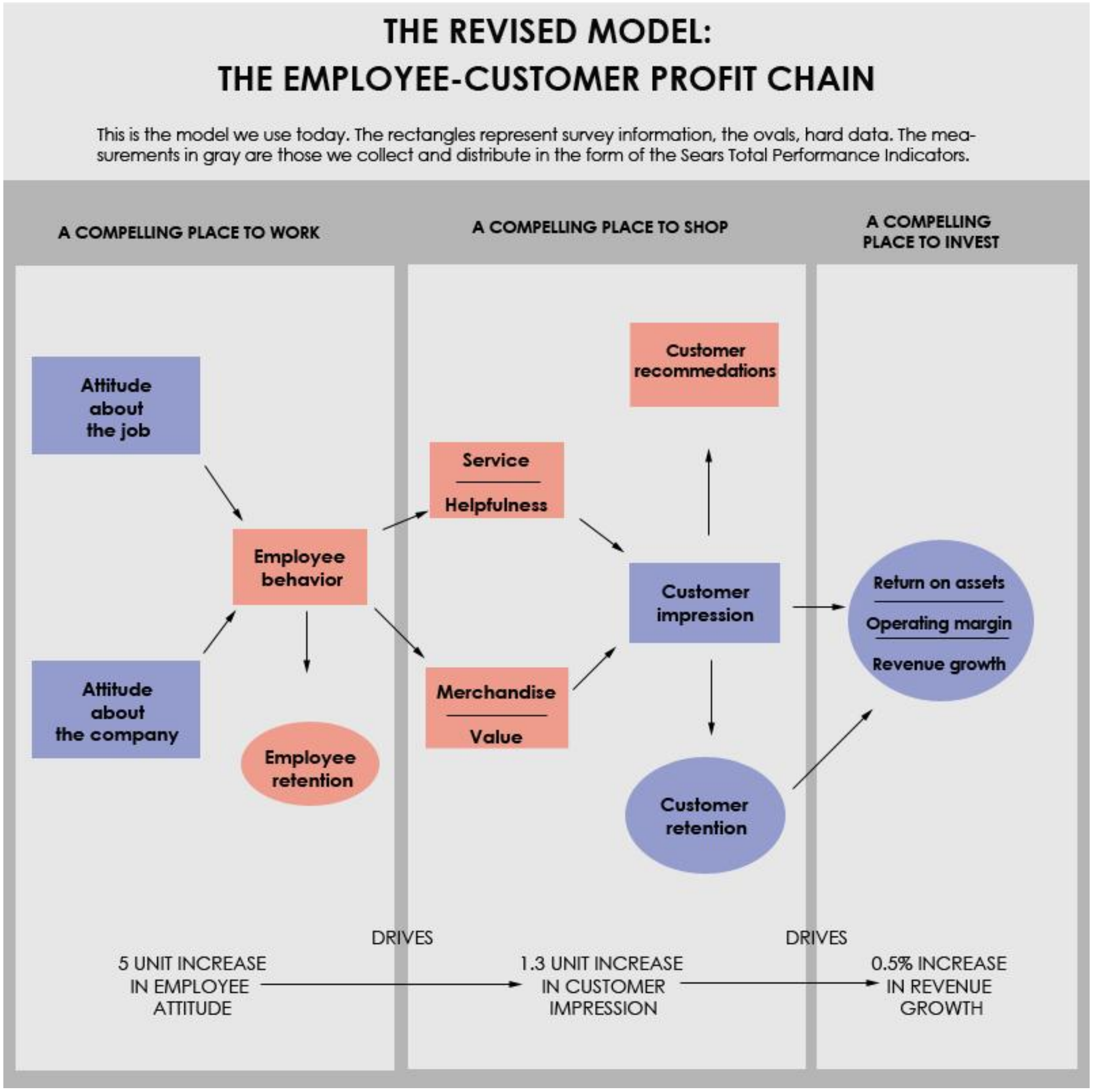

Exhibit 4

Source: Harvard Business Review, Vol. 76, No. 1 January 1998

Employee Engagement Surveys and Analysis

Not surprisingly, employee engagement has become a key measure since the 1990's. Many, if not most mid-size and large organizations today have evolved their use of employee satisfaction surveys into employee engagement surveys. These diagnostics are essential in gauging the commitment level of their employees. A great deal of research, including HBR's Sears example ***Exhibit 4*** above and the Enterprise Engagement Alliance's 2009 paper "*The Economics of Engagement*"[10], demonstrate a strong link between employee engagement, productivity and profits. Employee engagement surveys abound in variety and style but most get at the same core factors that have been shown to drive employee engagement or disengagement. The Gallup Q12 is among the best known of these instruments, having been applied more than 17 million times around the world over the past three decades.

Whatever the tool, employee engagement assessments and diagnostics must be properly implemented, assessed afterward, and most importantly, acted upon and then measured. Organizations should use the tools to classify employees into at least four major groupings: "Fully Engaged", "Engaged", "Somewhat Disengaged" and "Fully Disengaged", are common labels.

Next, through an analysis of employee engagement and performance data, organizations should estimate a percentage gain and loss in productivity depending on where an employee falls on the engagement ladder. Using "Engaged" as a baseline (meaning engaged employees are set at 100% productivity) an organization should be able to determine the productivity loss it suffers when an employee is fully disengaged or somewhat disengaged. A fully engaged employee, on the other hand, will normally exceed the baseline 100% productivity of an "engaged" employee.

It takes only common sense and observation to know that a fully engaged employee will normally outperform a disengaged employee, but organizations must measure the differences, at minimum, by linking performance measures to engagement scores so that they can get to the most precise understanding of how employee engagement impacts the firm financially. As Sears

[10] *Schweyer, Allan, The Economics of Engagement, Enterprise Engagement Alliance, July 2009*

and other have shown, it is possible to go beyond performance links to actual revenue and profit links using similar analytical methods.

Next, the insights from the engagement study and analysis should be put into action. A very effective and scalable approach is for HR to work with line managers and supervisors to implement initiatives designed to increase engagement. These initiatives should be tracked and measured to ensure that they are being applied consistently. If so, the next engagement survey should reveal improvements where initiatives were applied and, perhaps, variations in improvement such that HR knows what initiatives are the most impactful and generate the best possible returns.

Employee Engagement in Corporate Strategy

As HR professionals align their processes and skills so that their services and human capital metrics are working toward overall business goals, they will become part of the solution to keep their companies competitively viable. However, according to the Human Capital Measurement State of Readiness Conference Board study, only 52 percent partially tied their people measures and targets to strategic plans and only 48 percent tied them to annual[11].

All organizations of any size and in any industry are challenged by the researched reality that: 1) the ability to implement strategy is a more critical determinant of success than the quality of the strategy; 2) up to 90 percent of corporate strategies fail (evidenced by lack of complete pre-launch success); 3) most have trouble pinpointing where efforts to execute their strategies are breaking down and 4) 70 percent of all change initiatives fail due to people issues - inability to lead, low levels of trust, lack of clarity around the objectives and how individuals may contribute to them, lack of teamwork, unwillingness to take initiative, inability to deal with change, etc.

Organizations should also measure employees' personal and practical belief in the company strategy and its execution[12]. Web-based strategic engagement assessments, such as the SEGA

[11] *"Using HR Metrics", http://www.hrmguide.com/performance/people-metrics.htm*

[12] *"Tying It All Together—Using the HR Balanced Scorecard to Gauge and Manage Human Capital, Including Your Own", http://www.web-books.com/eLibrary/NC/B0/B58/101MB58.html*

diagnostic[13], can highlight areas of strength, challenges, and opportunities that guide the company toward strategic execution. This type of assessment also acts as a check up to determine where the company agrees and disagrees in the key areas that drive the business.

SEGA uses well-researched survey-design principles that encourage participation, it leads the entire organization to determine which areas impact the business the most. This establishes baselines for alignment of thought and engagement. Each item is specifically related to a behavior that has been shown to be important to strategic execution and to measurable business outcomes such as customer loyalty, productivity or profitability.

SEGA reveals:

- What is being done well and needs to continue.
- Where and why gaps in productivity exist.
- Information that might never surface in interviews or conversations.
- How well employees understand their roles and contributions to the strategy.

The diagnostic prioritizes initiatives to direct focus to areas that need the most attention. It Includes input from all employees, highlights aligned and nonaligned priorities, surfaces issues that need to be addressed in order to move forward as a company and provides results quickly in an objective, non-threatening manner.

Case Examples – Values to the Organization

After a very large aerospace company conducted the SEGA assessment, it discovered a lot of money was being wasted. Scores and debrief discussions related to Resource Alignment and Organization Communication uncovered that some of the offices within a $600 Million division were unknowingly competing against each other for large government contracts. Sales teams worked together to develop a coordinated effort.

A leading tire company used SEGA to highlight and address senior management disagreement and misalignment regarding finance and production issues. For years the organization had

[13] *Bob Heth and Carol Stevens , "Strategic Engagement Gap Analysis", www.stratachieve.com*

made the bulk of its income from tread products. Few were willing to accept the reality of the situation until SEGA highlighted the level of disagreement. China had cut significantly into their tread business. The solution was to migrate to their polymer business line and ultimately return to profitability. SEGA exposed and drove the need for senior executives to get into a room and address the reality of the situation. They were unable to do this in previous management meetings because strong personality types dominated the agenda and the decisions. SEGA leveled the playing field and helped drive results.

Successful leaders and researchers agree that to truly improve and sustain productivity gains, a company must first thoroughly diagnose where breakdowns occur and where opportunities exist. It is an accepted fact that assessments alone do very little to improve performance. They simply put a spotlight on the most important business issues so that senior management can better develop a plan for performance improvement. The execution and measurement of the plan is what leads to initial and continuous improvement.

Balanced Scoreboard Method Applied to HR

When applied to HR, Balanced Scorecards analyze employee capabilities, productivity, satisfaction and retention. Companies can also use it to track whether employees are motivated and engaged. The number of suggestions made and implemented by employees and whether worker performance goals are aligned with company goals are examples.

The Balanced Scorecard Method focuses on the strategy and metrics of the business. To take this methodology a step further, Mark Huselid and his colleagues developed the Workforce Scorecard to provide framework specific to HR. According to Huselid, the Workforce Scorecard is an application of the Balanced Scorecard concept to identify and measure the behaviors, skills, mind-sets, and results required for the workforce to contribute to the company's success. Specifically, as summarized in ***Exhibit 5***, the Workforce Scorecard has four key sequential elements[12]:

1. **Workforce Mind-Set and Culture**: Does the workforce understand and embrace the strategy? Does it have the culture needed to support strategy execution?

2. **Workforce Competencies**: Does the workforce, especially the strategically important or "A" positions (jobs most vital to the company's success), have the skills it needs to execute strategy?
3. **Leadership and Workforce Behaviors**: Do leadership team and workforce consistently behave in a way that will lead to attaining the company's key strategic objectives?
4. **Workforce Success**: Has the workforce achieved the key strategic objectives for the business? If the organization can answer "yes" to the first three elements, then the answer should be yes here as well.

Exhibit 5
Source: Web-Books.com

A change of perspective – from seeing people as a cost to seeing them as the company's most valuable asset to be managed – is required to implement the HR scorecard. Metrics can range from transaction (activity-based) metrics to strategic ones. Transactional metrics are the easiest to measure and include counting the number of new people hired, fired, transferred and promoted. The measures associated with these include information such as the cost of each new hire and the length of time and cost associated with transferring an employee. Typical ratios associated with transactional metrics include the training cost factor (total training cost divided by the employees trained) and training cost percentage (total training cost divided by operating expense). These transactional measures, however, don't get at the strategic issues, namely, whether the right employees are being trained and whether they are remembering and using what they learned. Measuring training effectiveness requires not only devising metrics but actually changing the nature of the training.

The Bank of Montreal has changed the nature of its training and devised measures for it. "What we're trying to do at the Bank of Montreal is to build learning into what it is that people are doing," said Jim Rush of the Bank of Montreal's Institute for Learning. "The difficulty with training as we once conceived it is that you're taken off your job, you're taken out of context, you're taken away from those things that you're currently working on, and you go through some kind of training. And then you've got to come back and begin to apply that. Well, you walk back to that environment, and it hasn't changed. It's not supportive or conducive to you behaving in a different kind of way, so you revert back to the way you were, very naturally"[12]. To overcome this, the bank lets employees learn by doing. It conducts training so that teams bring in specific tasks on which they are working. This removes the gap between learning in one context and applying it in another. The bank then looks at performance indices directly related to the bottom line. "If we take an entire business unit through a program designed to help them learn how to increase the market share of a particular product, we can look at market share and see if it improved after the training," Rush said.

Motorola has adopted a similar approach and uses action learning in its Senior Executives Program. Action learning teams are assigned a specific project by Motorola's CEO and are responsible for implementing the solutions they design. This approach not only educates the team members but also lets them implement the ideas. Subsequently, they're in a position to influence the organization. In this way, the training seamlessly supports Motorola's goals.

As illustrated in these examples, businesses need employees to apply the knowledge they have to activities that add measurable value to the company. In planning and applying human capital measures, managers should use both retrospective (lagging) and prospective (leading) indicators. The scorecard is a vital tool because most organizations have much better control and accountability over their raw materials than they do over their workforce. A retailer can quickly identify the source of a bad product, but the same retailer can't identify a poor-quality manager whose negative attitude is poisoning morale and strategic execution.

Because the HR scorecard provides developmental attention to each area, the organization will be more likely to be successful. Managers will discover what needs to be done to develop it, and, in the case of an individual worker, he can use it to better understand why he may or not be effective in his current work setting. Priority areas for personal growth, learning and development can be identified in order to help the business succeed.

ROI Assessment

Finally, for organizations like Bank of Montreal and Motorola, training and other HR initiatives can be assessed for their business impact and ROI. The ROI Methodology™, developed over the past several decades by Jack and Patti Phillips and applied in thousands of organizations worldwide, offers a standard and structured approach to HR ROI measurement (***Exhibit 6***).

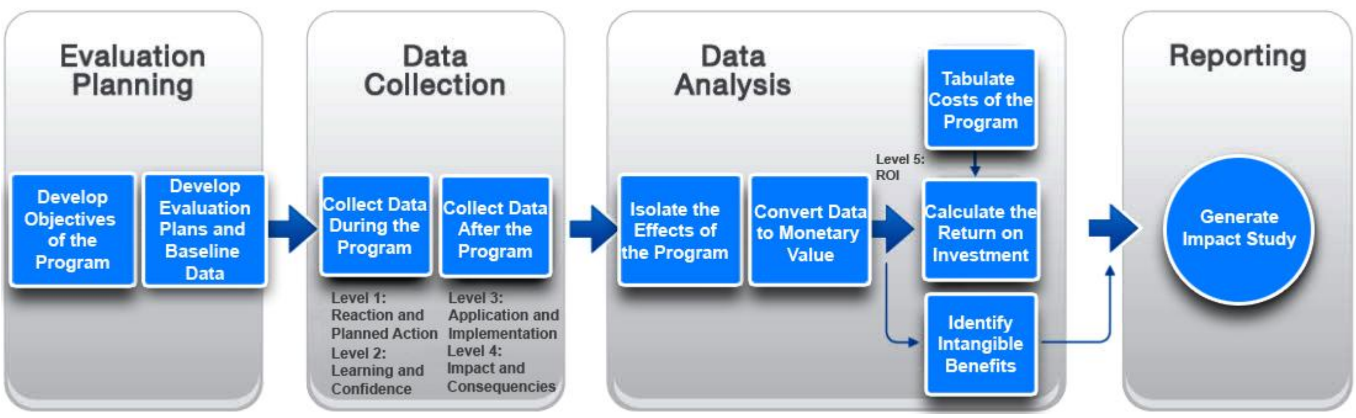

Exhibit 5
SOURCE: ROI INSTITUTE

Not every project or initiative needs an ROI analysis but the methodological rigor associated with this type of assessment is appropriate for large and important expenditures and one that will earn credibility for HR.

Conclusion

Some managers may be inclined to ask, "Why bother doing all this?" Research by John Lingle and William Schiemann provide a clear answer: Companies that make a concerted effort to measure intangibles such as employee performance, engagement, innovation and change in addition to measuring financial measures perform better. Lingle and Schiemann examined how executives measured six strategic performance areas: financial performance, operating efficiency, customer satisfaction, employee performance, innovation and change, and community/environment issues. To evaluate how carefully the measures were tracked, the researchers asked the executives, "How highly do you value the information in each strategic performance area?" and "Would you bet your job on the quality of the information on each of these areas?" The researchers found that the companies that paid the closest attention to the metrics and had the most credible information were the ones identified as industry leaders over the previous three years (74 percent of measurement-managed companies compared with 44 percent of others) and reported financial performance in the top one-third of their industry (83 percent compared with 52 percent)[12].

Assessments and diagnostics, properly chosen and implemented, followed by rigorous analysis, disciplined action and measurement, will often be the difference between HR program success and failure. In an era in which human capital accounts for most of an organization's expenses and nearly all of its competitive differentiation, organizational success depends more than ever on effective HR and human capital management.