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THE ROLE OF ASSESSMENT IN DRIVING OPERATING RESULTS

John S. Mattone

In today's global economy, it is critically important that organizations optimize their investment in human capital. Only the human capital asset can provide an organization with any real hope for meaningful market differentiation, positive branding, superior execution, and ultimate operating success. Business strategies that are overly weighted toward developing new technologies or controlling costs—for example, without the proper attention to the human capital assets required to execute that strategy—will result in a disastrous, short-lived plan doomed to fail. All assets, except the human capital asset, eventually become commodities. Beyond this reality, a host of external factors—an aging baby boomer population, job-market instability, declining birthrates, and worker “migration”—are making it extremely challenging for an organization to optimize its investment in human capital.

For most organizations, it is just plain difficult to find and keep good talent. Shifting world demographics, the aging workforce, and global mobility, as well as myriad internal challenges (e.g., limited resources, skill gaps, and insufficient leadership skills), are forcing organizations to rethink their human capital management strategy. Talent shortages at the leader level are exacting a heavy toll on organizational growth and adding ever-growing costs. Some organizations are literally sitting on capital, unable to expand into new markets or make critical acquisitions, because of a lack of leadership talent. Other organizations are spending millions on recruitment as they scramble to fill key positions. The cost of training new managers and executives is equally taxing. Of greatest concern are the costs that come from poor decision making, as organizations are forced to place less qualified individuals in leadership positions. Poor leadership can translate into millions in lost profits and countless missed opportunities.

The Search for Solutions

What can be done to reverse these trends? Clearly, organizations need programs to identify outstanding and high-potential employees and candidates for employment. Every process, from succession planning to leadership development, must be world class—the market is too competitive for anything less. More than any other factor, however, an organiza-

tion's ability to successfully reverse these negative trends is in direct proportion to the health and vibrancy of its talent-management systems—what we call the 4Ds: *deployment*—selecting and promoting talent; *diagnosis*—continually assessing leader, individual-contributor, and team capability; *development*—continually developing leader, individual-contributor, and team capability; and *demarcation*—rewarding performance. Any reversal of negative trends will not occur unless organizations and their leaders demonstrate *talent leadership*, as follows:

- * Organizations (and their leaders) must believe that the human capital asset is the most critical variable in driving operating excellence. Everyone must be enlisted, coached, and cajoled (if needed) in support of this belief.
- * The numerous challenges, both external and internal, that an organization's leaders encounter must be met and surmounted; if left unsolved, these challenges will exact a significant toll on the health and vibrancy of any organization.
- * There needs to be recognition of the clear, convincing, and powerful relationships that exist between an organization's operating results and the relative strength of its 4Ds. Top-performing companies and their leaders understand, respect, and act on these relationships.
- * There are proven predictive connections between certain leading indicators of human capital and their impact on individual and team performance, as well as on operating results. The top companies and their leaders understand, respect, and act on these relationships.
- * The foundation for continual improvement of employee performance is assessment and calibration. Organizations that excel in selecting, promoting, and developing talent—rigorously and passionately—assess these leading indicators. These assessments enable calibration and recalibration of employee standards and behaviors so that there can be course correction and improvement that translates to predictable operating success.

Elements of a Winning Human Capital Mindset and Strategy

At the core of any creation of a winning mindset and strategy is a core belief: *accurate information drives effective strategies*. This is good news for most organizations, because they already have an appreciation of accurate information. Operating metrics, financial ratios, and other ana-

lytic tools receive intense attention by boards of directors and senior leadership. Unfortunately, most of these tools are lagging indicators—after-the-fact metrics that tell what has already happened (e.g., cost per hire and increases in turnover). They are important, obviously, because they can lead to course correction as the organization strategizes for the future; however, they are not as important as the leading indicators—measurements such as leader capability and quality of hire/promotion. These latter measures are proven predictors of operating results. Thus, early measurement of the leading indicators will enable an organization to course-correct much earlier, if necessary, to ensure that its operating goals are met.

Being accurate in one's assessments must, of course, *begin with the end in mind*. Organizations and their leaders need to define their desired future state, along with the competencies required to execute both current and future strategies. Organizations that excel in human capital/talent-management practices that are passionately and diligently focused on their operational targets recognize the knowledge, skills, and abilities (i.e., competencies) required to meet those targets, and that is for every position, whether the CEO, senior leader, leader, manager, individual contributor, or team. And that's just the beginning. From there, it is critical that these assessments be calibrated to the competencies of both incumbents and candidates for employment. Ultimately, it is only accurate targets and talent/team diagnostics that will enable an organization to make the best selection and promotion decisions, as well as those concerning training, succession planning, and rewards.

All assessments—whether directed at isolating competencies, determining CEO and senior leader readiness, evaluating potential, or surveying team effectiveness and engagement levels—need to provide solid information—leading-indicator data that form the basis for improved decision making. As in the field of medicine, in the area of talent management it is not too far from the truth to state that *prescription before diagnosis is malpractice*. Only when you know the cause can you seek the cure.

If leaders can take their managers and teams on a rewarding journey—characterized by a passionate and diligent focus on assessment and the subsequent power that the assessment yields—they will have the foundation for the emergence of other critical beliefs and practices. The following beliefs and practices are shared by organizations with superior human capital/talent-management processes:

- * Better talent equals competitive advantage.
- * A human capital mindset is the catalyst for action.

- * Strengthening the talent pool is every leader's job.
- * The talent gold standard has been established (role model).
- * Leaders must be held accountable for identifying and developing talent.
- * Real money must be invested in talent management.
- * Talent review processes, including the C-suite, are critical.

All of these beliefs should be the catalyst for action—positive action. According to McKinsey's *War for Talent* research (Michaels, Handfield-Jones, and Axelrod 2001), however, the actual number of organizations engaged in positive human capital practices is startlingly low—and the situation is easily traceable to a relatively weak human capital mindset and poor execution.

Today's External and Internal Challenges

Aging baby boomers, declining birthrates, and volatility in the job market are combining to raise the stakes in the human capital market. Global competition for talent, especially leadership talent, is intense. Leadership shortages are more pronounced in growing markets such as India and China. Finding leaders in these markets with experience in Western corporate culture is proving difficult, with many organizations competing for the same small population. On the flip side, finding U.S. leaders with global experience is proving almost as challenging. In one recent study conducted by Executive Development Associates (2005), globalization was rated fourth as a cause for today's leadership shortages. The first cause listed? A lack of needed skills.

By extension, it is clear that talent shortages exist at every level of an organization—in both quantity and quality. Beyond the external factors, however, there are significant internal challenges that make it extremely difficult for CEOs, senior teams, managers, individual contributors, and human resources personnel to believe in and execute a winning human capital/talent-management system. As stated earlier, these challenges are tied to the 4Ds of human capital/talent-management processes—deployment, diagnosis, development, and demarcation. If unmet, these challenges will exact a significant toll on an organization's performance. That said, an organization's ability to successfully resolve these issues is in direct proportion to the strength of its human capital/talent-management processes.

In terms of each of the 4Ds, let's look at the obstacles that organizations face:

Deployment Obstacles

- * Recruiting, selecting, and promoting are not based on the competencies required for success.
- * An aging workforce results in concerns about bench strength.
- * Low selection ratios mean that there are a lot of candidates per job opportunity.
- * Talent shortages are pervasive.
- * Inaccurate selection/promotion methods yield low new-hire ROI.
- * High turnover rates result from inadequate talent and/or fit problems.
- * Too many interviews are granted, adding to cost, inaccuracies, and legal exposure.
- * There is poor identification of high potentials.
- * Succession paths are unclear.
- * Selection and promotion instruments don't measure capability, commitment, and alignment with organizational goals.
- * Inaccurate belief prevails that "the best predictor of future performance is past performance."
- * Existing assessments have questionable validity, reliability, and job relevance.

Diagnostic Obstacles

- * There is a noticeable gap between skills and talents.
- * Persistent problems exist with bench strength.
- * ROI for leaders, teams, and individual contributors is poor.
- * Widespread disengagement exists among employees.
- * High turnover rates are pervasive.
- * There are inadequate or no internal or external reference points for calibrating leaders, individual contributors, and team capability, commitment, and alignment.
- * Assessment instruments do not currently align with the target competencies required for success.
- * Assessment instruments do not provide accurate diagnostic information for determining strengths and developmental needs, behavioral feedback, and recommendations for performance development.

- * Multiple diagnostic tools are not utilized (e.g., multirater, objective assessments, interviews, and minisurveys).

Development Obstacles

- * Discrepancy information (i.e., when perceived assessments of performance factors disagree with objective assessments of the same) is not uncovered, discussed, and leveraged.
- * Training and development are not linked to competencies or to assessments.
- * Learning sessions are long and require too much time away from the job.
- * Development is not multifaceted, ignoring coaching, workshops, summits, institutes, e-learning, and on-the-job possibilities.
- * Individual development planning (IDPs) is not happening and/or not recent or based on accurate assessment data.
- * Learners have difficulty measuring progress against established goals.
- * Training and development are costly and difficult, thereby preventing solid ROI; they are largely “event” focused, as opposed to continual.
- * Organization is not innovative enough and lacks design.
- * There are problems with organizational change and/or making transitions.

Demarcation Obstacles

- * Performance management is a top-down event, not a joint process.
- * Performance management is “event” driven, not continual.
- * The word *accountability* is not pervasive in procedures and not believed in and/or practiced.
- * Performance management is incomplete—it’s seen as a “form” or “software” to be completed.
- * Goal setting and performance planning are not aligned with an organization’s strategic direction and/or assessment systems that isolate capability, commitment, and alignment.
- * Different levels of players are not accurately differentiated or receive different rewards.

What About Demarcation?

Typically, only 16 percent of organizations separate employees into performance categories of, say, A, B, and C players. If an organization does not have a systematic approach to separating talent in terms of both performance and potential then it is handicapped in making the best strategic human resources decisions (rewards, promotions, succession planning, and termination). After all, employees who consistently execute at the highest levels should be rewarded more than employees who don't.

Most organizations, unfortunately, struggle with this concept of fairness. Typically, they don't have an effective way to identify the As, Bs, and Cs, nor do they have a systematic approach and process to ensure that appropriate actions are taken. Most organizations conduct one-day succession-planning exercises at corporate headquarters; those exercises are done with little objectivity (i.e., objective assessments), resulting in less-than-effective development planning and succession decisions.

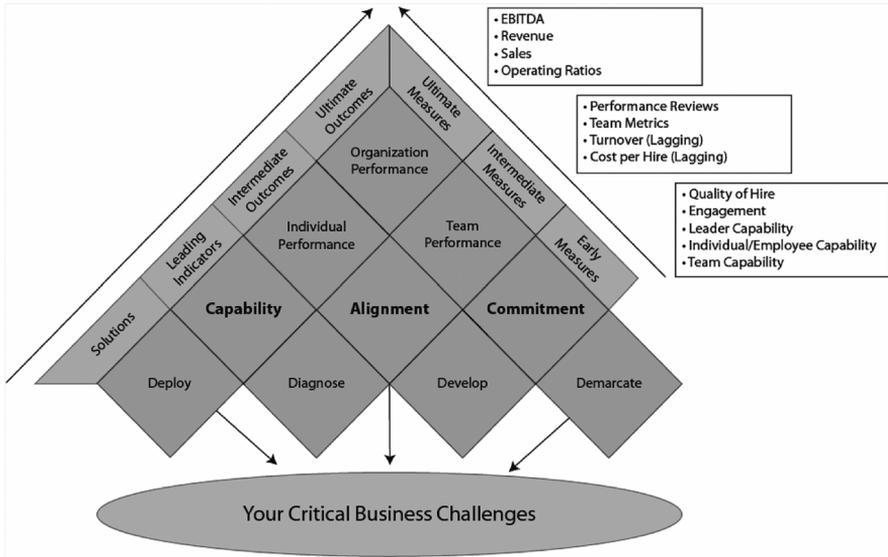
Great organizations distribute the investments they make in their people accordingly; they differentiate on pay levels, bonuses, opportunities, shifts, and recognition. They reward their best performers with fast-track growth. They develop and "affirm" their solid performers, who are always trying to raise their game. They also address and remove employees who are underperforming; their belief—a perceptive and correct one—is that condoning or tolerating poor performance is destructive to high performers' motivation. The actions (or inactions) of leadership always speak louder than words, and few things communicate organizational indifference and apathy better than treating high, average, and low performers exactly the same.

The Stealth Fighter Model

What I've termed the Stealth Fighter model, shown in Figure 5.11, offers a compelling, symbolic way to understand the predictive relationships that exist among the critical human capital/talent-management processes (the 4Ds), the leading indicators (capability, commitment, and alignment), and the intermediate and ultimate outcomes.

Fashioned after the armed forces Stealth Bomber, this depiction shows the 4Ds discussed earlier as the four turbocharged engines that propel the fighter toward its target. The target, or goal, is the organization's "future desired state" and the required competencies to execute both its current and future business strategies. By way of analogy, note that if the engines are well oiled and functioning at high level (i.e., optimized), and are working together (i.e., integrated), they will propel the Stealth toward its goal.

Figure 5.11. *The Stealth Fighter model.*



In practical terms, an organization's human capital value proposition (HCVP) is the sum of its following practices: (1) *deployment*—selection and promotion; (2) *diagnosis*—assessing leaders, individual contributors, and teams; (3) *development*—developing leaders, individual contributors, and teams; and (4) *demarkation*—performance management and its relative impact on multiple levels of business outcome, such as capability, commitment, and alignment (leading indicators); its intermediate outcomes, such as individual and team performance (lagging indicators); and its ultimate outcomes, such as organizational revenue, profits, and operating ratios. Regardless of the exact words used to capture an organization's HCVP, one thing is sure: The elements identified in the Stealth Fighter model need to be well thought out, believed in, communicated, executed, and measured (assessed)—continually.

At its core, a great HCVP encompasses everything that individuals experience and receive as employees of the organization, including their degree of engagement, their comfort with and fit in the culture, the quality of their leadership, the rewards they gain, and so on. A great HCVP always encompasses the ways an organization fulfills the needs, expectations, and dreams of its employees and it should be the reason its leaders, individual contributors, and teams give their absolute best. More than

anything else, a great HCVP connects the winning human capital practices to the business and operating metrics.

As was discussed earlier, there is no better way to build belief in the value of the human capital asset than by demonstrating the connection between winning practices and operational success. The research is clear and compelling. The Hackett Group's 2009 "Talent Management Performance Study" involving hundreds of Fortune 500 Companies gathered both qualitative and quantitative data showing the financial, operational, and process payoffs from talent management (DiRomualdo and Bression 2009). That is, companies with the most "mature" talent-management capabilities had significantly greater EBITDA (earnings before interest, taxes, depreciation, and amortization), net profit, return on assets, and return on equity than companies that were "immature" in their talent-management processes. Additionally, mature talent-management companies had leaders who believed in the value of the human capital asset; were passionate about investing in building and growing talent; were relentless in their assessment of leaders, individuals, and teams; and shared their human capital responsibilities with line managers and the human resources function.

It is clear that organizations that excel operationally do so initially with their human capital practices. They select and promote only those leaders and individual contributors who demonstrate (as a result of performance and objective assessments) that they have the highest probability of being successful—they benchmark their standards and certify (as a result of assessments) that their leaders, individual contributors, and teams have the capability, commitment, and alignment required to execute strategy. They provide a rich, compelling, engaging, and dynamic learning and performance support environment in which those leaders, individual contributors, and teams can be motivated to become the best they can be. And they reward and recognize those who truly execute.

A strong HCVP foundation leads to *capability*—"can do"; *commitment*—"will do"; and *alignment*—"must do." Great organizations excel in creating the belief that their leaders, individual contributors, and teams have the skills, talents, and behaviors to execute; they have the passion, motivation, and drive to execute; and they have an overwhelming sense of connectedness to the culture, mission, strategy, and values to execute. A strong HCVP is how an organization builds and sustains a culture of leaders, individual contributors, and teams that become continually more capable, more committed, and more aligned. In fact, organizations that excel in selecting and developing talent—with a focus and unwavering commitment to optimizing these leading indicators—achieve impressive operating results.

Deployment, Diagnosis, and Development

According to the Society for Human Resource Management article “Talent Management: A Driver for Organizational Success” (Lockwood 2006), the number-one challenge for organizations today is building a deep reservoir of successors at every level. Most organizations are likely not utilizing predictive assessments and/or a structured process to identify and promote high-potential individuals. In fact, according to PreVisor’s “2009 Global Assessment Trends Report” (Fallaw and Solomonson 2009), only 50 percent of organizations surveyed indicated that assessments were a critical part of their succession planning and only 33 percent indicated that they used a structured promotion process for all leaders in their organizations. How do organizations meet this challenge? The answer is clear: Focus on assessment and structure.

The obstacle here is that most organizations extract their leadership talent from within their ranks; if the company lacks focus on assessment and structure, it substitutes a subjective view of capability, commitment, and alignment. This leads to promotion and high-potential decisions with little or no substantive evaluation of true leadership capability or alignment with the mission of the organization. The advancement rationale seems to be that individuals who are skilled and have excelled in one area will likely excel in other areas—but of course this is not a reliable assumption. As indicated here, a much better basis for making high-potential and leadership promotion decisions lies in deliberate assessment and alignment of skills, motivation, and personality.

The notion that the best predictor of future behavior is past behavior simply is not correct or reliable. The absolute best predictor of future behavior is past behavior—*plus* overlaying objective assessments, *plus* integration of objective assessment results with perceptions of behavior, *plus* leveraging of the integrated results, as shown in this formula:

$$\text{PB} + \text{OOA} + \text{IAP} + \text{LIR} = \text{FSSP}$$

where,

PB is past behavior

OOA is overlay of objective assessments

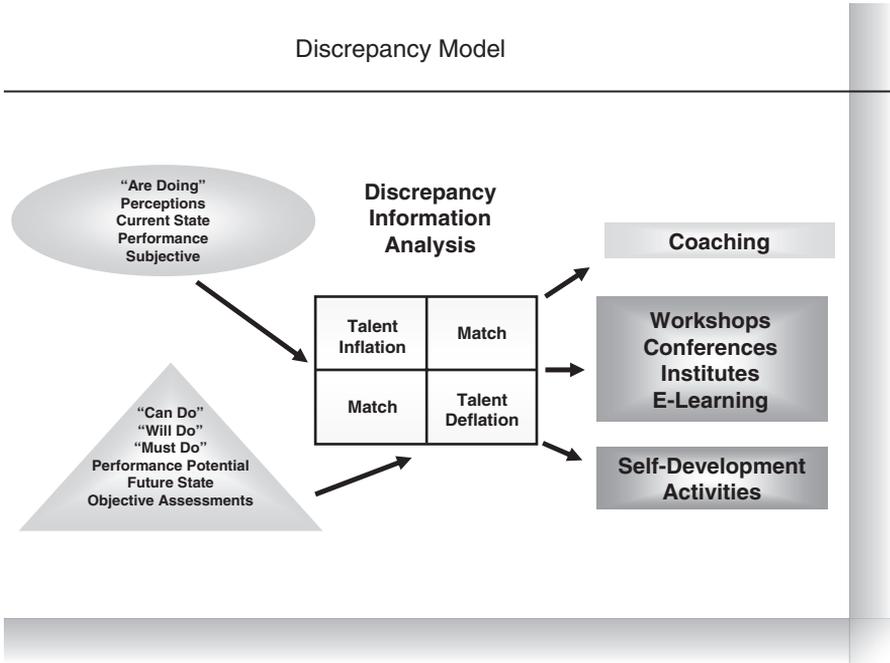
IAP is integrating assessments with perceptions

LIR is leveraged integrated results

FSSP is future superior and sustainable performance

The Discrepancy model (see Figure 5.12) shows the value of overlaying the objective assessments onto perceptions, as there will always be

Figure 5.12. *The Discrepancy model.*



corroborative information. This is good; however, the real value of assessment lies in the inevitable discrepancies that result, whereby “talent inflation” and “talent deflation” are uncovered. Without objective assessments, these discrepancies would never be uncovered. The two diametrically opposing quadrants represent the “secret” to coaching, developing, and helping individuals become the best they can be.

JohnMattonePartners’s Definition of Deployment

Deployment, which is concerned with selection and promotion of high-potential individuals, entails four major elements:

1. Identifying the organization’s future desired state, including the requirements for key positions and the competencies needed to execute the organization’s strategy
2. Assessing a candidate’s skills, abilities, interests, values, and personality

3. Matching the candidate's skills, abilities, interests, personality, and value to the position for which he or she has the highest probability of success and greatest chance of being engaged and challenged
4. Implementing these steps at each level and for each position in the organization, so that deployment decisions are efficient and effective and drive individual and operational success

Inherent in these four elements is the requirement for a “quality of hire/promotion” metrics that provides early indications that an individual is, in fact, capable for, committed to, and aligned with the proposed employment or promotion. Waiting for formal performance reviews, which are lagging indicators, is too late. Typical “quality of hire/promotion” metrics include time to proficiency, surveys of hiring managers, feedback from managers and board, and the like. Leveraging this information early and often and integrating it with earlier objective assessment data will enable prompt and effective course correction—which benefits the newly promoted talent and the organization.

What about the assessment of incumbent leaders, managers, individual contributors, and teams? Since all incumbents, from the CEO to individual contributors, can be assessed on the basis of capability, commitment, and alignment (the leading indicators), it makes strategic human capital sense to calibrate and recalibrate regularly so as to enable early course correction, ensuring that operating goals are met. It is prudent—and, in fact, healthy—for an organization to benchmark (i.e., assess “can do,” “will do,” and “must do”) both its senior leaders and its staff for their individual and collective strengths and knowledge or skills gaps. If we return to the Discrepancy model (Figure 5.12), where “talent inflation” and “talent deflation” are uncovered regardless of position, we can see the incredible opportunity for such individuals to identify the keys to becoming the best they can be.

When well-functioning human capital organizations focus on the leading indicators, not only do they employ individual capability assessments like multirater surveys, communication-style inventories, personality assessments, and simulation-based tests as part of their battery of diagnostics, but they also use individual and team commitment and alignment assessments such as pulse and engagement surveys. In fact, an organization's employee-engagement levels are highly predictive of its operating results.

The Gallup Organization has reported bleak news on the topic of employee engagement: 52 percent of the American workforce are disengaged, while another 17 percent are “fundamentally disconnected” from

the work they are paid to perform (Buckingham and Coffman 1999). That is, only one in three workers extends the necessary effort that will move organizations forward. Some—like Ritz-Carlton, Marriott Vacation Club, and The Home Depot—seem to understand the importance of engagement and tend to measure employee-engagement levels more frequently, but most organizations don't measure nearly enough.

What about the role of the leader in building this employee engagement? Leaders and managers have a responsibility to foster a work environment built on rapport, trust, and credibility. An engaged workforce is established through quality, immediate supervision, as well as quality, clear, and effective communication from the CEO and senior leadership. All employees must perceive that they are being coached and developed to execute the skills required for their success (i.e., “can do”); that they are encouraged to exercise the passion, drive, and motivation required for their success (i.e., “will do”); and that they exhibit the required “fit” with the organization's mission.

Ultimately, the Stealth Fighter model presented in Figure 5.11 shows how superior operating performance is the direct result of unwavering commitment to measurement of both individual and team capability, commitment, and alignment. The focus on calibration and recalibration is the foundation for early course correction and positive individual and organizational development.

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Prior to founding JMP, John was the Vice President of Global Assessment Services for Linkage, Inc. Before that, he was the Senior Vice President of Sales for Drake Beam Morin, the global career and outplacement firm. Before joining DBM, John spent ten years building his first successful consulting firm, Human Resources International.

John has consulted for more than 250 organizations and addressed more than 500,000 people in 2,000 speeches and seminars throughout the United States, Canada, and other countries. John is a prolific author with two newly revised books, *The New Success Paradigm* and *Putting Coaching Back into Performance Reviews*, as well as over 100 professional articles and book chapters including “The Role of Assessment in Driving Operating Results,” published here in Jac Fitz-enz’s book *The New HR Analytics* (AMACOM, 2010), and “Predictive HR Leadership” published in Jac Fitz-enz’s *Workforce Intelligence Report* (2008). John is writing his third book, *Stealth Leadership: Using Assessment & Coaching to Propel Your Organization and Leaders to Greatness* (Talent Management Academy, 2011). John is also featured in a variety of audio/video programs, including *Hiring & Performance Management*, *Focus on Success*, *The Essentials of Delegation* (all published by National Press), and the award-winning *Street Smart Leadership*.

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