

## A Strategic Advantage: The ROI of Human Capital Management

March 2004

### Overview

Over the past 50 years, the industrial world has experienced an unprecedented shift from manufacturing to a services-based economy. Services-based employment now represents 82% of all jobs in the United States. This change has had a profound impact on revenue generation because more and more products and services are being created through human capital rather than through physical capital.

Leading organizations recognize that their key assets are human assets and therefore, retention and hiring practices must focus on the identification and measurement of top talent within the enterprise. Human capital management is an approach that helps these companies define, structure and realize their business strategy by focusing on the management and development of their most important assets—employees. Measuring and managing the performance of human capital, and identifying the critical factors that distinguish top performers, affords companies tremendous competitive advantage.

To clearly identify the ROI on this critical asset, organizations need to first determine the bottom-line impact of employee performance. Studies by McKinsey and others have consistently proven that behaviors, such as the time spent by senior managers on talent management, is what differentiates successful from unsuccessful companies. Leaders of highly successful companies spend as much as 50% of their time in the assessment, development and selection of their firm's human assets.

In a recent case study, **viaPeople** identified the bottom-line impact of employee performance through research with a field sales force in a medium-sized U.S. pharmaceutical company.

### The Business Challenge

One of the fastest growing pharmaceutical companies in the U.S wanted to identify the behaviors which differentiated top performing sales leaders from other sales leaders. With this information in hand, the company's plan was to restructure its recruitment, selection, training, and talent management programs to ensure that they focused on only those competencies found to be most indicative of success in sales leader positions. The company hired **viaPeople** to help identify the characteristics of successful sales leaders, as well as to determine the impact on the company's bottom line of improving performance in critical skill areas.

### The viaPeople Solution

Through a combination of 360-Degree Feedback and statistical analysis, **viaPeople's** Industrial/Organizational Psychologists identified those behaviors that distinguish high performing sales leaders from average and marginal performers. The results of our analyses were so compelling that even a 5% increase in performance across these differentiating behaviors would translate to an estimated increase of \$40 million in annual revenue for the company. These high-performer "profiles", which reflect differentiating behaviors, formed the critical building block upon which to build a high-performing, high-profit sales force.

Using these profiles, we worked with the client to create strategic human capital management processes and programs to support their staffing, performance management, training, and talent management initiatives. These processes were implemented throughout the sales division to ensure that all selection, training and development programs were targeted toward top talent.

Other examples of how organizations can use these analyses to gain competitive advantage include:

- Identifying groups within the organization that are outperforming other groups in different markets, with similar economic conditions.
- Identifying talent before and after mergers and acquisitions to determine how to map a clear path for improving performance in targeted areas.
- Developing a focused training strategy to ensure that programs are offered to groups that need them most, thereby allocating training budgets more cost-effectively.
- Developing clear guidelines for compensation and incentive compensation decisions that are based on performance and contribution.
- Charting the performance distribution of the entire organization by skill area to determine the resources required to execute the organizational strategy.
- Tracking period to period improvement or decline in critical competencies that have been proven to increase operating results.

### **Conclusion**

The ability of HR professionals to demonstrate the value of human capital in terms typically considered meaningful to senior executives (e.g., revenue, growth) elevates the HR function to strategic partner in setting the direction of the organization. While many HR Professionals are familiar with traditional HR metrics, such as staffing metrics (e.g., cost per hire), the emerging trend in human capital management requires us to justify how people and their efforts can increase company profits and shareholder value. The results of our ROI case study clearly demonstrate the tremendous impact that human capital practices have on the financial success of organizations.