Measuring People and Performance: Closing the Gaps

Study indicates a relationship between use of people metrics and return on assets.

by
Brian S. Morgan
and
William A. Schiemann

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"PEOPLE ARE OUR MOST IMPORTANT asset." "You can only manage what you measure." Most executives would readily subscribe to these time-honored maxims, but few put either into practice. Fewer still put both into practice, and therein lies the opportunity.

Effective people management is required for building and sustaining competitive advantage, and effective people measurement is a critical tool for effective people management. In fact, high-performing companies tend to be better at people management and measurement than other organizations.

One of the findings of a recent *Quality Progress*/Metrus Group study is that a significant relationship exists between the use of people metrics and return on assets. However, even among industry leaders, people measurement and management are not significant strengths, compared to the proficiency these companies demonstrate in the measurement and management of operational performance, product and service quality, and financials.

More than 800 responses

Quality Progress and Metrus Group, a Somerville, NJ, management consultant firm specializing in strategic performance measurement and organizational change, invited a national cross section of 7,500 ASQ-member quality professionals to respond to questions about their companies' people measures. More than 800 responses were returned, an indication that the people measurement issue is considered important.

Specifically, participating professionals were asked to assess the measures of employee commitment, satisfaction, and performance employed by their companies to help them manage their people. They were asked what their companies measure, how valuable the information is, and how the information is linked to performance improvement and rewards.

Findings include:

- While employees of over half of companies say they have a well-defined and balanced set of business measures, fewer than a third say well-defined people measures are part of this set.

- Less than a third say there are clearly defined performance targets for their people measures.
- Although there is clear evidence that employee commitment and satisfaction have an impact on customer satisfaction and financial performance, less than two in 10 companies use people measures to predict these key business outcomes. In fact, most companies do not measure performance on those people issues that are most predictive of customer satisfaction.
- Industry leaders do a much better job of people measurement than other companies, but even among high performers there are significant opportunities to use people measures more effectively.

Most professionals in the study believe their companies' people-measurement practices need to be improved. Many say that in their organizations, people measures are almost nonexistent. A distribution company executive notes that "the concept is so foreign that any integration of people measures into business objectives would be of benefit." Other comments reveal a desire for better-designed measures, more action to address the issues revealed by the measures, and closer ties between rewards and performance on people measures.

> **Most professionals in the study believe their companies' people-measurement practices need to be improved. An organization that locks its employees into situations in which they cannot gain information from other people is an organization that is doomed to be the sum of its employees' imperfections.**

The responses of these executives to the study's questions serve as a road map for improving people measurement and for using people measures more effectively to predict market and financial performance.

What companies measure

Begin with a look at current people-measurement practice, as shown in Figure 1. Executives were asked whether their leadership team has a well-defined and balanced set of strategic measures that it uses to help manage the business. As noted earlier, over half say their companies have a balanced set of measures. However, when asked whether people measures are part of this set, just three in 10 responded affirmatively.

This does not mean that just three in 10 companies use people measures. Rather, it means that just three in 10 use them strategically. Almost three-quarters of the executives surveyed say their companies use people measures. But less than a third tie people measures to performance targets, and less than two in 10 use people measures as upstream predictors of customer and financial outcomes.

As a manager from a plastics company notes, "Our people measures lean toward reactive rather than proactive." It appears many companies are treating their people measures as nice-to-know information, with no real business consequences.

Figure 2 shows that study participants report people measures are used less often than measures related to suppliers, customer satisfaction and loyalty, product and service quality, operations, and financial outcomes, but more often than measures of environmental issues, community issues, or adaptability.

If so few companies use people measures well, do such measures really make a difference? After all, compared to operational and financial measures, most people measures are more difficult to define, gather, and understand. They are also marred by a stereotype of softness because they rely a great deal on judgment and perception.

But measures of customer satisfaction, loyalty, and value are also perceptual measures. So why are they more highly regarded than people measures? One possible answer is that there exists a definitive body of evidence demonstrating how measures of customer satisfaction and the like can be used to predict buyer behavior, market share, and financial performance.[1] This is true, but a great deal of evidence suggests people measures also have similar predictive power.[2]

Despite all the evidence, people measures have often taken a back seat to other business metrics. While many of the executives in the study express a desire to do a better job of people measurement and management, it is clear other aspects of their work have higher priority. This happens because many do not understand the potential power of people metrics, and many who come out of financial, sales, or engineering backgrounds are wary of analyses that are based on intangibles rather than hard facts.

People metrics and financial performance

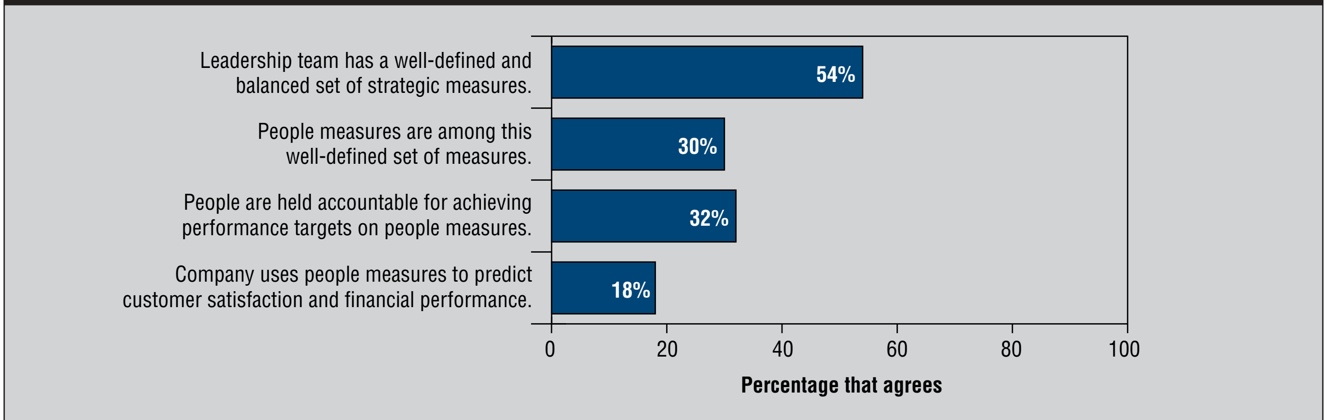
To better understand the relationship between people measures and business performance, the impact of people metrics on financial performance was examined by assessing people measurement practices in high-performing and low-performing organizations.

The Metrus Group was able to obtain information on return on investment (ROI) for 78 companies whose employees participated in the study and on return on assets (ROA) for 112. It discovered that the use of people measures may be predictive of both of these financial indexes:

- In those organizations in which people measures are part of a balanced set of measures used by leadership teams to help manage their businesses, five-year ROI is 146%, compared to 97% in other organizations, and one-year ROA is 4.6% vs. 1.9% in other organizations.
- In organizations in which executives say their employee surveys provide information that is valuable in guiding decision making, five-year ROI is 136%, compared to 71% in other organizations, and one-year ROA is 3.7% vs. 0.7% in other organizations.

Another distinction between high- and low-ROA firms involves differences in the way both firms use specific people measures. High performers are more likely than the others to

Figure 1. Companies Using a Balanced Set of Strategic Measures



measure performance in the areas of culture, values, leadership, and employee commitment. In most of the people-measurement areas examined, those with higher ROA and ROI used people measures more effectively.

Industry leaders vs. others

While Metrus had financial measures for a portion of the companies surveyed, information was gathered from all participants on whether they believed their companies were industry leaders. Where corroborating data were available, such as information on ROI, ROA, and industry rank in the *Fortune* 500, were available, these data confirmed the validity of self-reports of industry leadership.

Figure 3 shows that compared to other companies, industry leaders are:

- Far more likely to say they have a well-defined and balanced set of strategic measures and that such measures are used to help manage the business (69% vs. 39%)
- More likely than others to say that people measures are part of the balanced set of strategic measures (39% vs. 19%)
- More likely to have performance targets for their people measures (42% to 20%), and more likely to hold people accountable for achieving these targets (44% to 22%)

For the most part, industry leaders are committed to people measurement, but the data may indicate that improvement not only will yield better financial performance results, but will also lead to improved customer satisfaction.

Employee-customer linkage: A missed opportunity

Significant gain can be realized when companies link people measures to measures of customer satisfaction. People measures are predictive of customer satisfaction, loyalty, and value, so linkage provides a window into the future. With linked measures, companies can:

- Predict customer satisfaction, loyalty, and financial performance from people measures
- Identify which people issues have the greatest impact on business performance
- Allocate resources to address the people issues that will make the greatest difference to the business

At present, few companies link their measures. In the study, only 22% of industry leaders and 14% of other companies say they use people measures to predict customer satisfaction and financial performance.

The Metrus Group had previously identified a set of people issues that are consistent predictors of customer satisfaction.[3]

Figure 2. Current Practices in Performance Measurement

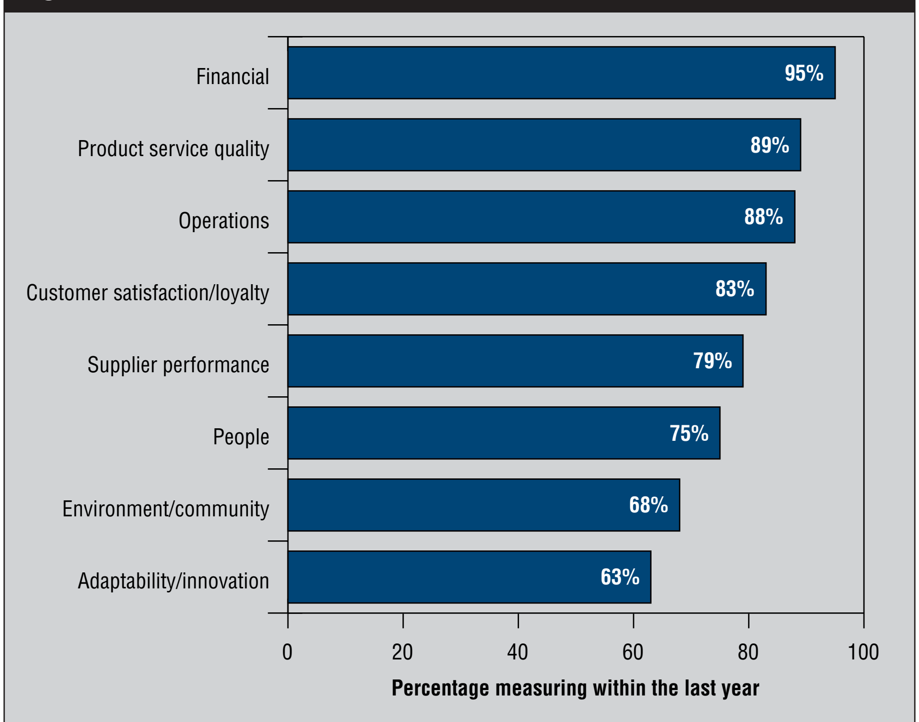
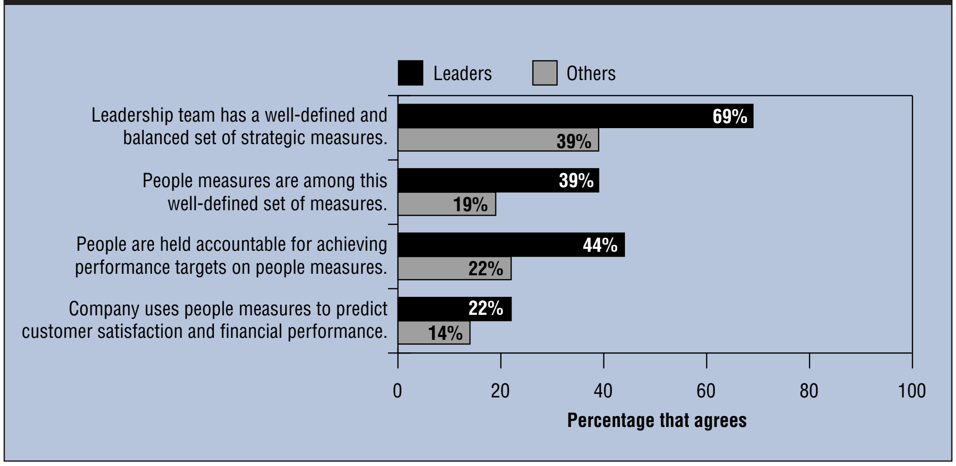


Figure 3. Industry Leaders Compared to Others in People Measurement



When companies conduct employee surveys, they can often link the results directly to their customer survey results by comparing the attitudes and opinions of groups of employees with the customer satisfaction ratings of those they serve.

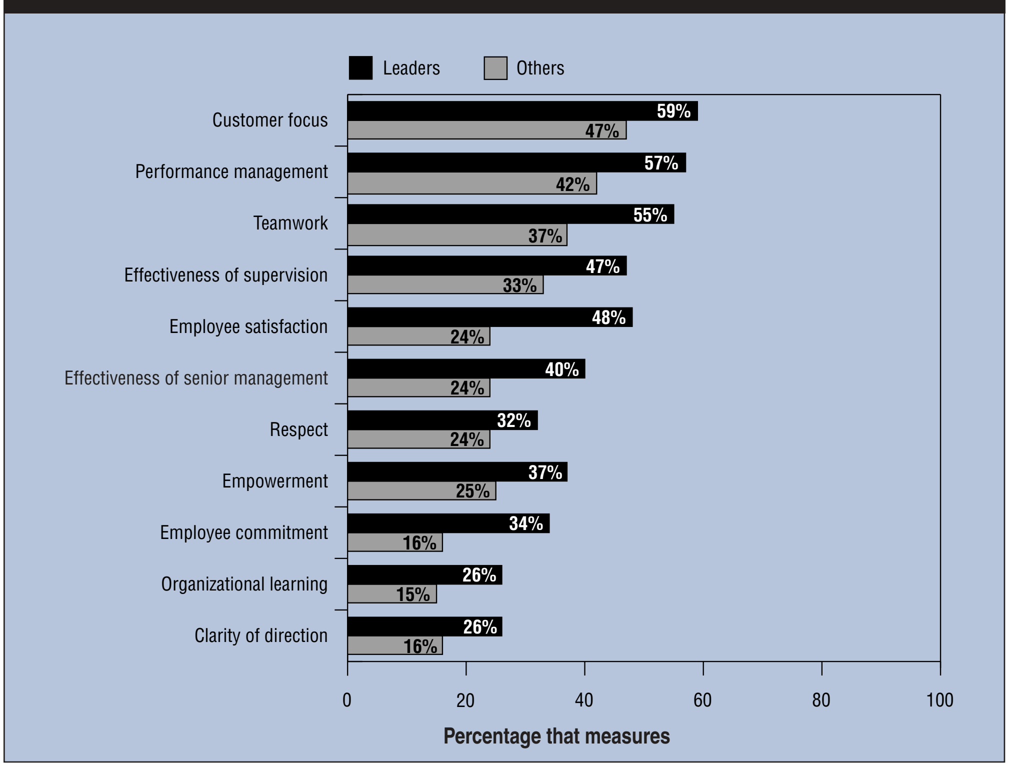
When analyses are performed to link employee and customer survey findings, the following people dimensions frequently emerge as predictors of customer satisfaction:

- **Customer focus**—the priority placed on providing high-quality products and services to customers
- **Performance management**—the effectiveness of goal setting, coaching, performance feedback, and performance-reward linkage
- **Teamwork**—the level of coordination and cooperation between business units, departments, and work groups
- **Management**—the effectiveness of senior leadership
- **Supervision**—the effectiveness of immediate supervisors
- **Clarity of direction**—communication of strategy, mission, direction, and objectives
- **Employee commitment**— employee identification with and support of the company's mission, direction, and objectives
- **Employee satisfaction**— overall satisfaction with the company as a place to work
- **Respect**—the regard accorded employees as individuals, and the extent to which their viewpoints and opinions are seriously considered by management
- **Empowerment**—authority to make decisions about how to do the job
- **Organizational learning**—adaptability and innovation

From the preceding list, the *Quality Progress*/Metrus Group survey asked executives to select the people dimensions that are actually measured in their firms. The results are shown in Figure 4. Only in the area of customer focus do more than half of companies say they measure performance. Among industry leaders, the numbers are higher: More than half say they measure customer focus, performance management, and teamwork. Surprisingly, few companies measure levels of respect, empowerment, employee commitment, organizational learning, or clarity of direction.

Once again, there is an enormous gap between current practice and potential. Measures in these areas can be used to predict business performance, but few companies are taking advantage of the opportunity to use them.

Figure 4. Industry Leaders Compared to Others in Measuring Predictors of Customer Satisfaction



What tools do companies use?

The performance measurement tools used by companies are shown in Figure 5. Individual performance assessments are the only measurement tools used by almost all companies (91%). Nothing else comes close: Employee surveys are the second most popular, but less than half of companies (42%) say they use them. Even fewer use them strategically.

At the same time, a majority of those who use individual performance appraisals and surveys say both tools provide information that is valuable for business decision making. It has been shown that employee surveys are often highly valued in companies that achieve higher ROI and ROA. Given the potential business value of people measures and their linkage with business results, it is likely companies will gravitate toward greater use of the rich repertoire of people measures beyond appraisals and surveys in their search for competitive advantage.

For example, it is quite likely that companies will begin to use both skill and ability audits and internal customer surveys more often. Skill audits are a natural outgrowth of a well-developed competency measurement system. Once critical skills have been identified, and performance appraisals incorporating them have been completed, it is a small leap to chart gaps between current and required skills. A manager in a manufacturing firm considers his company's skill audit to be its most valuable people measure and notes that it is "used to help align the organization and add value for the customer."

Internal customer service measures are underutilized, even though internal service is a critical link in an organization's value chains. Particularly now, with the growth of shared-services organizations, companies are beginning to make systematic assessments of the value they are getting from both the service units within their organizations and the services provided by outside contractors. The number of firms that have excellent external customer value measures but fall short on internal service metrics, all of which are crucial for a complete view of their delivery chains, is puzzling.

What strategic people-measurement systems look like

Participants in the study were asked to characterize their organizations' approach to people measures. They could select one of the following descriptions:

- Abacus (measurement as a tool to count activities)
- Thermometer (measurement as a tool to monitor attitudes and perceptions)
- Nightstick (measurement as a club to spur performance)
- Stopwatch (measurement as an efficiency tool)
- Fire alarm (measurement as a tool to signal emergencies)
- Computer network (measurement as a tool for integration and management of strategy)

The 96 participants who said their companies' measurement system was most like a computer network are of special interest. These organizations use measurement as a tool for implementing business strategy. They are distributed across most industries, and are more likely than others to be industry leaders.

The strategic measurement systems employed by these participants' companies make far better use of people measures than do the systems of any other companies included in the survey. Their systems can serve as examples for those who are trying to enhance their people measures. Such systems are characterized by:

- **Widespread use of people measures.** Three-fourths of these companies say people measures are part of the set of measures that the leadership team uses to help manage the business.
- **A link between people measures and rewards.** Three-fourths say there are clearly defined performance targets for the measures, and that people are held accountable for achieving these targets.
- **Much more frequent use of people measures as predictors of customer satisfaction.** A substantial majority say their companies measure performance on most of the issues related to customer satisfaction.
- **More frequent use of measurement tools such as employee surveys, team performance assessments, skill/capability audits, and internal customer surveys**

A medical equipment manufacturing manager who likens his company's system to a computer network says, "Measurement is used to help focus efforts toward agreed-upon expectations and results."

Metrics work in these companies because the organizations are measurement managed.[4] Compared to other participating

About the People and Performance Study

The findings reported in this article are based on questionnaires received from managers and directors in a national cross section of organizations and selected telephone interviews with survey respondents.

In February 1998, questionnaires were sent to 7,500 *Quality Progress* subscribers with the title of manager or director. Completed questionnaires were received from 806 individuals, for a response rate of 11%. Six in-depth phone interviews with respondents were also conducted.

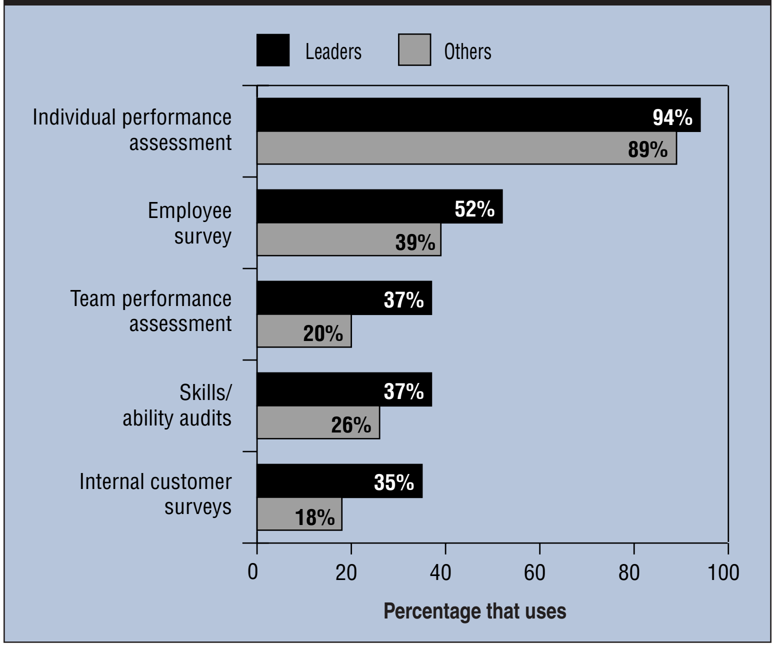
The makeup of the 806-person sample was as follows:

- 35% of those who completed questionnaires were senior executives, 48% were middle managers, 9% were first-line managers or supervisors, 2% were individual contributors, and the balance did not indicate their current position.
- Just over one-third of participants (34%) were from companies with fewer than 500 employees, 31% were from companies with 500 to 5,000 employees, and 27% were from companies with more than 5,000 employees. The size of their companies' work force was not indicated by 8%.
- Manufacturing organizations made up 67% of the sample, service organizations represented 17%, government employees made up 2%, and the balance were unclassifiable, either because they represented a combination of service and manufacturing industries or did not report their industry.

For statistics reported in this article for the total sample of 806, the error of measurement is ±3.5.

companies, they are more likely to have a balanced set of measures to track business performance and to have measured performance in at least three strategic measurement areas within the last year. A measurement-managed culture is predominant among those who say their companies are industry leaders (68% of industry leaders vs. 43% of the others meet the criteria for being measurement managed).

Figure 5. Performance Measurement Tools Used by Companies



Implications

Make no mistake about it, measuring performance on the people side of an enterprise is tough business. A number of executives in the survey report that the vagaries of time and talent work against human performance measurement. The premium placed on action over analysis often relegates people measurement to the bottom of the pile. And, many managers admit they need to deepen their ability to measure human performance. As one midlevel manager in a manufacturing facility wrote in the survey questionnaire, "We must learn what the units of measurement are and how to apply them."

In addition, people measurement is difficult because of the organizational barriers that frequently get in the way. For example, in spite of all the lofty rhetoric about people being a firm's most valuable asset, many executives treat human performance measurement as inherently soft, not strategic, and, therefore, unworthy of the top team's time and attention.

Another barrier is that organizations lack a measurement-managed culture. Results measurement is not built into the organization's value set, into "how things get done around here." Many managers note that their organizations pay lip service to the area of people measurement, but, in reality, measurement is little more than a stopwatch, a nightstick, or a management power tool.

What can be done to improve people measurement in organizations? To answer this question, Metrus Group conducted eight in-depth telephone interviews with executives from high-performing organizations. They identified five characteristics that distinguished truly effective approaches to measuring human performance:

1. Lead from the front. Leaders exercise a kind of gravitational pull on behavior. Their actions speak volumes to others throughout the organization. At Nortel's National Repair Distribution Center, a team of senior managers, the Navigators, was created to guide day-to-day operations.

To boost performance, the team moved to become more measurement focused. The Navigators identified 15 key metrics and carefully tracked performance against these measures. Information about these metrics is posted throughout the organization and is available on-line to all employees. It is then rolled up the organization and presented by self-directed work teams to the Navigators on a quarterly basis. Discussion is focused and often intense. This facility truly manages by measuring.

2. Use integrated measures. A measurement approach that does not touch employees at all levels on a day-in, day-out basis is unlikely to be a vital and vibrant instrument for managing performance and getting results. According to Dave Sorenson, senior manager of operations at Nortel, the 15 metrics managed by the Navigators is only half the measurement picture.

These measures are cascaded down the organization and then translated into specific measures for each of 20 self-directed work teams. These team-specific metrics are known as the 7 Ups because there are typically seven or so measures for each team. Hard measures around productivity, scrap rate, and the like are tracked daily, but so are soft measures.

For example, there is a metric for cross-training with other teams to ensure greater flexibility. Nortel's high-touch approach has had payoffs. Sorenson says, "Measures have become better understood by people on the shop floor—and productivity has shot up to 80%."

3. Keep it simple and personal. By far, the most common type of people measurement is the individual performance assessment. Most are highly structured formal exercises conducted annually. But many leaders have departed from this formula.

For example, Motorola's Individual Dignity Entitlement (IDE) measures the key underlying factors that drive human performance. The IDE is a vehicle designed to improve supervisor and employee communication, get specific feedback on core issues, and take action.

Once each quarter, supervisors and associates from the shop floor to the executive suite meet for a one-on-one conversation focused on six questions, which range from, "Do you have a meaningful job?" to "Do you receive candid feedback periodically?"

Responses must be yes or no, and these are recorded in an IDE metrics system, which serves as an indicator of employee satisfaction and overall performance readiness. As Scott Orr, a senior resource manager at Motorola, explains, the metrics are carefully reviewed by the supervisor and his or her manager. The metrics go all the way to the CEO's office, and where gaps exist, action must be taken within 90 days. Orr concludes, "Part of measurement is communicating. The IDE is a way of begin-

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ning the communication process so you can humanely manage and measure performance."

4. Build measurement into the culture. "The hardest thing in the world for people to change is themselves," says Kenneth Rozacky, technical specialist at the Texas Natural Resource Conservation Commission. "When people are not held accountable, no change is possible. Nothing measured, nothing changed or gained." True enough, but how does one build measurement into an organization and get results?

Answer: Integrate measurement into the organization's culture. Culture is the sum of an organization's norms, values, and beliefs, along with organizational artifacts such as the processes, systems, and structures that support them.

As Motorola's Orr observes, "Measurement must be part of the overall culture or it will not succeed." Motorola is the classic measurement-managed organization. Orr says, "We drive ourselves to be data-based. We're always trying to identify key processes and what the driving indicators are for those processes. We measure those [indicators] to try to understand whether or not the system is working."

Measurement-managed companies take a variety of actions to embed measurement into their culture. Most important, the leaders in such organizations work hard to bridge their espoused values for managing human performance—those that are enunciated in mission statements and human resource manuals—with their values in action—those that get put into practice.

They reinforce measurement by insisting that key elements of the business strategy be measured and that their performance be evaluated against such measures. They make sure that policies related to performance reflect a measurement bias, and that employees have the tools and the training to enable them to play a role in performance measurement within their areas of responsibility. And most important, leaders in companies with effective people measurement systems in place make sure rewards and recognition are tied to measured results.

5. Be honest. It might be old-fashioned, but it still holds true that honesty is the best policy. Nothing leads to cynicism faster than unkept promises. One professional interviewed put it this way: "We have a long history of planning, planning, planning, and never executing on a plan. Our performance reviews are not meaningful. There is no penalty or reward for executing or not executing on a plan. Little of what we do gets measured in any meaningful way."

In the interviews, there were many examples of less-than-forthright approaches to measurement. One company says it measures quality, but its real concern is meeting the production schedule. Another organization evaluates its managers on the number of completed performance reviews they write, thereby encouraging quantity over quality. A manager reports that in his organization there is no direct relationship between the overall strategy and what employees are measured on and evaluated against. In still another organization, the leadership team has a "flavor of the week" approach to measurement, continually changing the performance ground rules. And in many organizations, measurement is used as a club. It is a tool for continuous punishment rather than continuous improvement; as such, it is a tool to be avoided, subverted, or undermined rather than a source of valuable information for managing people and predicting business performance.

Improving the way organizations measure human performance is not rocket science. But if it is not as difficult, it is at least a lot more subtle. The large people-measurement gap indicates that even in the very best companies, a lot of work remains to be done. Effective people management rests on a strong measurement foundation. The best way to begin building that foundation is to move with haste to incorporate the qualities of measurement-managed companies into the way organizations manage their people and measure results.

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Brian S. Morgan is director of organization assessment services at Metrus Group, Somerville, NJ. He earned a masters degree in industrial psychology from San Francisco State University in California, and a doctorate in social psychology from Wayne State University in Detroit, MI.

William A. Schiemann is founder and president of Metrus Group, Somerville, NJ consulting firm specializing in strategic performance measurement and organizational change. He earned a master's degree in industrial relations from the Illinois Institute of Technology, Chicago, and a doctorate in organizational psychology from the University of Illinois, Champaign-Urbana.

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