A CFO's Guide to Creating a High Performance Organization: Workforce Management Best Practices

Performance-driven organizations leverage their workforces to realize a higher return on investment, increased productivity, decreased operational costs, improved customer and employee retention, and a host of other benefits. By employing key workforce management practices, companies are able to reach a higher level of employee performance that leads to increased profitability.

Characteristics of a performance-driven organization

Performance-driven organizations are characterized by above-average results, usually measured in financial terms, such as profit, earnings per share, revenue growth, return on invested capital, product costs, and asset utilization. Strong financial performance is an indicator of excellence elsewhere in the organization; actually, these companies outperform their competitors in customer service and satisfaction, product quality, innovation, and productivity.

While companies can focus on a number of areas in their efforts to become high performance organizations, this paper discusses the role that effective workforce management practices play in this process. Research demonstrates that improvements in workforce practices increase shareholder value. Watson Wyatt surveyed over 750 publicly traded companies in the United States, Canada, and Europe and divided them into three groups based on their human capital index (HCI) scores, a measure of proven human capital practices. Companies with low HCI scores averaged a 21 percent five-year (April 1996–April 2001) total return to shareholders, while those with medium HCI scores averaged a 39 percent return. Organizations with high HCI scores returned a remarkable 64 percent over the same five years.[1]

Consistent with these findings, CFOs view the workforce as a key value driver that is crucial to increasing shareholder value. In a study of 191 senior financial executives at major U.S. corporations, 92 percent believe human assets have a great effect on the ability of a company to achieve customer satisfaction, 82 percent see the impact of employees on profitability, and 72 percent see an impact on innovation and new product development.[2]

Performance-driven workforce management practices

The connection between workforce management practices and increased profitability is further explored by Watson Wyatt research into which practices have the most positive impact on a company's bottom line. Improvements in five key areas resulted in a 47 percent increase in market value.[3] The study showed that effective workforce management practices employed by high performance organizations include:

- Implementing focused HR technology
- Opening up communications between management and employees
- Establishing a collegial, flexible workplace
- Creating a total rewards and accountability orientation
- Attaining excellence in recruitment and retention

While the major focus of this paper is how deploying HR technology can assist companies in becoming high performers, utilizing this technology positively impacts these other proven workforce management practices in varying degrees. Technology such as workflow and employee self-service can enhance communication between management and employees in establishing work schedules, time-off requests, benefits information, and training opportunities. The technology can also aid the creation of a more flexible workplace by easily tracking flextime and enabling telecommuters to utilize self-service functions to log in from remote locations, for example, to report hours worked. Technology can assist organizations in monitoring employee accountability and excellence when implementing a rewards program. Finally, organizations can automate and streamline many aspects of the recruiting process and manage programs that are aimed at retaining high performing employees.

Strategies are becoming more people-dependent

While some companies have viewed employees primarily as a cost, high performance organizations focus on leveraging this costly yet valuable resource in their choice of strategy.[4] Corporate strategies are reportedly becoming less focused on cost management and more focused on innovation and customer satisfaction, areas that are highly dependent on employees.

A survey of 1,294 companies worldwide by Towers Perrin Research reflects this projected shift in focus over the next three years. While the focus on operational excellence is expected to drop from 39 percent to 30 percent and cost leadership from 11 percent to 5 percent, the focus on innovation leadership is expected to rise from 19 to 22 percent and customer service from 20 percent to 35 percent, a sizeable jump of 15 points.[5]

Communication drives successful strategy execution

Interestingly, research suggests that successfully executing a company's strategy has a six-times-greater impact on shareholder value than the choice of strategy itself.[6] However, fewer than 10 percent of organizations successfully execute their strategic business plans, according to Robert Kaplan and David Norton, authors and developers of the Balanced Scorecard.[7]

Regardless of the choice of strategy, effective communication with employees is critical to achieving a company's strategy. A Wyatt Watson study determined that two important

Dominant Business Strategies are Becoming More People-Dependent

practices associated with the largest increase in shareholder value are a manager's commitment to effective communication and a clear line of sight between a company's business objectives and employees' jobs.[8]

"The top priority of every executive and team leader should be to clarify, communicate, and assist workers in achieving their organization's critical goals," says Dr. Stephen R. Covey, vice chairman of FranklinCovey and author of The 7 Habits of Highly Effective People. "There is serious misalignment between the daily activities of the frontline worker and the organizational strategy."[9] Indeed, many companies are falling short in communicating and connecting their organization's goals with employees. In a survey of over 12,000 U.S. workers, only 44 percent of employees say their organization has clearly communicated its most important goals.[10]

The financial consequences of this communication failure can be sizeable. The Watson Wyatt study determined that companies with the most-effective employee communication programs realized a 26 percent total return to shareholders (TRS) from 1998 to 2002 compared to a -15 percent TRS for companies that communicated less effectively.[11] The study also showed that a significant improvement in communication effectiveness was associated with a nearly 30 percent increase in market value.

Three-phased approach to high performance

To become a high performance organization, a company needs to clearly define its strategy and communicate specific, measurable goals to frontline managers, who, in turn, communicate actionable goals to employees so they fully understand their role in achieving the company's strategy. In managing the workforce to these goals, using technology and good workforce management practices simplifies the process and increases likelihood of success. Leveraging technology and the workforce to become a high performance organization is best accomplished in three phases:

- Automate business processes for maximum efficiency
- Engage employees via communication
- Empower managers to optimize the workforce

Advantages of automated business processes

The first step in becoming a performance-driven organization is automating employeecentric transactions and business processes, such as the hiring process, benefits open enrollment, and payroll processing. Automation is essential because of the complexity of the processes and the enormous volume of transactions and records, which can be fraught with errors if processed manually. Automation also allows HR staff, managers, and employees to focus on work that supports the organization's strategic goals, rather than low-value-added activities.

Before investing time and money in automation, high performing companies examine all processes and eliminate those that are not essential. Then, they reengineer the remaining business processes.

Surprisingly, complete automation is still not widespread in the workplace. A survey reported by *Workforce Management* showed that 81 percent of organizations still use paper for pay stubs, about 71 percent rely on paper for performance management, 65 percent for benefits enrollment, 63 percent for life-events processing, 52 percent for time and attendance, and 45 percent for job postings and employee surveys.[12]

Percent of Companies Using Paper

For companies that deploy technology for workforce management, the result is enhanced productivity in many areas of the workplace:

- Reduced errors and minimized rework associated with entering information into multiple systems saves time and money.
- Increased accuracy and availability of data allows for better decision making throughout the organization.
- Removal of "chokepoints," providing faster cycle times, and delivering better service to employees, managers, and other users.
- Less reliance on human involvement results in headcount savings, especially in larger companies.

The financial benefits of automation are considerable. The Cedar 2003 Workforce Technologies Survey determined that HR technology impacts the entire workforce and provides significant financial returns, as well as competitive advantages. The payback with multiple applications averaged 22 months, and with a single application, such as open enrollment, payback was achieved in less than one year. The cost per transaction was also reduced by an average of 43 percent. Additional reductions were seen in cycle time (62 percent), headcount (37 percent), and inquiries to the service center (50 percent). As an added bonus, employee satisfaction also increased by 50 percent with the selfservice options provided by workforce technology.[13]

Similar results were found in a Nucleus Research analysis of the ROI of an automated time and attendance solution in which 25 organizations achieved payback, on average, within five months, with the savings on payroll error rates alone being over six times the cost of the system's implementation. The median ROI for all companies analyzed was 469 percent.[14]

Error Rates Cycle Time Calls to HR Cost per Incident

Benefits That Accrue to HR and Payroll

Benefits of engaging the workforce

The second phase in leveraging an organization's workforce to become a performance driven organization is engaging the workforce through communication. While most companies are in the first generation of information-sharing with online services, performance-driven companies go beyond the sharing of online documents and provide real-time employee self-service technology.[15] This technology enables all employees, not only those with access to PCs, to easily interact with their managers, the HR department, and the company. The use of this technology allows:

- Employees can manage their own personal data, submit their schedule preferences, request time off, examine different benefits scenarios, and track their own training and development.

- Managers can communicate team or business unit goals easily with employees and involve them in their own training and development. Managers can consider employees' work/life choices and involve workers in setting their own schedules.
- The company can conduct employee surveys, manage employee development, and implement rewards programs, including incentives and benefits.

Engaging employees through self-service technology is just one step in the engagement process. By utilizing a variety of proven workforce management tools and best practices, a company is able to successfully engage employees at multiple levels, enhancing its progress in becoming a high performance organization.

The benefits of engaging employees on multiple levels are many. A study by Towers Perrin of 35,000 employees at U.S. companies found a strong relationship between employees' increased level of engagement with their organization and increased retention of talent and improved financial performance. As engagement levels rise, employees are less likely to leave a company, and their commitment to meeting customer needs also rises. A connection between employee focus on customers and revenue growth was also established, as well as a connection between engagement and revenue growth. Furthermore, the cost of production decreased as employee engagement increased.[16]

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Value of empowering managers

To become a high performance organization, the third phase is critical. Managers must be empowered to optimize the workforce by having the power to hire the best people, train them properly, track them carefully, and compensate them appropriately. Managers have ownership of the company's relationship with workers, so *managers* need the tools to staff, develop, deploy, track, and reward employees.

Self-service technology allows managers to conduct performance reviews, plan and review staff salaries, initiate job requisitions for open positions, create development plans, and much more. Reliable data is the foundation of solid workforce analytics that allow managers to respond quickly to developing situations and make well-informed decisions. By having information readily available to make decisions, managers are able to leverage the best performance from employees at the lowest cost. Ideally, a company's workforce management system should include self-service capabilities on managers' desktops so they can interact 24/7 with the system for real-time access to employee information.

With these tools, managers are able to optimize and more effectively manage a company's most expensive resource — the workforce, the primary means of executing a company's strategy. The Cedar 2003 Workforce Technologies Survey determined that manager productivity applications allow managers to more successfully manage financial performance.[17] The survey results show that these applications have a very positive impact on earnings growth and economic value add, an estimate of profitability after all operating costs and expenses have been deducted. The survey also found that the ROI for these applications is "among the highest."[18]

A large number of managers, however, may not yet have the tools, skills, or authority to employ these practices. For example, in a study by Mercer Human Resource Consulting of 2,600 employees nationwide at 1,100 organizations, nearly 50 percent of employees said their last performance review did not help them understand what they needed to do to improve.[19] Further evidence that managers may not be communicating effectively with employees was revealed in a study of over 70,000 exit interviews in which employees cited poor management as the number one reason for leaving a job.[20]

Performance-driven companies give managers the power and tools to effectively manage the workforce and then hold them accountable for the outcomes. These companies create a culture of ownership that increases managers' responsibility, as well as opportunities for rewards. Managers are rewarded not only on the attainment of business goals, but also based on how well they perform on people-related metrics, such as reducing turnover.

Providing managers with the tools they need to effectively manage employees is important to improving employee satisfaction and retention, lowering overall labor costs, increasing productivity, and, ultimately, boosting an organization's profitability.

Achieving high performance and increased ROI

The benefits of implementing the three-phased approach in the drive to become a high performance organization are widespread. Automated workforce management processes deliver increased efficiencies and more cost-effective procedures. Communication with employees is improved throughout the organization, resulting in a more fully engaged workforce that is more likely to understand and implement company goals. Empowered managers can optimize the workforce by effectively tracking, developing, and rewarding employees, as well as make more informed and timely decisions. The end result from this approach can be a performance-driven organization that realizes a higher return on investment on the company's most costly but valuable asset — the workforce.