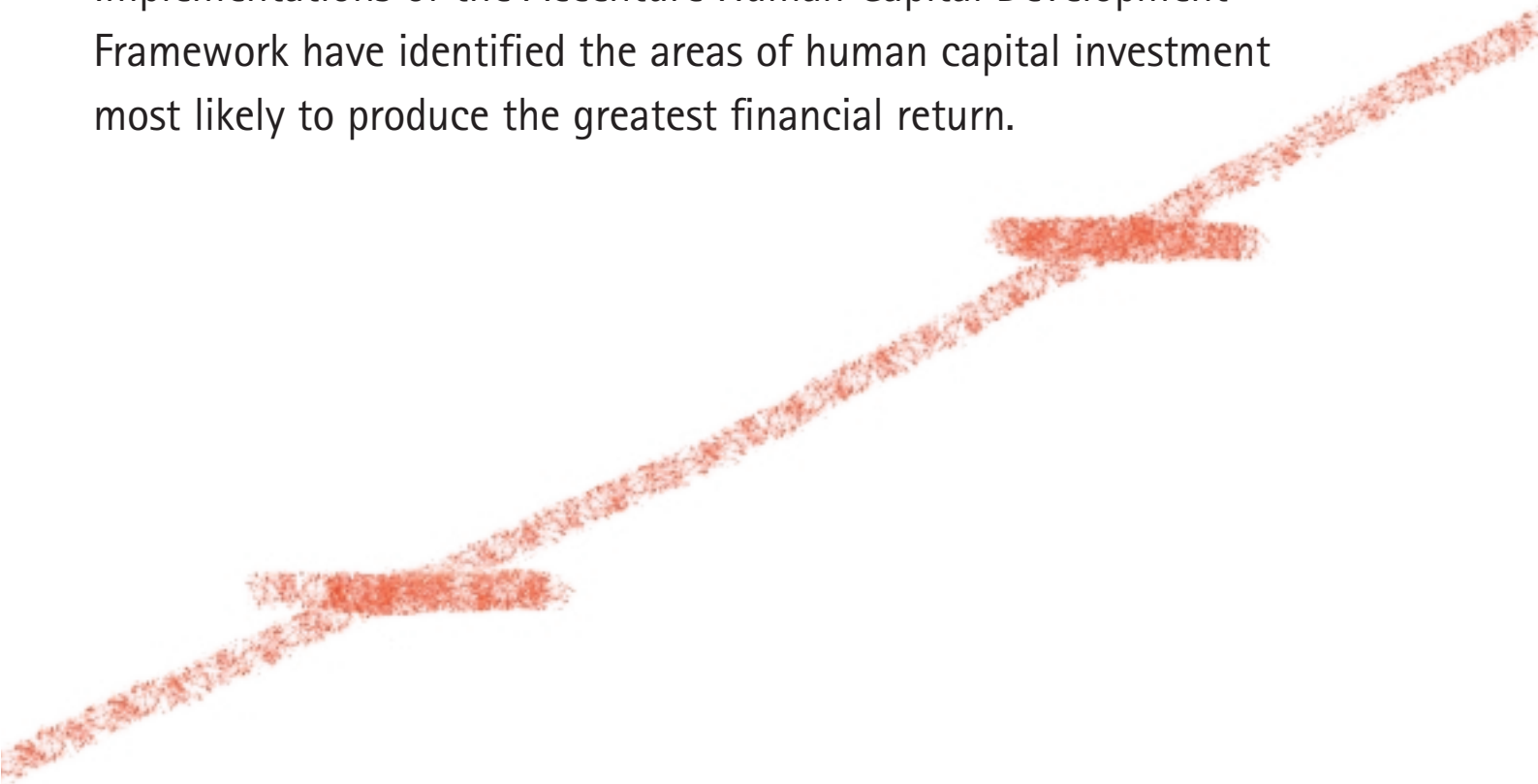


Human and Organizational Development

# Making the right investments in people

By James M. Benton, Susan Cantrell and Meredith A. Vey

Implementations of the Accenture Human Capital Development Framework have identified the areas of human capital investment most likely to produce the greatest financial return.





Imagine owning a car and confidently extolling the virtues of gasoline—but without the benefit of a gas gauge, a means of determining fuel efficiency or any way to tell a bad engine from a good one.

Curiously, corporate management often takes a similar view of its employees: Although executives regularly affirm the importance of their people to overall business success, few companies have in place any systematic way to measure their total investment in human capital assets, the return on that investment and which areas of that investment are most likely to produce an increase in overall business performance.

To be sure, measuring the effectiveness of human performance is a more complex proposition than taking your car to a mechanic. But if human capital management is not automobile repair, neither is it magic or art. Last year, to help bring needed rigor to the management of organizations' people assets, Accenture introduced its Human Capital Development Framework. The framework is a diagnostic approach to assessing human capital capabilities and the processes that drive them, ultimately linking human capital assets and approaches to overall business performance (see "How to boost your workforce performance ROI," *Outlook*, May 2003).

Based on analysis of the initial implementations of the framework with a group of 19 organizations around the world, Accenture can now definitively identify a set of particular human capital processes where investments have been shown to help businesses achieve high performance—both in terms of superior workforce performance and in terms of bottom-line business results. In other words, what had previously

been a hunch is now a fact: Organizations that put people first finish first.

One important focus of Accenture's continuing research into the characteristics of high-performance business has been the mastery of key business functions or competencies, including human and organizational development. (For related articles, see *Outlook*, June 2004.) This research indicates that companies that master human performance processes and programs get maximum performance from their employees.

### **Best practices**

Although companies can spend anywhere from 25 percent to 45 percent of their revenue on human capital, most executives feel that they have no definitive way to justify their belief that better human capital management pays off in better business performance. As a result, executives are unable to clearly prioritize these investments based on the business value they're likely to yield. Even more frustrating, few executives have the knowledge they need to develop insights into how different kinds of human capital management actions and programs affect overall workforce and business performance.

The Accenture Human Capital Development Framework uses best practices and Accenture's experience in the fields of human resource development, learning and knowledge management, and workforce productivity, and then combines that information with state-of-the-art measurement techniques. The framework is unique in that it helps organizations do more than look at spending levels to get a sense of the effectiveness of their human capital development efforts.

The framework draws on information from surveys and interviews,

as well as on hard human resources and financial data, to enable a more rigorous and reliable assessment of the true *effectiveness* of each human capital process and capability. With the framework, an organization can better assess its core human capital capabilities, such as leadership, workforce performance and talent management; identify the human capital processes that will likely improve those capabilities; and then prescribe the specific process adjustments that will improve the capabilities and, as a result, overall business performance.

### Conclusive and provocative

The Accenture Institute for High Performance Business, in partnership with SAP as well as with our Human Performance service line, implemented the framework in 19 organizations around the world, representing a variety of industries. Implementations involved collecting data on all four areas of the framework: human capital processes, human capital capabilities, key performance drivers and business results.

Business results were analyzed by looking at an organization's two-year average capital efficiency relative to an industry peer group. Analysis was based on an examination of actual HR and financial data, face-to-face interviews with more than 75 business and human resources executives, and online survey responses from more than 3,300 employees and 100-plus HR personnel.

Analysis of these initial implementations had two objectives. The first was to assess the framework's reliability as a measurement technique. The second was to demonstrate empirically that investments in human capital assets and processes affect a company's growth potential and its value to shareholders through their impact on

key human capital capabilities and drivers of financial success like innovation and customer satisfaction.

Results from our analyses were conclusive and provocative. We have found that:

1. There is a strong and powerful link between the maturity of an organization's human capital processes and its overall financial performance.
2. Companies can, in fact, focus their human capital investments in several key areas that are more likely than others to produce better financial performance. Specifically, our findings affirmed the importance of
  - *Human capital strategy*: processes that align people initiatives with overall business strategy.
  - *Work environment*: processes that provide employees with supportive and positive work environments.
  - *Employee development*: processes that expand and enrich employee capabilities.
3. These human capital processes drive important business capabilities like leadership, workforce performance and employee engagement; these capabilities, in turn, have a significant impact on key drivers of organizational performance such as innovation.

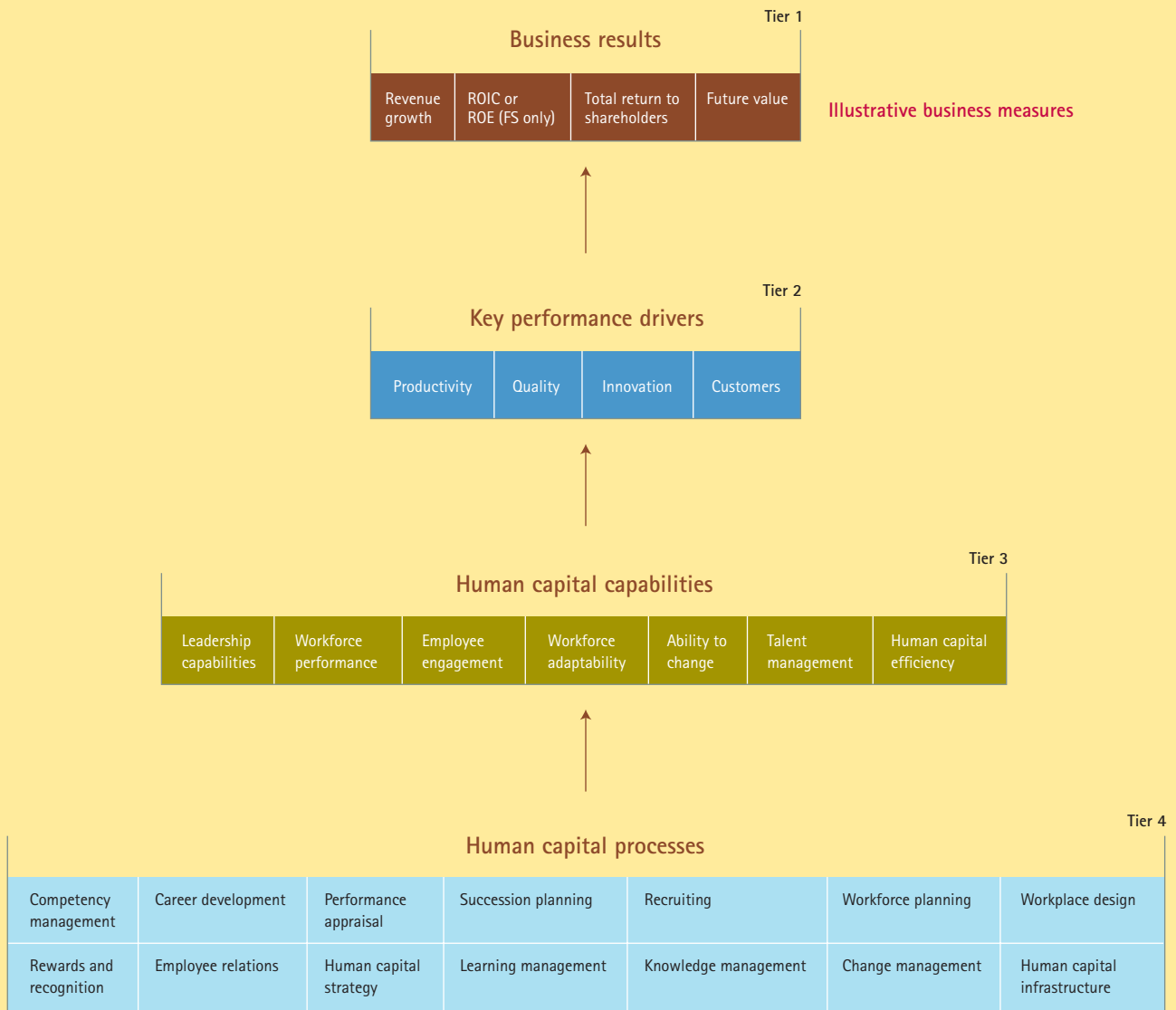
### Making a difference

Our research and these implementations of the framework strongly suggest that human capital management practices really can make a difference to the bottom line. But what distinguishes high performers with respect to the way they manage and develop people? We set out to

Organizations with more mature or effective human capital processes have better financial performance than organizations with less mature processes.

# The Accenture Human Capital Development Framework

The Accenture Human Capital Development Framework is an analytical measurement and planning tool that enables an organization to identify and measure the human capital factors that affect organizational performance. As shown in the figure below, the framework uses four distinct levels of measurement to assess an organization's human capital practices and determine the benefits it receives from investments in people.



SOURCE: ACCENTURE ANALYSIS

The resulting scorecard from the measurements can be used in three distinct ways: as a diagnostic assessment that highlights areas for performance improvement and/or value creation; as part of a recurring measurement activity—for example, one aligned with an organization's core planning processes; and as part of a large-scale organizational transformation, in which the goal is to reshape traditional HR functions to bring them in line with a new business strategy.

The scorecard has such a wide variety of uses because, unlike other diagnostics that focus solely on human resource practices, it is linked to overall corporate performance and is also forward-looking; that is, it is concerned with value creation, not just with cost control.

answer these questions by measuring the maturity of human capital processes in those organizations implementing the framework.

Processes were carefully chosen based on previous research and thinking concerning the people programs and practices that most likely affect workforce performance and business results. They included not only core human resources processes such as recruiting, career development and competency management, but broader human capital processes as well, such as workplace design, learning and training, and knowledge management. We explicitly assessed the maturity of each process: the use of best practices in each process area, how well the process supports employees, and, borrowing from measurement techniques used in quality improvement and software engineering, the reliability and repeatability of the process.

We found that effective human capital management practices do matter. Those organizations with more mature or effective human capital processes have better financial performance than organizations with less mature processes (see figure, page 71). Indeed, more than half of the 13 human capital processes we measured have a statistically significant relationship with a company's overall financial performance, as well as with key human capital capabilities like leadership and employee engagement. This sends a powerful signal to anyone who has ever doubted the business value of investing in people.

### **Return on investment**

However, in today's business environment, where every investment must be justified in terms of the expected return, human resources, training and other human capital executives have often been hampered. Which investments in people are most important?

What are the particular human capital processes, the particular programs and investments, that deliver on hard measures like revenue, margins and shareholder value?

The Accenture Human Capital Development Framework gives these executives clear data to guide their spending. Investments in some human capital processes will generate better returns than others. Specifically, our analysis concluded that those organizations that focus on processes devoted to the following three key areas will most likely achieve far greater economic success than those that do not.

#### *Human capital strategy:*

##### *Gaining a seat at the table*

Our analysis demonstrates that successful companies design human capital strategies to ensure that the right people capabilities are in place to effectively execute the business strategy. Top performers from these initial framework implementations had very different human capital strategies; what they had in common was a mature strategy process for formulating and aligning human capital initiatives with business strategy. These organizations make clear priorities and track their people programs based on the business value they create.

Take the experience of a well-known cell phone manufacturer we'll call CellTech. In the mid-1990s, CellTech was at the top of its game. But later in the decade, new players flooded the market, and analog cell phones slipped along the product lifecycle curve toward commoditization. CellTech sought to stem its shrinking margins by developing the next wave of industry innovation: digital cell phones.

Although CellTech had a new business strategy, it lagged in devising a new

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## SAP and the Human Capital Development Framework: "Insight we can act on"

Analysis of the initial implementations of the Accenture Human Capital Development Framework (see story) was cosponsored by Accenture alliance partner SAP. SAP also implemented the framework at its SAP America business unit to help assess the human capital dimensions of some of its most important strategic challenges and to prioritize the problem areas that need more focus.

One of SAP's long-standing competitive advantages has been the ability to use its innovative products to develop strong, lasting and trusted customer relationships. Further deepening these relationships will be vital as SAP continues to accelerate its strategic move away from selling individual bundles of products and solutions to selling total customer solutions.

Since a strategic move toward solution selling requires a thorough knowledge of the customer's needs and a superior understanding of the required value proposition, it has a profound impact on what is expected from the workforce. SAP America senior executives believed implementing the Human Capital Development Framework would help identify and prioritize the human capital investments that would be most critical to continuing the company's growth momentum in the software marketplace.

By applying the framework, SAP sought more rigor in guiding its human capital investments. Executives were looking for answers to a number of important questions: Are our HR practices enabling the organization's mission? Are employees appropriately motivated? Are our executives focusing on the right people programs—those most likely to yield maximum value?

Results of the framework implementation at SAP America were highly instructive. Some of the company's recent human capital initiatives were reflected in higher human capital process maturity scores, a measure of the effectiveness of those processes.

For example, SAP America's policy of what president and CEO Bill McDermott calls "overcommunicating" with employees seems to be working, as evidenced by the fact that the employee-relations process earned a high maturity score.

Other results revealed areas for possible additional investments. For some years, SAP has had what could be called an "intuitive culture." Because the company is known for innovation and responsiveness, it has resisted some longer-term processes such as workforce and succession planning, a situation that was highlighted by the framework implementation.

Executives now have the data they need to move forward more effectively; the company's aggressive growth plans for the next few years will need to be accompanied by increased attention to a number of HR strategy and planning processes. To support the move to solution selling, for example, SAP will need to implement new skills development programs that enable employees to understand more fully the business challenges of its customers and prospects.

According to Terry Laudal, SAP America's senior vice president, human resources, "The true value of the framework is in integrating business results and our core HR processes into a common framework that can be applied and measured. Results are valuable because they give us insights that we can act on. They are also valuable because they help frame our HR investments in business language."

Laudal plans to use the Accenture framework in the company's leadership development program. He also plans to communicate the initial results of the implementation to the HR leadership team, both in the United States and globally. SAP America plans to continue using the framework to see how new initiatives have improved the effectiveness of the company's human capital processes and capabilities in support of stronger business results.

people strategy to support it. The company neither acquired nor developed the skills in its workforce that would enable it to create and produce the new technology in time. Because CellTech had never developed the human capital strategy process that would have enabled it to anticipate a new workforce need based on a changing business strategy, it was unable to execute its plan in a timely way. It lost significant market share and millions in potential revenues.

*Positive work environments:*

*Supporting employees*

Based on these initial implementations of the framework, we can also say that high-performance organizations have an effective employee relations process specifically devoted to ensuring that employees are informed,

satisfied and engaged. These organizations effectively address employee grievances or concerns, inform employees about business issues affecting them and establish programs to reduce the impact on morale when the company undergoes a major organizational change. During the recent economic downturn, these companies resisted the temptation to cut costs by scaling back employee health and well-being programs and flexible work arrangements. Our analysis indicates that the organizations that did not sacrifice such programs outperformed those that did.

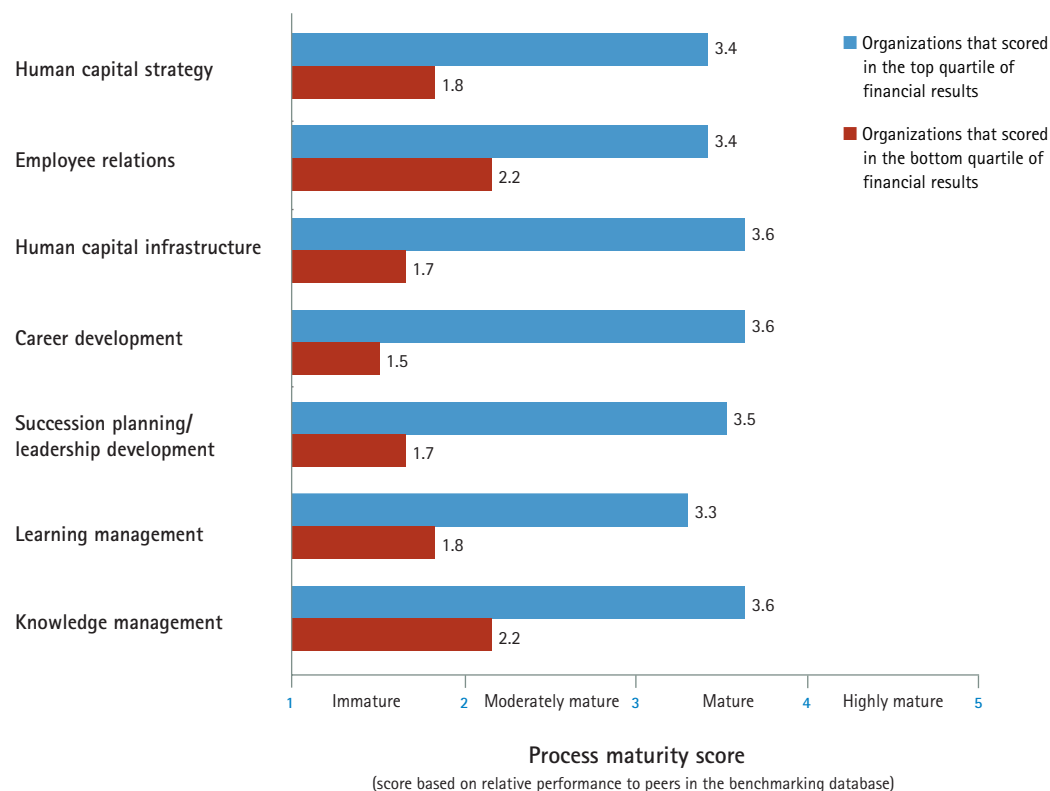
In addition, we have seen a statistically significant relationship between human capital infrastructure processes and financial results. Having the infrastructure and systems in place

to support core HR processes consistently and effectively across the business is an essential capability, yet for many organizations, it is still something of an aspiration. Besides the basics of being able to pay people reliably, accurately and on time, robust human capital infrastructure processes also provide business and human resources managers with reliable data and information regarding their costs and their people.

Although we found it rather surprising that such basic processes differentiate high performers from the pack, we heard time and again from the executives we interviewed just how important it is to perform these fundamental processes well. Not only do they help create a more supportive work environment, but

## Why effective practices matter

There is a direct correlation between the maturity, or effectiveness, of human capital processes and financial performance.



SOURCE: ACCENTURE ANALYSIS

Companies that actively develop their employees and provide them with opportunities to learn and grow achieve superior economic success.

these processes, above all others, enable human resources personnel to gain credibility and trust from both employees and senior leaders.

Application of the Human Capital Development Framework at Briggs & Stratton Corporation, a global manufacturer of engines and other power products, was particularly helpful to the company's HR executives. Results highlighted two areas—employee relations and human capital infrastructure—where executives now believe investments will have maximum impact. Getting the infrastructure in place and ensuring HR has a strong customer service orientation are critical as HR becomes a strategic partner to the business.

Briggs & Stratton also used the framework as a communications and strategic planning tool. According to Joe Da Via, assistant vice president, employee and retiree economics, "We used the results from the framework implementation as the cornerstone of our annual three-day HR meeting. It helped us think more strategically, which has been one of our major goals in HR."

*Employee development:*

*The skills to succeed*

Companies that actively develop their employees and provide them with opportunities to learn and grow also achieve superior economic success. Our analysis revealed that career development, succession planning, learning management and knowledge management processes are all strongly associated with better financial performance.

The chief operating officer of an Australian professional services firm with very strong financial performance put it this way: "Of course, we need to hire the right people. But once we have them, it is extremely important

that we continuously deepen their skills or develop some of the skills and behaviors that might be lacking. Our competitive strategy is based on delivering a leading-edge skill set to clients in our local market; a crucial part of executing this strategy is having strong processes such as knowledge management and learning."

What does this firm do differently from other companies we looked at? First, a larger proportion of its employees believe they are getting the training they need to excel at their jobs and prepare for future ones. Employees are also given more opportunities to formulate career plans and goals than their counterparts at other organizations. Employees meet with their supervisor or career counselor at least twice a year to discuss specific career development plans; employees in most of the organizations in our study do so less than once a year. Third, the firm has established communities of practice—groups of employees with common interests who get together to share knowledge, solve problems and informally collaborate across functional boundaries. The company even rewards employees for participating.

Eskom, a vertically integrated South African utility, is using results from the framework implementation to assist in overall planning for possible government restructuring of the electricity supply industry. As Eskom evolves from its current environment of a vertically integrated utility to one that will be characterized by competition and expansion, it will require new skill sets consisting of project management, engineering and technical skills. Although some of the skill sets will be acquired externally, Eskom also plans on primarily developing the skills of its existing workforce. This strategy will require robust learning manage-

ment and knowledge management processes to succeed.

### Pursuing high performance

Results from initial implementations of the Accenture Human Capital Development Framework suggest a number of ways it can be used in the pursuit of high performance.

#### 1. Targeting high-impact areas where human capital processes and capabilities are currently weakest.

The framework can be used to identify areas that are most strongly linked to positive financial results as well as currently in a state of least maturity or effectiveness. These areas are likely to yield the greatest return on investment.

Relatively mature processes linked to financial performance may produce incremental financial benefits based on a small set of highly targeted improvements in the processes. Improvements in less mature processes that are not linked to the economic success of a company should take secondary priority; these processes may produce improvements in important human capital capabilities like employee engagement or workforce adaptability, but they are less likely to produce immediate financial benefits.

#### 2. Targeting areas of competitive advantage.

Results from the application of the framework may also be used to identify those processes that, if improved, will also likely result in an improvement in the key value propositions on which an organization competes. Not all companies generate high performance the same way. Depending on their unique industry and marketplace demands, some achieve it primarily through superior customer service and satisfaction; others focus on attracting and retaining customers based on high-quality products and services. Still others achieve high

performance primarily through the continuous introduction of innovative products and services.

#### 3. Justifying people investments.

The findings from these initial implementations, used in conjunction with the framework's externally validated assessment of the strengths and weaknesses of an organization's human capital processes, can support and justify investments in people programs. The framework can also be used on an ongoing basis to track the impact and improvement from investments in human capital, and to continuously refine those investments for maximum effect.

Corporate executives deeply knowledgeable in human performance issues are often frustrated by the inability to be sufficiently quantitative about the value of their disciplines. Today, advocates of people programs no longer need to base their budgeting requests on faith or exhortation. They can build a business case that empirically justifies human capital investments to all relevant stakeholders. They can also identify the particular processes and programs that matter most to the bottom line, enabling them to chart their own unique course toward high performance. ■

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