Excellence in Financial Management

Discussion Board Articles – Human Resource Management

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Human Resource Management

Metrics for Human Resource Management

Human Resource Metrics has become important for Balanced Scorecards and other performance measurement systems. The reason is due to the need for effective management over human resource capital; i.e. the intellectual capital that drives value. And to make matters more urgent, senior management often fails to comprehend the value of human resources within the organization. It is quite common to see little emphasis on human resource management within a balanced scorecard. Consequently, it has become very important to demonstrate the value of human resource capital to executive management. In one simple application, one CFO decided to apply the P/E (Price to Earnings) Ratio to each new employee. If the employee costs the company $ 50,000 per year and the P/E Ratio is 5, then the employee should generate $ 250,000 in value. However, a much better approach to human resource (HR) metrics is to delegate the design to HR people; i.e. let the HR people demonstrate the value of human capital to the Non-HR people and not vice versa.

The first step is for HR people to make the transition from "liking people" to "liking value." The sad fact is that many HR people simply don't understand or grasp concepts within value-based management (such as EVA, economic profits, etc.). Once HR people understand value-based and financial metrics, then you can move into developing a set of metrics that recognizes the relationship between human resources and finance. The primary focus is on people and how are we going to develop our human capital.

A good place to start is with a set of efficiency ratios to see how well you are managing human capital. The Society of Human Resource Management has identified ten key human capital measurements:

1. Revenue Factor = Revenue / Total Full Time Employees
2. Voluntary Separation Rate = Voluntary Separations / Headcount
3. Human Capital Value Added = (Revenue - Operating Expense - Compensation & Benefit Cost) / Total Full Time Employees
4. Human Capital Return on Investment = (Revenue - Operating Expenses - Compensation & Benefit Cost) / Compensation & Benefit Cost
5. Total Compensation Revenue Ratio = Compensation & Benefit Cost / Revenue
6. Labor Cost Revenue Ratio = (Compensation & Benefit Cost + Other Personnel Cost) / Revenue
7. Training Investment Factor = Total Training Cost / Headcount

8. Cost per Hire = (Advertising + Agency Fees + Recruiter's Salary/Benefits + Relocation + Other Expenses) / Operating Expenses
9. Health Care Costs per Employee = Total Health Care Costs / Total Employees
10. Turnover Costs = Termination Costs + Hiring Costs + Training Costs + Other Costs

It is also important to benchmark your HR metrics against past performance and other companies. For example, if you report turnover costs of $ 50,000, the CEO may think this is too high, but when you benchmark it, you are in the top 20% for lowest turnover costs. One of the best sources for HR benchmarks is the Saratoga Institute in Santa Clara, California.

HR Metrics, like other measurements within the Balanced Scorecard, should have strong connections to the strategies of the company. This will help ensure that the evaluation of HR really matters to the organization and we are working to make things happen. Listed below are some critical questions that GTE used in their award winning HR Balanced Scorecard:

<u>Strategic Perspective</u>
- Do we have the talent we need to be successful in the future?
- Are we investing in growing our HR capabilities?

<u>Customer Perspective</u>
- Are we viewed as a great place to work?
- Are we creating an environment that engages our people?

<u>Operational Perspective</u>
- Are our HR management processes and transactions efficient and effective?
- Are we using technology to improve HR efficiency?

<u>Financial Perspective</u>
- Is our return on investment in people competitive?
- Are we managing our cost of turnover?

A final point that needs to be emphasized is the correlation between human capital and the creation of value. Watson Wyatt, a major consulting firm, recently released the results of a one-year study on human resource management practices for 405 publicly traded companies. The study concluded that there is a correlation between how human resources are managed and the amount of shareholder value. According to Bruce Phau, head of Watson Wyatt's measurement division, if you can improve your human resource management in certain key areas, you can experience a 30% increase in shareholder value. The message is clear - measuring and managing human capital is a major part of creating value and it must be a key component of the Balanced Scorecard.

Cross Functional Teams

Financial management, like most disciplines is becoming driven by projects as opposed to routine day-to-day work. Projects help facilitate needed change and represent the real value-creation activities of the organization. At the heart of projects is the Cross Functional Team (CFT). The CFT is a small group of people, committed to reaching project goals, which in turn brings about improvement within the organization. Understanding what makes a good CFT is important to successful project management and ultimately to the creation of value.

What makes a good CFT? Here are some key elements:

- Everyone within the CFT must be dedicated to improving the company's performance.
- CFT's should measure their own performance and set deadlines for getting things done.
- CFT's should have the ability to move around the organization and cross through organizational hierarchies.
- CFT's should have strong support and resources from senior management, including training, staffing, funding, autonomy, and time.

Choosing the right projects and the right people for the CFT is extremely important. The closer the "fit" a project has with the use of CFT's, the more likely the project will be successful. Projects that lend themselves to CFT's include:

1. Project requires the involvement of several departments.
2. Project impacts or influences outside customers or end-users.
3. Project deals with a major strategic issue.
4. Project requires considerable time and resources.
5. Project deals with a complex area where errors and mistakes are common.

As a general rule, CFT's should be considered when you have a project that:

- Represents a major challenge
- There is a sense of urgency
- Project has major implications within the organization.
- Project has high risk and mistakes are likely to occur.

When choosing members for the CFT, three important factors to consider are:

1. Technical Expertise - Education, knowledge, experience, etc.
2. Problem Solving Abilities - The ability to identify problems and develop solutions.
3. Interpersonal Skills - The ability to communicate, temperament, personal skills, etc.

If possible, it is best to let team members join on a voluntary basis. Additionally, allow team members to choose their own assignments and name the project. This can help ensure high productivity. And don't forget to include diversity and balance within the CFT. You need to cover a broad range of skills and talents within the CFT.

The scope and size of the project will determine the size of the CFT. In cases where the project is highly complex, the CFT may form sub-teams or task forces consisting of five to eight members. If the CFT is too large, interaction and consensus is difficult. If the CFT is too small, there is a lack of creativity with a very narrow focus.

Several roles are required for making CFT's work. These roles include:

1. <u>Sponsor or Champion</u>: A person should serve as a bridge between senior management and the CFT so as to obtain and maintain upper-level support. Sponsors or champions are not full-time members of the CFT, they act as a liason for getting the resources the CFT needs.
2. <u>Team Leader</u>: The overall manager of the CFT is the Team Leader. Team Leaders coordinate activities, encourage participation, maintain cohesiveness, and direct the CFT.
3. <u>Team Facilitator(s)</u>: Team Facilitators act like coaches within the CFT, helping prepare for CFT activities, meetings, and keeping everyone focused on project objectives. Team Facilitators have good communication and teaching skills.
4. <u>Team Secretary</u>: Someone will need to summarize the decisions and actions of the CFT. The Secretary keeps minutes of meetings and distributes minutes to all team members. This helps reinforce what needs to be done.
5. <u>Team Members</u>: Members must carryout the activities and task as indicated by the Team Leader. Team members should take their assignments seriously. Team members tend to be high achievers and they should be expected to serve for the entire life of the project.

CFT's have a much better chance of success when the goals of the project are clear and concise. The expected outcomes of the project should be specific and measurable; such as a 15% improvement in production output. Make sure upper-level management communicates the following to the CFT:

- What are the deliverables from this project?
- Why was this project chosen?
- What type of support will upper-level management provide?
- What restrictions, limitations or other special issues will affect the project?

A final point concerns how the CFT works through the project. In his book, <u>Project 50</u>, Tom Peters points out that the biggest mistake within a project is to move too quickly to implementation. Failure to plan and design the project will result in failed implementation. So once you have the right CFT in place, make sure you spend time planning, testing, and designing the project.

What is Matrix Management?

As Tom Peters has pointed out, the essence of most organizations is centered around projects. The traditional organization, organized around departments, is fast giving way to work by project. As project work replaces department work, more and more organizations are adopting a matrix formation to their structures.

Matrix management is the interface of an organization both vertically and horizontally. Traditional organizations consist of horizontal layers with a distinct line of command. Under matrix management, people may report to more than one person. Therefore, you could have a Salesmen report to the Finance Manager or a Production Supervisor report to the Chief Technology Officer. The balancing of horizontal and vertical structures creates a matrix or grid whereby people move according to project. Thus, the organizational chart looks like a series of vertical department columns crossed over by a series of horizontal project rows. By moving people around according to projects, skills are improved and human resource capital is enhanced. Matrix management can provide several benefits:

- ✓ Reduces the number of organizational layers down to project by project.
- ✓ Better utilizes the human resources of the organization.
- ✓ Eliminates unnecessary work and improves value-added type activities.
- ✓ Emphasizes the need to change and work around projects as opposed to department.

Matrix management does have some drawbacks:

- o It can create much more conflict since people are forced to interact with others outside their traditional areas.
- o Traditional career paths no longer exist.
- o Top managers (especially Project Managers) can gain increased power over traditional department managers.

One of the biggest challenges to matrix management is getting "buy-in" from those affected. If employees have difficulty getting along and they are suspicious of management, then employees will view matrix management as another popular fad of the month. Additionally, matrix management emphasizes core competencies and as a result, in-house personnel may find themselves outsourced. Thus, matrix management is appropriate for organizations that have wide fluctuations in their workloads. Companies involved in major project work, such as Research & Development, function well under matrix management.

Additionally, matrix management works best when an organization has clearly defined goals and there is strong fit between organizational goals and the goals of horizontal components and vertical components within the matrix. This binds the grid together and facilitates accountability through measurement (such as a Balanced Scorecard).

The evidence is quite clear. More and more companies are emphasizing projects. More and more jobs are requiring project management skills. The demand for Project Managers has never been stronger. And to solidify this trend, matrix management is becoming a standard for rebuilding organizational structures.

Measuring Returns on Human Resource Capital

One of the most under measured parts of a business is the human resource capital and it represents one of the biggest challenges facing business; namely finding the best and brightest people. It is these human resources or people who ultimately create value for the organization. People generate value through their application of skills, talents, and abilities. The key is to invest in people so that human resources are productive, knowledgeable, effective, and efficient. This is what separates the average company from the exceptional. Getting a return on this investment or ROI is extremely important.

People who create lots of value often have certain characteristics:

- They openly share their knowledge and expertise with others
- They transform data into intelligence for better decision-making.
- They pay attention to details, collecting and gathering information to reach informed conclusions.
- They communicate clearly and concisely.

We can extend this concept to all aspects of intellectual capital; i.e. people interact with processes, knowledge, systems, customers and other intangibles within the business. Once you understand this interaction, you can measure these relationships to ascertain returns on human resource capital. A critical question to ask is: What impact does a person have on these intangibles? For example, one employee may interact with complaining customers in order to gain knowledge and improve the business. Another employee may view complaining customers as a nuisance to be avoided.

Each process can have its own unique set of metrics. These metrics can be applied within a formal measurement system designed specifically for human resource capital. In his book The ROI of Human Capital, Dr. Jac Fitz-enz describes how all performance measurement systems can be placed into a matrix. The following matrix was developed for measuring Human Resource Capital (HRC):

	Acquire HRC	Maintain HRC	Develop HRC	Retain HRC
Cost =>				
Time =>				
Quantity =>				
Error =>				
Reaction =>				

In the above matrix, we would have costs associated with acquiring personnel; such as advertising, agency fees, and relocation costs. These costs would fall under Acquire HRC. The next level down is time; i.e. how long did it take us to recruit a new employee. Quantity would be the number of applications processed; often viewed as the "driver" within the process. Error refers to any event that does not meet our expectations; such as incorrect processing of new applications. Finally, the Reaction level looks at how people respond to various events within the process. This can be somewhat subjective. In any event, we can transform our matrix into a Balanced Scorecard:

<u>Perspective => Metrics</u>
Acquisition => Cost per Hire, Time Required to Fill Position
Maintain => Average Pay per Employee, Labor Cost % to Operating Cost
Retention => Cost of Turnover, Retention Rate, % of Voluntary Separations
Development =>Training Hours per Employee, % Promoteable People

Financial professionals are often too focused on applying metrics to a process as opposed to the underlying foundation behind the process; namely people. The emphasis should be on people since people are the glue that pulls together the elements of intellectual capital – processes, systems, knowledge, etc. Measuring and managing this "glue" is critical to squeezing value from all elements of intellectual capital.

The 360-Degree Evaluation Process

Managing human resource capital is now mission critical. One of the most effective tools for managing human resources is the 360-degree evaluation process. Traditionally, an employee is evaluated from a sole source (1 degree), namely the immediate supervisor or manager. However, employees interact with numerous sources: Co-workers, customers, Managers outside the employees department, vendors, contractors, and others. The 360- degree evaluation process relies on these multiple sources, providing a more balanced and objective approach to measuring employee performance. This leads to higher productivity, better customer service, and enhanced organizational performance.

"Every published report recommends multiple as opposed to single raters for performance appraisal." – John Bernardin, Author & Expert on Performance Appraisal

When you tap into an employee's circle of influence, you will have a major impact on changing employee behavior. Additionally, employees often respect the feedback of co-workers more than their respective supervisor. A survey of Coca-Cola Foundation employees indicates that over 90% of employees prefer evaluations that include both co-worker and supervisor. Only 4% of employees chose to have their performance evaluations performed by the supervisor only.

Surveys are often used for collecting the feedback used to evaluate the employee. It is very important to keep surveys short and to the point. A few open comment questions can be included. However, you need an objective way of scoring the surveys. It is also important to maintain anonymity; i.e. receivers of the surveys should not know who provided the information. Likewise, the information received must be controlled so that confidentiality is maintained.

<u>Example of Survey Questions for Evaluating Employee Performance</u>:
Assign a score of 1 to 10 for each of the following questions. 1 is the lowest score (strongly disagree) and 10 is the highest score (strongly agree). N for Don't Know

	Score
1. Performs day to day activities in a timely and accurate manner.	____
2. Communicates effectively, both orally and in writing	____
3. Demonstrates initiative for solving problems	____
4. Directs and leads others in a positive way	____
5. Coordinates and manages time, people and other resources well	____

As with any new approach to managing people, the 360-degree approach requires careful planning. For example, training is a must since employees will be apprehensive about how this new evaluation approach will work. Training should address fundamental questions, such as what is the 360 approach, why is the organization adopting it, who will be doing the evaluations, how will the information be collected, etc.

The design of a 360-feedback process should actively enlist the employee. In fact, the employee should select their own evaluation team, consisting of no more than six targets (co-worker, supervisor, customer, etc.). Design of the surveys for feedback is also important since traditional approaches will not fit:

Traditional Survey	360 Feedback Survey
Single Target Audience	Numerous Targets (all employees)
Numerous Responses	Few Responses (5 to 7) per target
Response Rates may be low	Need High Response Rate for Objectivity
Respondent may be known	Respondents must be anonymous
Survey may be long	Survey must be short (less than 20 minutes)
Distributed through traditional ways	Electronic distribution is common

Control over surveys is low	Control must be high for confidentiality

Consistent rules must be adopted to make sure the process is fair for all employees. For example, you will need rules on when to throw out invalid survey responses. Some companies consider a survey as invalid when the individual response is more than 50% different than all other responses. Minimum levels are also needed for acceptance of surveys. For example, a required response rate of 75% is common where employee compensation is linked to 360 feedback results.
This article has touched on some of the basics behind the 360-feedback process. Multi-source systems, such as the 360 feedback, are more objective, accurate, creditable, and influential than traditional single source systems. By tapping into sources closet to the employee, we can better motivate and manage the employee. And since employees are at the center of organizational performance, we need fair and accurate methods for evaluating employee performance. The 360-degree feedback model is one of the best methods for driving employee performance and satisfaction.

Reintroducing the Human Factor

Out of necessity to compete and survive, the combination of innovation and technology are two focal points for management. The challenge for management is to make things happen through people, leadership, culture, and the organizational mindset. And this does not mean that everything must be done quicker, faster and at lower costs. The real benchmark to ask is: Does it add value to an existing process?

The driver behind this mandate (creating value through innovation and technology) is the management of people. With so much emphasis on profitability, things like people and innovation often get crushed in the mad rush to re-engineer the business. Re-engineering views the business in terms of excess, asking the question: What can we eliminate? Innovation on the other hand views the business in terms of re-thinking, asking the question: Can we do this a better way? Whereas re-engineering places little emphasis on people, innovation relies heavily on people.

If the organization fails to support its people, then creative thinking and innovation becomes elusive. A good way to understand this concept is to simply flip the organizational pyramid upside down. The CEO, who typically sits on top of the pyramid, is now at the bottom, providing upward support to the VP's (Vice Presidents). The VP's provide support to upper level management, upper level management provides support to middle level management, and so on. The lower levels of the organization are now front and center at the top of the organizational pyramid, supporting customers who in turn drive the business.

In his book, Leadership is an Art, Max De Pree describes leadership as "liberating people to do what is required of them." Employees are viewed as customers and the role of the Manager is to serve employees, attempting to optimize productivity. This point is also made in the book, Stewardship: Choosing Service over Self Interest by Peter Brock. Brock describes managers and supervisors as servants to employees, no longer controlling employees, but finding out specific issues confronting the employee and working through these issues to empower and unleash the human factor within the organization.

A network of employee-owned initiatives now re-energizes the organization into an entrepreneurial culture. Employees not only assume responsibility for valuing creating projects, but they share in the benefits and rewards; i.e. they have a piece of the action. Once employees are in control, they naturally find better ways of doing things - this is the foundation behind innovation. Management can begin targeting innovation at critical business areas, such as customer service, production, and marketing. To further move the process along, technology can be deployed into the mix. It's worth noting that technology alone is **not** necessarily the answer. Once again, we can go back to our fundamental benchmark: Does it add value to what is currently taking place?

All of this requires considerable change on the part of management. In his book Managing by Measure, Mark T. Czarnecki offers the following observation:

"Actual change takes real participation, not just listening. It takes real emotion and understanding . . We can ask people to change, but when we fail to redesign structures and systems around them, a lot of old behavior gets reinforced and new behaviors go unrewarded. Pay systems, leadership styles, job boundaries, technology, polices; if these aren't also changed, they merely serve to pull people back to where they were before the change process started."

Changing human behavior requires that managers put emphasis on people. And as author Mark T. Czarnecki has pointed out, a lot of things have to happen for this to occur - right leadership, right culture, right reward systems, etc. Therefore, the real test is how the organization itself changes in meeting the needs of the employee. For many organizations that have endured several re-engineering programs, reintroducing the human factor may offer the most effective and sustainable approach to continuous innovation.

Performance through People

Almost every organization says the same thing: People are our most valuable asset. However, when you see how people are actually managed, you have to conclude otherwise. Most organizations fail to manage their human assets for optimal performance.

"The performance challenge facing every organization is to develop management systems that make employees the organization's greatest assets."
- The Performance Challenge by Jerry W. Gilley, Nathaniel W. Boughton, and Ann Maycunich

The role of management is to find ways for getting people to perform. In the book Performance Improvement Methods, H. James Harrington and Kenneth C. Lomax outline ten barriers to performance:

1. Insufficient Time - Problems are not solved due to lack of time. However, the failure to solve a past problem creates a lack of time today.

2. Disowned - People fail to take ownership of a problem; i.e. it's not my job.

3. Not Recognized - People who deliberately go after problems are often not recognized. Instead, people are recognized for taking the path of least resistance.

4. Accepting Mistakes - The organizational culture may be too accepting of mistakes; i.e. everybody makes mistakes - this is normal. The mandate should be that when a mistake is made, we learn from the mistake so that the mistake is not repeated.

5. Ignorance - Lack of knowledge or awareness is not an excuse in today's competitive information age. Each problem requires some degree of attention or priority.

6. Impossible to Solve - People may conclude that the problem is impossible to solve. If this mindset grows, then more and more problems go unresolved.

7. Defensive - People will protect their turf, not assuming responsibility. People should respond by finding ways that they can contribute to resolving the problem.

8. Unrealistic Expectations - Management often imposes unrealistic requirements, usually in terms of time, quality or costs. Management must seek out realistic requirements by conferring with those who have to implement the decision.

9. Accepting Partial Solutions - People may accept a solution that partially solves the problem; i.e. it's good enough to get by. Instead, people should seek out the "best" solution and not the easiest.

10. Shifting Blame - People may target someone else as the source of the problem. The emphasis should be on trying to solve the problem and not pointing blame.

By removing these barriers, problems can be viewed as opportunities for value creation. Getting people into a problem-solving mode requires training and strong support from management. Additionally, the organization needs to be rich with performance improvement tools so that employees are empowered with the ability to solve problems. The list of performance improvement tools can be almost endless: Conflict Resolution Teams, Entrepreneurial Culture, Matrix Management, Strategic Benchmarking, 360 Feedback Systems, Risk Analysis, Competitive Research, Special Training Programs, Organizational Realignment, and so on and so on.

Improving performance is also a function of establishing standards and comparing actual results against these standards. This communicates "acceptable" levels of performance to employees. It can also push the organization towards "prevention" of problems. Programs like Six Sigma and Total Quality Management are often deployed for problem prevention.

Finally, one of the most potent tools for improving performance through people is to link performance to an employee's paycheck. Since people drive performance and the two are inseparably linked, you need to find some way of linking the two together (people and performance) through compensation. This leads to changing human behavior which is the ultimate goal of management.

"In the rush to change, many organizations have overlooked or mishandled what could be one of the most effective tools at hand - compensation."
People, Performance, and Pay by Thomas P. Flannery, David A. Hofrichter, and Paul E. Platten, The Hay Group

The Smart Organization – Part 1

Building a "smart" organization is a function of what many HR (Human Resource) professionals call Emotional Intelligence or EI. Unfortunately, many traditional managers think that a smart organization is full of highly educated people with high IQ's. In his book, Emotional Intelligence: Why It Can Matter More Than IQ, Daniel Goleman describes how Emotional Intelligence is a much stronger indicator of organizational performance than IQ (Intelligence Quotient).

“For star performance in all jobs, in every field, emotional competence is twice as important as purely cognitive abilities. For success at the highest levels, in leadership positions, emotional competence accounts for virtually the entire advantage.”
- Working with Emotional Intelligence by Daniel Goleman

Emotional Intelligence is the combination of skills, capabilities, and competencies that allow a person to deal with the pressure and demands of work. Goleman notes that EI improves with age and experience. Therefore, a young startup company full of 20 to 30 year olds will lack strong EI's whereas a company full of seasoned veterans should possess higher EI's. For example, a person's ability to lead a team or cope with business failure is a good indicator of EI. The good news is that EI (Emotional Intelligence) can be learned in the five components that make up EI:

1. Self-Motivation - The ability to cope and remain highly motivated
2. Self-Awareness - Strong insights into how people work
3. Empathy - Sensing and feeling the emotions of others
4. Managing Emotions - Understanding your own emotional strengths and weaknesses
5. Social Skills - Interpersonal relationships with others

Since emotional intelligence is somewhat unconventional, many organizations may view EI as nice to have, but unnecessary. Therefore, the first step is to understand the link between EI and various business needs. Fortunately, there is a wealth of research to support the impact of EI on business. Here are a few examples from the Consortium for Research on Emotional Intelligence in Organizations:

1. Research by the Center for Creative Leadership has found that the primary causes of derailment in executives involve deficits in emotional competence. The three primary ones are difficulty in handling change, not being able to work well in a team, and poor interpersonal relations.

2. For 515 senior executives analyzed by the search firm Egon Zehnder International, those who were primarily strong in emotional intelligence were more likely to succeed than those who were strongest in either relevant previous experience or IQ. In other words, emotional intelligence was a better predictor of success than either relevant previous experience or high IQ.

3. An analysis of more than 300 top-level executives from fifteen global companies showed that six emotional competencies distinguished stars from the average: Influence, Team Leadership, Organizational Awareness, self-confidence, Achievement Drive, and Leadership (Spencer, L. M., Jr., 1997).

4. In a national insurance company, insurance sales agents who were weak in emotional competencies such as self-confidence, initiative, and empathy sold policies with an average premium of $54,000. Those who were very strong in at least 5 of 8 key emotional competencies sold policies worth $114,000 (Hay/McBer Research and Innovation Group, 1997).

5. In a large beverage firm, using standard methods to hire division presidents, 50% left within two years, mostly because of poor performance. When they started selecting based on emotional competencies such as initiative, self-confidence, and leadership, only 6% left in two years.

6. At a national furniture retailer, sales people hired based on emotional competence had half the dropout rate during their first year (Hay/McBer Research and Innovation Group, 1997).

7. One of the foundations of emotional competence -- accurate self-assessment -- was associated with superior performance among several hundred managers from 12 different organizations (Boyatzis, 1982).

So you might be asking, how can I apply EI in the workplace. Several companies, such as American Express and Met Life, are using simple techniques to actively identify high EI employees. For example, weeding out pessimist from optimist can help distinguish self-motivation from a lack of self-motivation. People who are highly confident regardless of their assignments or jobs usually possess high EI's. Also, people with broad experiences adapting to different environments have strong EI's. Many companies now use EI testing for new job applicants, looking for employees with well-rounded skills (good team player, adoptable to change, communicates clearly, etc.).

Many experts trace a lack of EI back to our early childhood education. In his book, EQ: Emotional Intelligence in Leadership and Organizations, Robert K. Cooper describes an educational system that is dominated by math, reading, history, and other intellectual pursuits. Little emphasis is placed on emotional development and those things that give a person an understanding of how to deal with people. It's only through long years of experience that someone learns the five EI skills. And since most of us never learned these skills to begin with, it's up to the organization to recognize and develop EI related skills.

Emotional Intelligence cuts to the heart of high performance teams, attracting the right people, effective communication, and other desirable characteristics for the organization. If an organization wants to be smart, Emotional Intelligence must be a high priority.

The Smart Organization – Part 2

Part 1 of this article set forth the argument that "emotional intelligence" (EI) is the key to creating a smart organization. Since EI enhances individual performance, it also leads to increased organizational performance. In Part 2 of this article, I will outline some specific actions that every organization can take for transforming the company through emotional intelligence.

"Emotional Intelligence (EI) is linked to abilities that involve skill in managing the emotions in oneself and others and are predictive of superior performance in work roles. Research during the last twenty-five years has consistently pointed to a set of competencies such as Self Confidence, Initiatives and Teamwork, for example – that make a significant difference to the performance of individuals and organizations."

- The Emotionally Intelligent Workplace, Edited by Cary Cherniss and Daniel Goleman

In its simplest form, the fastest and easiest approach to building a smart organization is to hire people who possess strong emotional competencies; i.e. people who clearly demonstrate self initiative, self motivation, team leadership, self management, and other great people skills. Therefore, we can start by making sure the hiring practices of the organization take into account emotional characteristics of the job applicant. Second, an employee's performance review should recognize those emotional attributes important to job success. Third, employees need to receive training in EI.

Few, if any educational programs (including MBA programs) provide training in the field of emotional development.

Training should teach people how to become more adoptive, how to take initiative, how to resolve conflicts, and how to do your own self-assessments. For example, self assessments (which leads to self awareness) shows employees what their good at and what their not good at. Tests such as the Myers-Briggs Test are good tools for raising self-awareness. The 360 Degree Evaluation Process is also another good self-assessment process.

One misconception of EI is that some factors are more important than others. This is not true! People are different and jobs are different. Therefore, each person and each job will have its own unique set of emotional competencies:

<u>Sales Staff</u>	<u>General Management</u>
Self Confident	Self Managed / Achiever
Self Control	Builds Trust & Respect
Initiative	Social Communication
Social Empathy	Social Empathy
Influence Others	Awareness – Organization, People, Culture
Builds Relationships	Conflict Resolution

"Applications of emotional intelligence in the workplace are almost infinite. Emotional intelligence is instrumental in resolving a sticky problem with a co-worker, closing a deal with a difficult customer, criticizing your boss, staying on top of a task until it is completed, and in many other challenges affecting your success." – <u>Emotional Intelligence at Work</u> by Hendrie Weisinger, PhD

Finally, in her book <u>The Emotional Intelligence Activity Book</u>, Adele B. Lynn outlines ten steps every organization can follow for improving emotional intelligence:

1. EI should be used in all interactions with employees.
2. Give employees the power of self-assessments.
3. Help employees identify their behaviors – which behaviors help them and which hurt them.
4. Show employees how to change by setting objectives for improving destructive beliefs and behavior.
5. Expose employees to alternative thinking for adoptability.
6. Challenge employees to create new belief systems that not only improve their own performance, but the performance of others.
7. Encourage and reinforce the use of acceptable behaviors on the job.
8. Give positive feedback to employees when they improve their EI.
9. Measure the results in performance evaluations and other HR practices. Also share the results with the employee.
10. Practice what you preach – management must set a good example for EI if you expect others to follow.

“Emotion is present in the workplace. Everyday. Everywhere. Emotion is energy. Learning to harness this energy and use it to impact the reasoning side of the business in a positive way is one of the great untapped resources yet to be conquered.”

- The Emotional Intelligence Activity Book by Adele B. Lynn

In conclusion, smart organizations are those organizations that hire, evaluate, and train their workforce around emotional intelligence. These smart organizations integrate EI into how people are managed. These organizations also leverage traditional IQ against EI, building real power behind business performance. There should be little doubt – emotional intelligence is fast becoming one of the most critical core competencies for every organization.

“We are in the beginning stages of what many authorities believe will be the next revolution in business. By design, no blood will be shed in this sweeping transformation from old to new, just a host of preconceived notions.”

- Executive EQ: Emotional Intelligence in Leadership and Organizations by Robert K. Cooper and Ayman Sawaf

Humanizing the Financial Mindset

Financial Statements, Organizational Charts, Employee Handbooks, and all those traditional things that go into running the business are increasingly unreliable, out-of-date, and ineffective in a world driven by human and intellectual capital. If leaders of organizations are honest about high performance and creating value, then they must pay close attention to the human side of running the business.

“Unleashing Intellectual Capital . . is about the power of unmanagement. It is grounded on the inherent genetic tendencies of human beings, which have so far been almost totally ignored by business and other social institutions.”
- Unleashing Intellectual Capital by Charles Ehin

For people in finance, it can be particularly challenging to “humanize” since business finance is so driven by numbers and shareholder value. In his book The End of Shareholder Value, Allan A. Kennedy contends that too much emphasis on shareholder value has led many companies to mortgage their futures away by doing short-term things (such as reorganizations) to boost shareholder value, but in the long-run, such tactics end up destroying value.

“Effective organizations possess a supply of employees willing and able to make contributions to organizational success. Organizational restructuring should

emphasize the most effective application of human resources to accomplish the organization's mission."
- Organizational Learning, Performance, and Change by Jerry W. Gilley and Ann May Cunich

Instead of focusing so much on shareholder value, the real focus should be on the relationships a business has with its customers, employees, partners, and other stakeholder groups. By investing in these stakeholder groups, you support those things that lead to higher shareholder value. This argument is well made in the Performance Prism, an alternative measurement model to the Balanced Scorecard; i.e. focus on your stakeholder groups before doing your strategy.

One simple approach to humanizing the financial function is to express financial metrics in relation to stakeholder groups. For example, we can "humanize" Economic Value Added (EVA) by expressing it per employee:

Value Added Employee (VAE) = EVA / Full Time Equivalent Employees

VAE has been popularized by Metric Performance (www.metricperformance.com), not unlike how Stern Stewart popularized EVA.

But we need to go beyond financial human metrics like VAE and focus on those things that enhance Human Resource (HR) Capital. In their book The Value Added Employee, Edward J. Cripe and Richard S. Mansfield outline three simple steps for increasing HR Capital:

1. Increase the number of high performers in the workforce. A combination of competency testing and performance evaluations are used to distinguish high performers from low performers.
2. Actively recruit high performers for building the organization.
3. Reduce or improve low performers in the workforce.

If people are the foundation behind performance and the goal is to increase shareholder value, then the real question to ask is: How do we secure a future for all of our stakeholders? A narrow focus on shareholders only has led us to witness the so-called bubble (overvaluations of publicly traded companies) and the subsequent market collapse.

" . . leadership is all about people, and if you're going to lead people you have to care about them."
- Encouraging the Heart: A Leaders Guide to Rewarding and Recognizing Others by James M. Kouzes and Barry Z. Posner

In conclusion, financial leadership requires an emphasis on those things that matter to people. Leaders need to be asking questions like: How do we build our business around the human resources of the company, what organizational structure best serves all stakeholders, and how do we improve how we manage our human resources. Those organizations that are overly pre-occupied with financial results only will be less profitable in the long run than those organizations that cater to building their human resource capital.

"Despite all the change swirling around any successful business, some things appear to remain constant for relatively long periods of time. Foremost is that business needs people to make it function, and people inevitably leave their mark upon it."
- The End of Shareholder Value: Corporations at the Crossroads by Allan A. Kennedy

Elevating the HR Function – Part 1 of 2

Organizational capabilities are developed primarily through the development of human resources. Despite the enormous importance of human resources, many organizations treat the HR (Human Resource) Function as just another administrative function with high overhead costs. As a result, the HR Function is often targeted for outsourcing and downsizing; crippling it from its real potential for value-creation within the organization.

Instead of viewing HR as a necessary administrative function, it's high time for all organizations to recognize that the real challenge for Human Resource Management is to lead the way on several strategic fronts - development of formal systems for creating a "learning" organization, effective deployment of human resources for maximum return to the company, and enhancing the competencies of the workforce. Senior Management should take a much broader and strategic view of the HR Function, using it to maintain or create new competitive advantages for the organization. Ultimately, the HR Function should be a major strategic player in how the organization executes its overall strategic plan.

"It has become increasingly clear that human resources (HR) in the future must operate strategically – not as the current 'partner in business', but as a business in and of itself. There are a number of critical reasons to move in this direction, not the least of which is that it may be the only way HR can take control of its own future."
- Tomorrow's HR Management, Edited by Dave Ulrick, Michael R. Losey, and Gerry Lake

In order for HR Management to become more strategic, it will have to reduce the administrative, paperwork that holds HR back. For example, things like virtual services - having employees doing their own training through e-learning or changing their benefits on-line will be the wave of the future, allowing HR to move away from pushing paper and doing more consultation type work.

Several factors are forcing change on the HR Function:
- New technologies (such as on-line time sheets)

- Competitive forces
- Organizational changes (such as changes in management, strategy, etc.)
- Increased pressure on HR to deliver services at lowest costs
- New challenges on HR to address strategic outcomes that impact the business

These factors and more will drive a major transformation in how HR will work. According to Ernst and Young, today's HR will contrast sharply with tomorrow's HR:

Today's HR Function = 70% transaction processing and 30% strategic initiatives.

Tomorrow's HR Function = 30% transaction processing and 70% strategic initiatives.

"The reason I think that strategic planning is important is simple. I have worked directly or through associate for more than five hundred companies in the thirty-two years that I have been a personnel consultant. Approximately two hundred of these companies were my direct accounts, so I knew them very well. Every one of these companies engaged in real strategic thinking and strategic planning as a core part of the style of managing has been successful by every measure of enterprise performance as long as they managed in that manner. Every company I have known for more than ten years that has shunned strategic activities in their management processes has failed and is no longer in business. That's pretty compelling evidence for me."
- <u>Strategic Planning for Human Resource Management</u> by Robert E. Sibson

If HR is to become strategic, then senior management outside HR must become more open-minded, accepting the critical role of HR in driving organizational performance. Once this new "strategic" imperative is accepted by management, then ideas will flow from HR. For example, many people in HR have good ideas, but they are rarely given serious consideration and commitment from senior level management. Even when HR attempts to launch a major strategic program, HR must go it alone with very tepid support from outside the HR Function. Ironically, many other non-operating functions such as finance and marketing have reinvented themselves into high-level decision support centers, using technology and processes for intelligent, strategic type decision making. It seems the re-invention wave never reached the HR Function, relegating HR to its typical role of administrative tasks – compensation, benefits, pensions, and basic personnel management. Therefore, senior management and HR need to form a strong partnership in making the move to strategic HR management.

"Your firm's human capital is a form of wealth that will create more wealth. When you enhance the value of your people, you enhance the value of your firm. A person's value as a human asset stems directly from how his or her knowledge, experience, skills, and competencies match the job in which that person works."
- <u>Valuing People: How Human Capital Can Be Your Strongest Asset</u> by Lisa M. Aldisert

In order to jump-start the strategic process, HR can embark on several “value-based” practices, such as team building, cross-functional development, linking pay to performance, and assessing individual performance. Even the most fundamental issues can be a good source for HR programs – things like effective communication throughout the entire organization. HR can test, monitor and improve various channels of communication, establishing standard guidelines and “best practices” for information sharing.

One compelling argument for making HR more strategic has to do with core competencies. The HR Function needs to place more emphasis on those things related to capabilities and competencies, helping the entire organization reshape itself so it can meet future expectations and demands. If HR fails to address this critical issue, then HR runs the risk of strangling and impeding the development of HR Capital.

HR will need to embrace a much deeper and broader purpose, reaching into new areas such as expanding the knowledge workers and improving the relationships between employees, managers, and customers. Part II of this article will outline more specific initiatives for making HR highly strategic.

“As more organizations have recognized the importance of human capital and knowledge management with respect to competitive success, it is reasonable to expect that HR professionals would be at the forefront of organizational leadership. Yet, to the contrary, the importance of activities performed by HRM units seems to be losing ground in a majority of organizations, while other functional areas (for example, information technology, operations, finance) gain greater and greater influence. It is essential for firms to recognize that people, rather than technologies or process, are best able to sense and make judgments that put structure around the inevitable disorder that results from these forces. Therefore, the knowledge economy, more than any previous market trend, places a premium on human talents. Consequently, the management of a firm’s HR, more broadly defined than ever before, will be pivotal in determining the ultimate success or failure of the organization.”
- Human Resource Management in the Knowledge Economy by Mark L. Lengnick-Hall and Cynthia A. Lengnick-Hall

Elevating the HR Function – Part 2 of 2

Part I of this article addressed the issue of elevating the HR Function into a more strategic type function, as opposed to an administrative type function. Part 2 of this article will describe several strategic ideas for moving HR into the strategic function it must become.

In Part I, we mentioned the importance of HR as it relates to core competencies. Organization’s need to maintain and build their core competencies since this is the source of competitive advantages in the marketplace. Core competencies have a lot to do with recruiting and retaining the best people. Obviously, HR should play a lead role in this mandate. However, we do not want to stop here since there are numerous other strategic issues related to HR.

"The evidence is unmistakable: HR's emerging strategic potential hinges on the increasingly central role of intangible assets and intellectual capital in today's economy. Sustained, superior business performance requires a firm to continually hone its competitive edge. Traditionally, this effort took the form of industry-level barrier to entry, patent protections, and governmental regulations. But technological change, rapid innovation, and deregulation have largely eliminated those barriers. Because enduring, superior performance now requires flexibility, innovation, and speed to market, competitive advantage today stems primarily from the internal resources and capabilities of individual organizations – including a firm's ability to develop and retain a capable and committed workforce."
- The HR Scorecard: Linking People, Strategy, and Performance by Brian E. Becker, Mark A. Huselid, and Dave Ulrich

In his book, Strategic Planning for Human Resource Management, author Robert E. Sibson outlines several critical issues confronting the typical HR Manager:

- Productivity improvement
- Educational deficiency
- Delegative Management
- Fairness in the Workplace
- Managing Differences
- Fair Pay for Everyone
- Chronic Labor Shortage
- Impact of Technology
- Employee Owners (entrepreneurship in the workplace)
- Organizational Restructurings for Higher Performance

Each of these areas can represent a major strategic program for the HR Function. An absence of ideas is no excuse for making HR strategic. In his book The Human Equation: Building Profits by Putting People First, author Jeffrey Pfeffer describes seven dimensions that characterize how organizations produce profits through people:

1. Employment Security
2. Selective hiring of new personnel
3. Self-managed teams and decentralized decision making.
4. Comparatively high compensation contingent upon performance.
5. Extensive training
6. Reduced status distinctions and barriers (including dress codes, language, office arrangements, and wage differences).
7. Extensive sharing of information throughout the organization.

Once again, the sources for strategic initiatives are extremely significant. The obvious problem we will have is how do we address these issues within our typical HR Function. In order to elevate the HR Function so that it can meet these new demands, people within HR will require higher skill sets, including very strong technology type skills since many of the traditional HR services will be conducted through on-line service centers. Additionally, like most high quality functions, HR will need some "independence" from senior management, allowing the HR Function to pursue critical issues in an honest manner.

"The total transformation of Human Resources (HR) as a function has become both a business necessity and a strategic, value-adding opportunity. This transformation, which calls for a functionally fragmented, administrative cost center to a value-adding, integrated organization aligned with corporate business strategies, will not happen incrementally in most cases . . Instead, the true transformation of HR requires analysis and identification of opportunities for improvement in five interrelated areas that are the success drivers of effective HR, including the people in HR and their competencies; processes used to deliver HR products and services; the culture of the HR organization; its structure and the technology used."
- Web-Based Human Resources: The Technologies and Trends that are Transforming HR Edited by Alfred J. Walker

All of these strategic issues can be overwhelming to any resource-strapped function. Consequently, HR will need to develop its own strategy for value-creation within the organization; otherwise HR will not adequately address many of these strategic issues and outside managers will continue to have their traditional bias view of HR. The HR Strategy will need to address the issue of how the organization will build its HR Capital (which expands the capabilities of the organization). This can cover a wide range of best practices – web based training, knowledge sharing, 360-degree evaluation processes, cross-functional teams, and so forth. As a minimum, the HR Function must have a strategy for protecting the core competencies of the organization. Next, the HR Function will need to develop strategies for building a knowledge-based workforce that can meet future challenges confronting the organization.

"If competitive success is achieved through people – if the workforce is, indeed, an increasingly important source of competitive advantage – then it is important to build a workforce that has the ability to achieve competitive success and that cannot be readily duplicated by others. Somewhat ironically, the recent trend toward using temporary help, part-time employees, and contract workers, particularly when such people are used in core activities, flies in the face of the changing basis of competitive success. This raises the questions of why these practices seem to be growing, what effects they have on the ability to achieve advantage through people, and what the implications are for organizations that might follow a different strategy."
- Competitive Advantage through People: Unleashing the Power of the Workforce by Jeffrey Pfeffer

In order for HR to be successful with its new strategic mandate, it will need to "in-source" to execute its strategy since its resources are way too limited. For example, direct involvement by IT (Information Technology) will be required to launch new technologies in the HR area. Additionally, HR may have to outsource some of the day-to-day administrative activities so HR can begin to address strategic issues.

In conclusion, some of the most significant performance issues confronting any organization are rooted in human resources. This is why the HR Function needs to become much more strategic. Moving HR into a strategic partnership with management is now mission-critical. There are a multitude of strategic issues for HR to pursue, ranging from making the organization more fluid for the sharing of knowledge to making sure all employees have the tools to provide outstanding customer service.

"In the closing years of the twentieth century, management has come to accept that people, not cash, buildings or equipment, are the critical differentiators of a business enterprise. As we move into the new millennium and find ourselves in a knowledge economy, it is undeniable that people are the profit lever. All the assets of an organization, other than people, are inert. They are passive resources that require human application to generate value. The key to sustaining a profitable company or a healthy economy is the productivity of the workforce, our human capital. In the American economy, where over half of the gross national product is allocated to the information sector, it is obvious that knowledgeable people are the driving force."
- <u>The ROI of Human Capital</u> by Jac Fitz-enz

What People Need are Coaches – Part 1 of 2

There are plenty of programs to help build and develop human resource capital within the organization; things like personal balanced scorecards, emotional intelligence, and 360 Degree Evaluations. However, trying to implement these solutions is not easy. Additionally, many of these initiatives involve considerable effort with somewhat mixed results. What we need are very informal, straightforward approaches to managing people for higher levels of performance. The answer may reside in coaching. Coaching has been very evident in sports – we've all seen how great coaches can turn a team of players into champions. And now coaching has emerged as the hottest thing for managing people.

Coaching is a form of supportive relationship that elevates the employee to a level of maximum performance. Coaching is about interacting with people, teaching them to produce exceptional results for business. Coaching is for anyone who must manage someone else.

"The business community is finally realizing what sports experts have known and practiced for years: individual attention from managers is the surest way to unlock an employee's potential. The payoffs for becoming a manager-coach are clear:

productivity, efficiency, reliability, and profitability."
- The Coaching Revolution: How Visionary Managers are Using Coaching to Empower People and Unlock Their Full Potential by David Logan and John King

Coaching runs contrary to the traditional manager, things like control, rules, and heavy-handed mandates. Coaching is much less formal and more collaborative. Just like in sports, veteran (more experienced workers) are mixed with the new recruits to make sure people have a chance at success. Contrast this to the current sink or swim environment that many are thrown into, only to burn out under the intense demanding workload.

With increasing pressure to do more, not to mention the high levels of change, employees now more than ever before need high quality coaching environments. For example, in sports the coach immediately intervenes when he detects a player not performing to his or her potential. Coaches transfer their knowledge of the game, showing the player how to execute. Coaching exemplifies some of the best characteristics in leadership – a personal relationship between manager and employee, tapping into the emotions of the worker to drive high levels of performance, and effectively communicating and transferring the knowledge so the worker can apply it on the playing field.

"Organizations are the ongoing creations of people who work in them. Treating organizations as if they were huge machines, as is done with command and control, badly misunderstands the nature of the phenomenon. To sum up and simplify what I'm saying, coaching is a way of working with people that leaves them more competent and more fulfilled so that they are more able to contribute to their organizations and find meaning in what they are doing."
- Coaching: Evoking Excellence in Others by James Flaherty

Coaches often motivate and compel people to exceptionally high performance levels through great communication. There is great power in the spoken word and coaches use this technique all the time. Some of the best coaches use extremely powerful words to reach players in a language that makes sense. And they say it with passion.

"To be successful, you've got to be honest with yourself. Success rests not on ability, but upon commitment, loyalty, and pride. Success in anything in this world is 75 percent mental. In our league, most times the teams are evenly matched in ability and physically. And it is usually the team that is best mentally prepared on that particular day which wins the ballgame. Success is paying the price. You have to pay the price to win – to get there and to stay there. Success is not a sometime thing; it is an all time thing. You don't do what is right once in awhile, but all of the time – success is habit, winning is habit."
- Coach Vince Lombardi of the Green Bay Packers (from the book: The Essential Vince Lombardi by Vince Lombardi, Jr.)

Coaches are very engaged with their players, teaching them to think smarter and do things better. Coaches are very good listeners; they also learn and love to teach others what they know. Coaches dig deep into the emotions of others, creating a bond between the coach and the player. Coaches are extremely deliberate and forceful when it comes to:

1. Seeking out the most talented people
2. Defining results and holding people accountable for their results
3. Providing immediate feedback on how people can produce the desired results
4. Rewarding and recognizing people for their successes

“We must see people in terms of their future potential, not their past performance. Coaching delivers results in large measure because of the supportive relationship between the coach and the coachee, and the means and style of communication used. The coachee does acquire the facts, not from the coach but from within himself, stimulated by the coach. Of course, the objective of improving performance is paramount, but how that is best achieved is what is in question.”
- Coaching for Performance: Growing People, Performance and Purpose by John Whitmore

One of the most significant dilemma’s facing almost every organization is a lack of leadership. People desperately need leadership in order to perform. And coaching represents the essence of leadership. As author Ferdinand F. Fournies points out in his book Coaching for Improved Work Performance, Managers are not paid to get results, they are paid to get results out of other people.

Coaching is one of the most potent management techniques for improving performance. This approach to managing (coaching) is what drives performance in sports; so why not use it in the workplace? Coaching is what people are looking for from management and as a result, coaching fulfills the basic performance needs of employees. Coaching is truly one of the best ways to manage people. Part 2 of this article will outline some specific characteristics for transforming managers into coaches.

“Coaching lies at the heart of management, not at the edges. Coaching is everything you do to produce extraordinary results in your business with colleagues amid change, complexity, and competition. Coaching is everything you do to improve your strategic thinking about the business future you want to create. Coaching is everything you do to ignite personal and team learning in solving business problems while building the organization capability you need to succeed. It is everything you do to give you and your entire organization an edge and advantage.”
- Masterful Coaching Fieldbook by Robert Hargrove

What People Need are Coaches – Part 2 of 2

Part 1 of this article laid the groundwork for transforming managers into coaches. Part 2 of this article will focus on what every manager can do to become a great coach. Much of this transformation from manager to coach is rooted in the relationships a Manager has with co-workers. In their book Stop Managing, Start Coaching, authors Jerry W. Gilley and Nathaniel W. Boughton describe nine key components behind a manager-employee relationship:

1. Freedom from Fear (think outside the box)
2. Communication (two way, not one way communication)
3. Interaction (Spend time with your employees)
4. Acceptance (non-judgmental)
5. Personal Involvement (get to know your people personally)
6. Trust (sharing, respect, openness)
7. Honesty
8. Self Esteem (focus on what a person is good at)
9. Professional Development

One of the key drivers behind an effective coach is being able to influence and teach others. Likewise, the best employees for the team will be those who are life-long learners; i.e. they enjoy having the coach teach them, learning new concepts, and applying knowledge to problem solving. Therefore, quality-coaching environments will require the right kind of manager (willing to spend the time on coaching) and the right kind of employee (very receptive to learning).

One of the key foundations behind coaching is the evaluation of performance data. Coaches use very quantifiable benchmarks of performance, comparing current performance against these benchmarks of excellence. Therefore, in order for a manager to be highly effective as a coach, the manager will have to:

- Establish a set of quantifiable goals in terms of time, money, or some other specific metric
- Collect measurement data on a regular basis to evaluate performance. Things like surveys or even casual observations can help. More sophisticated approaches such as the 360 Degree Evaluation Model can be used for consistency throughout the department or organization.
- Analyze the performance data, identifying the gaps in performance and areas for improvement. Working with the employee to close the performance gap.
- Once goals have been reached, establish a new set of goals and go through the process again to continuously make progress.

Perhaps the single biggest driver behind coaching is leadership. Coaches tend to have outstanding leadership skills. The legendary coach Vince Lombardi summed it up as follows:

The Lombardi Rules – The Winning Model

1. Know yourself – You can't improve on something you don't understand.
2. Build your character – Character is not inherited, it is something that can be, and needs to be, built and disciplined.
3. Earn your stripes – Leaders earn the right to lead, they manifest character and integrity, and they get results.
4. Think big picture – big picture is your roadmap and rudder. It can't change in response to minor setbacks, but it must change as the competitive environment changes.

- What it Takes to be #1: Vince Lombardi on Leadership by Vince Lombardi, Jr.

In conclusion, coaching is about assisting and collaborating with others to improve their performance in a one-to-one, personal relationship. Coaching is about becoming passionate over performance and results, conveying this performance in very measurable terms to people, holding them accountable for these measurements, and above all else, helping them get there. Coaching exemplifies the best qualities in managing since it offers what people need for optimal performance.

"To be successful as a people manager, you must recognize three very basic facts about your role as a manager:

1. Management is the intervention of getting things done through others.
2. You need your employees more than they need you.
3. You get paid for what your employees do, not for what you do.

If you accept these three basics, you will come to some very important conclusions about the most appropriate interventions necessary for you to become a successful manager. It also means that the more successful you wish to be in the business world, the harder you must work to do everything possible to help your employees achieve, rather than fail."
- Coaching for Improved Performance by Ferdinand F. Fournies

Neuro Linguistic Programming – Part 1 of 2

Managing and building human capital has taken center stage for many organizations. There are numerous tools to help enhance human resources, such as human resource scorecards, 360-degree evaluations, and matrix structures for cross-functional development. However, it would be nice to have one discipline to pull together the drivers behind human behavior and performance, defining the attributes and models that we need to replicate for building human capital. Well such a discipline has emerged – it's called Neuro Linguistic Programming or NLP.

"NLP is the art and science of personal excellence. Art because everyone brings their unique personality and style to what they do, and this can never be captured in words

or techniques. Science because there is a method and process for discovering the patterns used by outstanding individuals in any field to achieve outstanding results. This process is called modeling, and the patterns, skills, and techniques so discovered are being used increasingly in counseling, education and business for more effective communication, personal development and accelerated learning."
- Introducing Neuro-Linguistic Programming by Joseph O'Connor and John Seymour

NLP is a body of knowledge about how people think, sense, and communicate within their environments. By understanding these relationships, we gain insights into how to model the right kinds of behavior for outstanding performance and results. We can break NLP down as follows:

Neuro – Learning how we think and how it influences the results in our life. What people see and hear determines what they think. These reactions evolve into habits and habits will ultimately determine the destiny of the individual.

Linguistic – The languages we use for communicating. Understanding how we communicate has profound implications on results. And communication is more than what we say. Knowing how to communicate with yourself and others allows you to "code" or model conscious and unconscious patterns that produce favorable outcomes.

Programming – Everyone runs their life by programs or strategies. When people understand these programs, they begin to have more choices. And with more choices comes increased success.

If we pull together these three components, then NLP is a combination of thinking, behavior, and communicating for highly effective business relationships, team leadership, managing people, and other critical drivers of performance. NLP is the study of these relationships, applying a methodology of what needs to happen if you want outstanding results.

"There is nothing else in the world of human development and learning as powerful as NLP. It is our ability to manage our thinking, our conflicts, and our experience that will ultimately make the difference between those of us who will lead the way into an increasingly new, exciting, creative, and cooperative future, and those who will rapidly fall by the wayside as they attempt to follow. This is what we can learn from NLP."

NLP at Work: The Difference that Makes the Difference in Business by Sue Knight

In today's chaotic world of change and mixing of global cultures, NLP has become extremely important. NLP attempts to identify what works, not what should work. This is why NLP can be instrumental for business. Businesses are created and managed based on what management believes will happen. In fact, most people fail to comprehend and understand what works within themselves and thus, they are in a poor position to understand what works for business. NLP defines what works for you so that you can pursue the right options for success.

NLP maps out thinking patterns, identifying the preferred patterns. By learning how you think, you begin to change and manage better. NLP is about understanding performance gaps within the individual, what currently exists versus what can exist. NLP is about the quality of communication. Great leaders have a mastery of communication. NLP breaks down communication into three classes – visual, auditory, and feeling. NLP is also about programming – using models to reproduce someone else's situation and results, thereby gaining a much better understanding into how the individual thinks and behaves. The purpose of the NLP model is to produce the right kind of human resource capital for running the organization.

For example, models are often developed for several critical positions, such as Chief Executive Officer, Chief Financial Officer, and Vice President of Marketing. Many organizations have introduced NLP models into the workplace through mentoring programs. Mentors represent the NLP model that the organization wants for different positions. When a person aspires to the model, they become a mentor. Mentors serve as examples of what others in the organization need to aspire to. NLP also uses other type of models, such as Meta Models to flush out what really is being communicated.

This article has just scratched the surface of NLP. There are all types of test and models that NLP uses to build and enhance human capital. The bottom line for business is that NLP is about forming your own outcomes based on what you know works, not on what you think may or may not work. NLP is the science of understanding how people think and communicate. And how people think and communicate affects what they do. As a result, NLP can be a very powerful set of tools (all encompassed within one single methodology) for driving predictable improvements in people. Part 2 of this article will describe how NLP fits within the business environment.

"Change is a learning process and learning is a change process. Ultimately underpinning these processes are changes in the way individuals think and act."
- Changing the Essence: The Art of Creating and Leading Fundamental Change in Organizations by Richard Beckhard and Wendy Pritchard

Neuro Linguistic Programming – Part 2 of 2

One of the major benefits behind Neuro Linguistic Programming (NLP) is that it studies and models the skill sets of top performers within an organization. NLP Models give us an understanding of personal excellence. Some of these performance attributes are consistent, providing us with insights into how to model personal performance. In his book NLP Business Masterclass, author David Molden outlines several NLP attributes that relate to almost any type organization:

1. Real Innovation vs. Minor Improvement – In the NLP World, continuous improvement programs that tinker and create minor change are not good enough. Too much time and resources are expended trying to fix broken systems, processes, and other business issues. NLP pushes the issue to a higher level by focusing on new ideas and innovation to re-invent how things are done. According to NLP, the degree to which you depart from the old ways is determined by your beliefs. Traditional thinkers will depart less than non-traditional thinkers and this has profound implications on how much change will take place within the organization.

2. Feedback is Nourishing – Very strong feedback in a timely manner is critical in a world of rapid change. NLP does not put much faith in traditional long-term goal setting since things change too quickly and long-plans become outdated so easily. Instead, we must have very reliable and fast feedback systems to modify and direct resources in different directions, accepting the fact that failure will take place all the time and we will adjust as we learn about our failures.

3. Influence and Control - The ability to change is dependent upon the degree of flexibility. Rigid organizations and people are locked into the past, unable to influence and control what is happening around them. Flexible people will ask: How can I change and influence the situation and rigid people will declare defeat by thinking - They control and influence me and there is nothing I can do about it.

4. Resistance – A lack of rapport is a common problem, leading to a lack of acceptance from others in the workplace. If you don't have rapport, people will refuse to accept your ideas and beliefs. The key is to reduce the resistance level by establishing the right rapport. For example, there is a dramatic difference between telling people we are about to change what you are doing on your job vs. asking the person – What do you think we should do? NLP recognizes that you must deal with relationships in the workplace if you expect to gain acceptance.

5. Intention and Behavior are not the Same – People will easily misinterpret your intentions, however well intended. Therefore, you must work with others, realizing that your behavior and actions with others is going to have a profound impact on how they see your intentions. For example, it is better not to judge people, but to instead focus on how you can influence and get them to change their behavior and actions.

6. People can Change – People have what they need to change, but people need the knowledge and know-how so they can take advantage of the opportunities for change. Additionally, people must have a desire for success, providing them with a "thirst" for knowledge and know-how. Thirdly, desire for success must be connected to self-confidence and courage, giving people the ability to dream and stretch.

7. If one person can do it, then others can do it – One reason NLP has become popular is because it takes a look at what successful people are doing and asks, how can we apply this model to others. These NLP Models are powerful tools for understanding why certain people outperform others. People often limit their performance through their own behavior.

8. The Meaning of Communication is in the Response – Communication is only as good as the response you get from the person(s) receiving the communication. Too often, people assume they were effective with their communication, failing to recognize that communication is always subject to interpretation and easily misunderstood. When you get an unfavorable response from someone, change your approach to communication so that you can change the response you get back. Getting the right kind of response is how you should communicate.

9. Perceptions are Reality – No two people are going to think the same and therefore, you will have to recognize that how someone perceives things is how they think. For example, it is easy to distort perceptions with vague and incomplete communication, failing to include relevant facts or altering the truth. If you want perceptions and reality to be the same, you will have to be highly effective in how you communicate your perceptions.

10. I am Responsible – NLP recognizes that ultimately all behavior falls back on a person's state of mind. A negative state of mind will restrict a person's ability to influence and control a situation. A positive state of mind will allow the person to unleash high levels of influence on the situation, giving the flexibility they need to be successful.

One of the great benefits of NLP is the ability to better understand a person's map. This can be an extremely potent tool for improved customer service or any other interaction between people. For example, Diners Club used NLP to improve how managers communicate with customers, resulting in a 254% increase in customer spending and a 67% drop in customer losses. BMV used NLP to model successful communication techniques of its top 1% sales while American Express used NLP to empower managers with increased personal responsibility. Therefore, NLP does hit the bottom line since it provides a roadmap for personal performance and since personal performance is behind organizational performance, managers need to take a serious look at using NLP as part of how the organization develops its human resource capital.

"Unlocking individual change starts and ends with the mental maps people carry in their heads – how they see the organization and their jobs. Just as actual maps guide the steps people take on a hike through the Himalayas, mental maps direct people's behavior in organizational life. And if leaders cannot change individual's mental maps, they will not change the destination's people pursue or the paths they take to get there. As a result, successful strategic change requires a focus on individuals and redrawing their mental maps."
- Leading Strategic Change: Breaking through the Brain Barrier by J. Stewart and Hal B. Gregersen

The ABC's of Competency Models

As you drill down the drivers of performance for most organizations; things like great customer service, efficient processes, and empowering technology, you reach a base level for making these drivers happen. This gets you back to the qualities of your human resources – knowledge, expertise, experience, and those things needed for successful execution. And the combination of skills, expertise, knowledge and other intangibles will vary from job to job, function to function. For example, what we need for executing for securing new customers is not necessarily the same as what we need for efficient processes.

One of the more powerful tools for capturing the characteristics behind critical functions is the Competency Model. Not only does the Competency Model neatly organize success factors behind a position, but it also describes the behavior needed for maximum performance. Competency models can represent a key component for building an overall HR System. For example, we can use competency models for applying the same standards throughout the company. This helps reduce bias and unfairness in how we evaluate performance. Competency models also provide some basic benefits:

• Improves the likelihood of hiring the right person
• Provides a baseline for evaluating performance
• Gives insights into the training needs of a position
• Quick checklist of critical job qualities

In order to build a competency model, we should start by looking at past performance that elevated the position, resulting in very high levels of performance. What did this person do to make the position visible, creating value for the company? Try to reflect back on the behavior and actions this person took – special events, critical highlights, and other characteristics of success. What does success look like in this position? Interviewing current and past holders of the job can help. Look for common characteristics. We need to capture these qualities. Some examples might include:

• Flexibility – Able to adapt to sudden changes in the workflow to accommodate customer demands.
• Analytical – Easily applies skills and analytical tools to reach relevant conclusions.

• Team Building – Encourages and works well with others to achieve overall results.

From this baseline, we are able to articulate a model for exceptional performance, giving employees critical insights into what it takes to succeed. Some competencies will cut across several positions, such as similar skills needed for call center personnel, sales force, and marketing managers. However, the best competency models include some distinctions – such as assertive communicator for sales personnel, but friendly and courteous behavior for call center personnel.

A good competency profile is not easy to develop. For example, the best competency models incorporate the values and culture of the organization. Therefore, if someone performs really well in accordance with their respective competency model, then you invariably expect them to be rewarded and recognized within the organization. In reality, people who are rewarded and recognized may not be the highest performers. So make sure your competency models are backup by the reality of the values and culture of the company.

Another problem is going overboard. Competency Models are sometimes too idealistic and ambitious. Stick to the vital competencies that people can execute on. If you have several people struggling to perform, then go slow with your competency model. In fact, find out why people are struggling and see what's needed for your competency model to work within your existing workforce.

Finally, the best forms of competencies (knowledge, skills, etc.) tend to be behaviors. Behaviors are easier to grasp and understand. Employees tend to identify with acceptable behaviors as opposed to improving their skill sets. Once employees have reach behavioral thresholds, then move to higher skills such as leadership to drive long-term employee performance.

"Competency models are a means of ensuring that your investment in your people supports the achievement of strategic goals. The popularity of competency modeling is steadily increasing: human resource professionals and line managers everywhere are now using competency models to make wise decisions about selection and placement, as well as training and development and performance management."
- The Art and Science of Competency Models by Anntoinette D. Lucia and Richard Lepsinger