

## Putting people onto the balance sheet

Companies have various kinds of performance and value measures – revenue, margin, net profit, productivity, assets, receivables, contracts, etc. – but they don't have a measure of what many of them claim is their biggest asset: their people.

Their financial statements show things like total wage and salary costs, how many people work for them, and the remuneration packages of the top few executives, but they don't show a measure of how *effective* their people are – i.e. what they are "worth" to the shareholders. What you *pay* people is one thing; what they generate in returns for the company is another. If it's the people who drive the value in a company then isn't it important to have a clear measure of their value?

There are a number of indicators of the value of an organisation's people. Profitability per employee is one, although it can be influenced by factors such as control over supply of the good or service involved. For instance, monopolies and oligopolies tend to have higher profit margins than companies that compete in more commoditised markets. But interesting research done by McKinsey consultants Lowell Bryan and Claudia Joyce indicates that *the way in which work is organised and people are managed* has a significant effect on profit per employee.

In their book, *Mobilizing Minds*, they point out that the average profit per employee in "thinking-intensive" companies is greater than it is in "labour-intensive" companies. They define thinking-intensive companies as those which have more than 35 percent of their workers in jobs that require "subjective thinking and problem solving", and argue that people in these types of jobs are more engaged and interested not just in generating ideas for performance

improvement and creating solutions to problems, but are also more involved and committed to applying these ideas and solutions.

Performance is seen as the degree to which an individual or group achieves the stated outputs and objectives of their job. That's the kind of measure at the heart of performance appraisals. What percentage of their objectives did a person achieve? Compensation decisions, at least in theory, are made on the basis of these numbers.

But there is another dimension which is generally overlooked, and that's *how* these outputs are achieved? Various recent corporate scandals and the financial meltdown in the sub-prime mortgage market have highlighted this oversight. The "how" is just as important as the "what". Purely focusing on revenue and profit and ignoring how they are generated can result in value destroying behaviour.

An extreme example (perhaps apocryphal) of behaviour being driven by ill-defined and poorly thought through targets comes from the old Soviet Union where a plant whose target was the smelting of iron ore to produce X tons of pig iron took the finished pigs off the end of the production line, took them around to the start of the line and ran them through the process again – and again.

So how can a company put a value on its people that translates into a tangible balance sheet asset? Like a chemical process there are a number

of elements – in this case three. The first element is a measure of outputs. The second element is a measure of inputs. And the third thing, the catalyst that drives the process, is the engagement of the people involved.

The first element, output (the "what"), can be defined for every job. If a job doesn't have a measurable output then it must, by definition, be unnecessary and produce a negative return. The outputs of people in functions like production and sales tend to be relatively straightforward. But what about functions like HR, IT, or public affairs? They are often seen as semi-questionable cost centres because they haven't clearly outlined what it is they "produce" – i.e. what results from their efforts. Much of the problem lies at their own door for not defining these outputs. But they all have clear outputs which can be identified and measured.

The second element, input (the "how"), can also be defined for every job. Research shows that 15 to 20 specific things (behaviours, actions) that people do determine about 80% of their performance. These behaviours are different for every job. Using some relatively simple behavioural technology they can be identified and measured.

The catalyst that creates both clearly defined and measurable outputs and inputs for people in all functions and at all levels is their active involvement. "Subjective thinking and problem solving" is a euphemism for giving people freedom to make decisions, encouraging and listening to their

ideas and suggestions, and getting them involved and committed. That's the catalytic action managers have to engage in. Determining the optimal outputs and inputs for every job is a relatively straightforward process; getting them implemented is how managers create valued and tangible assets out of their people.

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## strategy people performance

Penumbra is a strategic business consultancy. We bring clarity by using research to drive understanding and direction. We deliver success by balancing experience and innovative thinking.

Whatever your aspiration, we'll provide the tools, information and analysis to turn your strategy into operational reality, in a way that motivates your people to outperform the market.

### Overview

As a strategic business consultancy, our expertise is in helping our clients executing strategies and delivering results.

We achieve this by combining a robust management planning system with a focus on people which drives alignment and commitment

We work in partnership with talented and committed leadership teams to help organisations build corporate value with a wide range of customised, cross-functional advisory programmes and services delivered from four complementary service groups:

#### Strategy

(Development, formulation, implementation and alignment)

Our innovative **Penumbra Balance** approach creates dynamism, drives and sustains momentum and makes strategy real for stakeholders

#### Organisational Development

(Behavioural issues)

We call our holistic approach **Balanced Motivation** which encompasses activities that improve performance both for the organisation and the individual

#### Research and Insight

Our stimulating **Clarity** approach draws on our business consulting skills to deliver a mix of business analysis and market research which

provides compelling insights for winning decisions.

#### Operations

The Operations practice brings all of our hands-on practical experience to bear on execution and delivery of results.

Our technology enabling approach called **Totality** facilitates business focussed services and solutions, aligned to business needs, for people, processes and tools.

#### Why Us?

Organisations turn to us when they:

- Want to find a new strategic direction
- Have created a strategy and now need to execute it
- Need to drive more value from existing initiatives
- Have a big issue to resolve, usually dependent on lasting employee buy-in
- Need to explore new ways to drive value
- Need a breakthrough result
- Are seeking measurable results

#### Our Experience

We have real world experience spanning 20 years with our clients. This includes working with:

BP, Citibank, Morgan Chase, WestLB, RBS, UBS, Bankers Trust, Kleinwort Benson, Coutts, Natwest, Intel, Nokia, Adobe, Kall-Kwik, Glaxo Smith Kline,

Dupont, Pfizer, Savills, British Council, Clifford Chance, British Airways, Gillette, Unilever, Shell, Volvo, Vauxhall, British Gas, TradeStation, MWB Business Exchange, Investors in People, University of Cambridge

On projects such as:

Strategic Planning, Strategy development and implementation, Culture change, Post-Merger Integration, Vision, Purpose and Values, Current State Analysis, Organisation Re-design, Transformational Change, Client Focus Strategies, Perception Studies, Client and Staff Engagement surveys, Global Rebranding, Know your Customer, Market Forecasting, Consumer Insight, Market Segmentation, Process optimisation, Lean/Six Sigma, Project Management, ERP Systems Roll-out, Market Research, Financial Modelling, Franchise Start-up Evaluation models, Cost Benefit Analysis, Implementation Alignment, Strategic Alignment, Complex Database development, Custom Application development, Supply Chain Optimisation

Covering diverse sectors such as:

Financial Services, Pharmaceuticals, Manufacturing, Energy, Mobile Telecoms, Travel and Tourism, Aviation, Property, Hi-tech and Business Services