
Return on People (ROP)

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Connecting the dots: People and profits.

This article is about money, specifically, the money that employees are either making or costing your company. Believing that it is difficult to impossible to measure the financial impact of people, business and HR leaders take a leap of faith by proclaiming that “people are our most important asset” and investing in people programs, while simultaneously experiencing a sense of unease that their investment is not providing a real return. As such, when there is a need to cut cost, what is usually cut first? People development programs!

How Do I Make Talent Really Matter at My Company?

If you are like most HR leaders and many line leaders, at times you shake your head and wish that the executive team would just “get it” and understand the importance of investing time and resources in developing talent, and start treating these activities as business-critical. It’s the common dilemma and key question – how do you make talent really matter to the most critical constituent, your senior leaders?

In considering how to help your senior leaders to “get-it”, it’s important to start with the understanding that executives in your company are smart. Their intelligence is manifested every day in their capacity to take in large amounts of data, synthesize it, and make decisions. Indeed, being distant from the front-line issues and challenges, they are reliant on this data to make decisions. The challenge with the topic of talent is the inability to measure it, specifically in relation to financial impact. Yet, the one thing that has the attention of most senior leaders is money (EBIDA, cash flow, dollar deviation from plan, profits, ROI, etc.). We all pay attention because there is little ambiguity and it is difficult to rationalize away these numbers. In fact, much of what goes on in organizations is creating financial data, accumulating it, analyzing it, and reporting it. As we all know, these facts are critical, but building great talent typically doesn’t fall into one of these data sets. To get the attention of your senior leaders, that has to change.

What Does Your Talent P/L Look Like?

How do we develop a more fact based dollars and cents approach to talent management? At Batrus Hollweg International (BHI) we use an approach that is efficient, insightful and directive in making people investment decisions. We call this approach Return on People (ROP). As you would expect, ROP looks at the financial return on your investment in people. Calculating ROP does not require reams of analysis, but instead can be gauged through collective experience and relevant historical data in context of your basic financials.

The objective of this article is to help you create a case for people development, while making better and more targeted investments in developing people. To that end, we will outline the basic principles of ROP in such a way as to help you calculate and apply it. However, before we calculate your ROP, we need to introduce a key principle – BLINK.

Trust Your “Blink”

If you have not read [Blink: The Power of Thinking Without Thinking](#), by Malcolm Gladwell, we highly recommend that you do. Gladwell makes a potent case for using our intuition to make surprisingly accurate estimates and decisions in the blink of an eye. Research psychologists have learned that these are not wild guesses but estimations based on hundreds of facts quickly synthesized in your mind as a result of years of experience.

In managing the demands of our everyday lives, we rely on our ability to make correct “blink” judgments. For example, once you comfortably learned to drive, you stopped focusing as much on the mechanics of driving (e.g., counting to three one thousand when following a car) and began to drive based more on feel and intuition. Similarly, if you have ever hunted for birds, you quickly learn to not aim at the moving target, but instead trust your ‘internal hunter’ and take a quick shot based on reaction and instinct. Or, for those who have learned to play golf or tennis, you learned to combine hundreds of data points in the milliseconds it takes to swing a club or a racquet, all based on trusting the practice and experience you have gone through. These, and so many more examples, illustrate that as humans we are wired to store and retrieve vital information in making quick judgments. This experience provides the wisdom necessary to successfully navigate our lives. It also helps us make accurate judgments in our work.

Experienced leaders and professionals in your company are able to make “blink” judgments in their areas of expertise. And, in fact, these experience-based “blinks” often provide the greatest level of accuracy. It is reminiscent of the one academic who after three years of time consuming research came to the final conclusion that there is higher attrition in groups managed by leaders with low people skills. An experienced “blink” could have come to the same conclusion in seconds and saved a lot of time and resources! Even more accurate estimates and judgments can be derived by averaging the “blink” judgments from multiple experienced raters.

You will have a chance to exercise your “blink” capabilities when you calculate your ROP in a minute. However, before we do this we need to review some principles that form the foundation of your ROP calculation.

Positions, Performance & Profitability

Making a proper attribution of how much people impact the financial performance of a company is the cornerstone of ROP. Specifically, there are two foundational practices that an ROP calculation is based upon – first, identifying your business-critical positions, and second, recognizing the financial ramifications of having “A”, “B” and “C” level performers in these business-critical positions. Below we will describe each practice and help you learn each through application. At the end of this article you will have learned ROP by calculating one for your own company.

Identify Your Business-Critical Positions

We begin with a critical fact – some roles and positions in your company are much more important to the business than other roles and positions. This may seem obvious, however, in our experience, the people systems in most companies don't discriminate, essentially treating all roles the same. From the IT professional to the Procurement Director to the Store Manager, each position is given the same level of importance, development and focus. For many, it seems almost wrong to ask which roles have the biggest impact on the bottom line, as if doing so favors one person over another. For sure, it is critical that all people be valued and treated fairly, however, not all positions have equal impact, and there needs to be a laser focus on putting your best performers and greatest development focus on those positions that have the biggest impact on your top and bottom lines. Identifying the business-critical positions that require your best talent can be done by judging roles in your company against two criteria: First, the level of performance variability, and second, the level of financial impact.

Criteria 1: Performance Variability – the positions where the level of performance varies dramatically between high and low are heavily dependent upon talent. When performance is less variable due to the structure of the role then having your best talent in the role may not be a good use of their skills and company resources. For example, a talented manager in the procurement department of a large manufacturing company left the organization because he was not challenged. In his role, he was asked to follow well-established procedures to ensure consistency and not vary from the “playbook”. And, in reality, there was little discretion and variability allowed between people in the role.

Contrastingly, when there is more discretion allowed and expected, there is going to be greater variability in how the role is performed and thus a greater reliance on talent versus policy and procedure. For example, the roles that most managers play in a retail organization are highly reliant on their unique knowledge and experience and allows for significant variability in how the role is performed.

Criteria 2: Financial Impact – although performance in the role may be highly variable from person to person, it may or may not have a big impact on bottom line financial performance. For example, an apartment leasing company found there was significant variability in the performance of on-site managers, however, there was little to no financial impact attributable to good and average performance. Once the few poor performing managers were excluded from the analysis, they actually found that better performing and more responsive property managers were costing the company money through higher occupant demands and facility costs among other things.

Contrastingly, a mortgage company found there was significant variability in the performance of sales people, and the financial impact of the role was also significant. This led them to make a renewed investment in the selection and development of sales professionals.

The business-critical positions as defined by performance variability and financial impact are not always obvious. For example, in one healthcare company, the Tax Accounting role was identified as being business-

critical. Historically, the function was given little focus and few “A” players spent time in a tax accounting position. However, given the complex and evolving nature of tax law and interpretation, when a talented tax accountant was in the role, it was shown to save the company up to a million dollars annually while significantly reducing exposure and risk. In another company, leadership found that front-line supervisors who worked well with the union had a huge impact on financial performance, much more than their bosses – the facility directors – who often rotated through their role and were fully reliant on front-line supervisors knowing how to work effectively with the union.

Calculating Return on People (ROP)

Now that we have isolated the principles for critical roles, i.e. performance variability and financial impact, you are ready to follow the three steps below to calculate ROP for your company. As you walk these steps trust your “blink” judgment. You use “blink” successfully for most things in your life, and you can use it successfully in this exercise as well. We think that you will be surprised how accurate you are in the long run. As you work through the steps below keeping in mind these definitions:

a) Low performance variability/low financial impact

An example of this category is a toll booth operator. Clearly, certain fundamental attributes are important (conscientiousness, counting accuracy, etc.) but a great toll booth operator and an adequate operator will not have a significant impact on revenues. Consequently, individual requirements need to be set and followed but any significant amount of time and effort to find the “best” operator will likely be wasted. Reliability may be the most important characteristic for this position.

b) High performance variability/low financial impact

There are positions where there are large differences between employee’s performance but very little financial return. Hopefully you don’t retain the low performance group.

c) Low performance variability/high \$ impact

An airplane pilot is an example of this category. The difference between an adequate pilot and a great pilot has no real financial impact on the company. The great pilot will yield no more revenue than the adequate pilot (no crashes). However, a bad pilot (i.e. one that crashes) has a huge financial impact on the airline. For these positions a set of rigid minimum requirements need to be thoroughly designed and followed. The strategy is “eliminate the incompetent pilots”.

d) High performance variability/high financial impact

This group comprises the heart of an organization’s revenue and profitability. Hiring, rewarding and retaining these impact players is mission critical for any successful company. Identifying all of these

positions and knowing the real financial impact can be a driver in creating a focused selection and development plan for your organization that will have a tremendous ROI. Recently, we asked a group of retail executives to “blink” the difference (\$) between an “A” manager and a “C” player. The consensus was an average \$800,000 in sales with 30% falling to the bottom line. An all “A” player organization would have resulted in another \$80,000,000 in revenue for the company. It got their attention!

Step 1: Using your best judgment, identify the *business critical roles* in your company. These are the roles in which there is large variability in performance and where there is a clear financial impact once a person has been in position for six to twelve months. Go ahead and list these business critical positions on the lines. If you are in H.R., enlist a group of experienced operations executives to do this with you.

Practice Exercise

“Blink” them and compare to knowledgeable peers.

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Now that we have identified your business-critical roles, where performance really matters, we are ready to move to Step 2 of the ROP process. You will like this step. It is where we get to the bottom line...money.

Step 2: Financial Impact of Talent in Business-Critical Roles

Select one of your business-critical positions listed above. For your first time through the ROP process, we recommend you start with a role in which there is some good historical performance data.

If possible, gather the performance results for six or more individuals in the same job with comparable work environments (similar territories, experience, etc.). List these performance results (sales, profits, #'s, etc.) from high to low on the work sheet provided at the end of this step (step 2). Once you have completed this task, go on to the rest of the analysis where you calculate variance from the average results, and identify your “A”, “B”, and “C” players based on these analyses.

If you do not have these performance numbers available, please review the example and then move to the portion of the exercise where you are “blinking” the dollar impact of the “A”, “B”, and “C” players (Step 3). If possible, gather the judgment of other experts (people with experience) and have them “blink” the yearly dollar differences and then average these judgments.

Example – Store General Manager Role

We continue the example in step 1 by looking at the role of Store General Manager (GM). The sample worksheet below is based upon six retail stores in a larger company where store revenues and profits are readily available. These stores are seen as roughly comparable by experts in the company, and they have similar demographics and traffic flows. Additionally, in each of these stores the GM has been in place for at least 15 months. For this company, 15 months is long enough to have a clear and measurable impact on operational results. As you can see, we have included both annual revenue and profitability for a more detailed picture of GM performance.



Performance Level	Person	Store Location	Annual Revenue	Sales Variance from Average	Annual Profit	Profit Variance from Average
A	Lauren Lee	Site A	\$4,240,000/yr.	+ 462,000	\$466,000	+39%
A	Mike More	Site B	\$4,110,000/yr.	+332,000	\$493,000	+47%
A	Sharon Keil	Site C	\$3,816,000/yr.	+38,000	\$572,000	+70%
B	Steve Lay	Site D	\$3,690,000/yr.	-88,000	\$295,000	-12%
B	Terry Tate	Site E	\$3,512,000/yr.	-266,000	\$210,000	-40%
C	Cliff Keeler	Site F	\$3,300,000/yr.	-478,000	\$165,000	-51%
		Total	\$22,668,000	Total	\$2,011,000	
		Average	\$3,778,000	Average	\$335,166	

Practice Exercise

Using a Business-Critical role that you identified in step 1, complete the table below, or at least as much as you can given available data.

Performance Level	Person	Business or Location	Annual Revenue	Revenue Variance from Average	Annual Profit	Profit Variance from Average

Armed with this analysis, you are now able to couple the data with experience-based judgment to generate a number that represents the financial impact of your talent.

Step 3: Looking at variance from the average for sales and profits “blink” the amount of these differences that are in your experienced judgment, attributable to the difference between an “A” player, “B” player, and a “C” player. Some are hesitant to make these quick, intuitive judgments. Go ahead, trust your instincts. Have others help refine this analysis, specifically involve people who have deep experience and institutional knowledge of the role. In identifying the financial figure, we recommend comparing “A”, “B” and “C” players to the overall revenue average of a group or you can focus on profits if you like or both. Doing so highlights the relevant revenue impact of “A”, “B” and “C” players.

Practice Exercise

Considering the data in the table above, document the revenue impact of “A”, “B” and “C” players for your target role in the table below:

Target Role:
“A” Player Impact on Revenue =
“B” Player Impact on Revenue =
“C” Player Impact on Revenue =

In order to access the “blink” power of a group of experts, give this task to some of your experienced peers and then average your “blink” variance ratings. These numbers should be very close to the true value of “A” players within your organization.

Be sure to complete the analysis in steps 2 and 3 for all the business critical roles you identify in step 1. Adding up the collective impact of “A”, “B” and “C” players across these business-critical roles will result in a big financial number, and provides senior leaders in your company the data they need to make targeted investments and measure impact. We also recommend that you place these numbers in a simple spreadsheet



and play with some different scenarios, showing the financial impact to the whole organization by simply changing the percentage of “A”, “B”, or “C” employees in one or more or all of your business critical roles.

By engaging the knowledgeable executives in your company, you create buy-in for the numbers they have developed. This can lead to much better decisions about how to spend hiring and development dollars. It can also focus effort on the marginal performers and their real \$ loss of opportunity revenue compared to “A” or even “B” players.

As you move forward with this approach, please feel free to contact Bret Henley bhenley@batrushollweg.com at Batrus Hollweg International (469-241-9701). We are pleased to serve as a resource, answering questions or even helping facilitate you through this process.