Moving Mountains

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Executive Summary:

Most companies place priority on strategy over execution even when research clearly shows that execution of strategy actually accounts for 85% of a company’s financial results.¹ When it comes to execution, it’s not a matter of what, but rather who executes your strategy? Obviously, it’s your workforce. Therefore, the critical driver for performance lies in your ability to put the right talent in the right positions, and then aligning the workforce to your strategy. With all of these pieces in place, it is then possible to realize the potential value of your strategy.

This paper will discuss the two key areas of value creation that you can realize simply by making the right investments in your human capital. It will further demonstrate how performance and talent management software can enable you to drive significant financial results.

Investing in your Company’s Ability to Execute

Human capital is the greatest lever for performance today. Think about it. Employee-related costs account for approximately 70% of a company’s operating expense and are responsible for driving strategy execution (85% of value creation). So therein lies your greatest potential for increased execution, productivity and ultimately financial performance. This is the new imperative. Without people performance, a great strategy is just an idea — it’s your people who make it real.

It’s a fact that every company leaves money on the table. There’s just no way around it. Even the best executing organizations can’t take advantage of 100% of their human potential. However, the closer you come to fully aligning employee performance with strategy, the greater the chance of achieving your objectives. For this reason, talent has become critically important to every business today — demanding the attention of the “C” Suite and Board of Directors. With all other competitive differentiators neutralized, people are the final remaining factor that can provide a sustained competitive advantage.
Execution Drives Results

In our research, we've seen that customers using performance and talent management software are outperforming their competitors both in terms of revenue growth and bottom line results. We took this a step further and contracted a highly-respected Global Top 3 Management Consulting Firm to conduct specific research on how our customers are using this solution to manage their business and drive results.

The consulting firm interviewed, surveyed and analyzed data from over 500 SuccessFactors customers. Not only do the results astonish, but they also highlight how variance can be used as a management tool to help drive a company's performance.

What we discovered is that by implementing performance and talent management software to align their employees with their strategies, our customers were significantly better able to execute their strategies, improve productivity and drive results. As echoed in many great business books and articles — such as the bestseller, “Good to Great”, by Jim Collins, the HBR article “Turning Great Strategy into Great Performance,” or Charan and Bossidy’s “The Discipline of Getting Things Done” — execution is not only the main factor that drives results, it is also what the best performing companies have in common.

\[ \text{strategy definition} \times \text{strategy execution} = \text{results} \]

The real question is not whether strategy execution is the ultimate lever or the key priority, but more importantly, how do you execute your strategy? Take a step back and consider that. Who executes the strategy? What is your company's biggest expense? The answer, of course, is your people. Moving mountains is about shifting the focus and performance of your greatest asset (and expense) to do more of the right things — faster and with better quality than the competition.

Doing the Right Things Matters Now More than Ever

With the fast pace of change in today's economy, the ability to shift your execution engine quickly in the right direction is more critical than ever. With strategy evolving at a lightning pace and resources becoming more limited — less budget, people, and time — there's no margin for error. Do more with less. Have you felt that too? Could you afford to let a month pass from the time you change your product strategy to the time you decide who will sell the new products (and to which customers)? For example, a financial services organization should not be spending marketing dollars to get people to sign up for new credit cards while the rest of the bank is on a mission to clean up old and sometimes bad debt. What's the point of annoying potential customers and wasting marketing dollars when you're not even interested in getting the business? That is misalignment.
It is absolutely critical to get all of your people focused in response to shifts in your strategy. As part of this process, managers and executives must make sure they’ve got the right people with the right skills in the appropriate roles to support strategic changes. They must also have visibility to determine who is getting the job done so that they can reward and retain top performers.

The good news is that there are clearly proven investments in execution practices that can change results. For example, by aligning, arming and inciting your workforce to drive strategy execution you will see results. Our customers are executing faster than they were before using our performance and talent management software. We also know that our customers are outperforming their competition financially, so the improvements they drive are absolutely paying off.6

More good news: no matter what your starting point, you can always drive improvement. Even small improvements can mean real financial results through increased productivity and competitiveness. What could achieving even a small result mean to your organization? How would it affect your market share if your competitor achieved these results instead of you?

<table>
<thead>
<tr>
<th><strong>Impact Since Implemented SuccessFactors</strong></th>
<th><strong>Average</strong></th>
<th><strong>High End</strong></th>
<th><strong>n</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Faster communication of strategy</td>
<td>1 week</td>
<td>8+ weeks</td>
<td>335</td>
</tr>
<tr>
<td>Faster setting of goals</td>
<td>1.5 week</td>
<td>8+ weeks</td>
<td>334</td>
</tr>
<tr>
<td>Increased time spent on strategic priorities</td>
<td>5.50%</td>
<td>40%</td>
<td>321</td>
</tr>
<tr>
<td>Increase project completion</td>
<td>13.80%</td>
<td>67%</td>
<td>239</td>
</tr>
</tbody>
</table>

Customers’ executional gains achieved by implementation of SuccessFactors’ performance and talent management software.

Source: Post SuccessFactors Implementation data, Q2 2009, Top tier consulting and SF Research Analysis
TRANSFORM YOUR HUMAN CAPITAL TO FINANCIAL CAPITAL

Winning is about being different and better than your competition. However, there is increasingly less that differentiates companies. Decades of efficiency improvements across entire industries have driven productivity gains that have had the effect of leveling out competitive differentiators. It's simply the evolution of industry. Supply chain, manufacturing, distribution, ERP systems — what's left to improve?

That leads us to Human Capital. How you align, arm and incite your employees arguably matters more than anything else you can do. The economy, like the weather, is impossible for an individual to change — you simply have to adapt. However, putting the right people in the right positions and gaining visibility that enables tracking and management of performance are things you definitely can and should do something about.

The collective skills, experience, and efforts of your people are what transform your strategy from words to numbers. Your human capital produces output in order to create financial capital. You hire people to create value for your customers that you can capitalize on. That is the simple logic of any business. This is why investments in your human capital are so critical — you're investing in your company's ability to execute.

DRIVING PERFORMANCE

Let's face it — not every employee is equally important in driving your business. Different jobs contribute differently to both top and bottom line, and the performance of individuals differentially contributes even more. Few companies have a good understanding of this. Often, it isn't even clear to them what people are working on or how well they are doing. These are pretty basic questions, but tremendously important and often hard to answer. The art of management and the science of metrics are really about making what is relevant measurable and hence manageable, not vice versa.
McKinsey & Co published their research on employee performance in the book, “War for Talent.” They concluded that there is an approximate 1.5x to 3x performance differential between high and low performers. Others such as Peter Cappelli (from Wharton Business School) have estimated that in some cases the contribution difference is more on the order of 5x between strong and weak performers in any given role.

If you want to improve performance contribution, few things are more effective than getting a firm grip on the variance. When we talk about moving mountains, we’re talking about moving the distribution curve of performance within your company — not by playing the numbers, but by creating real increases in individual performance levels. Every company has a distribution curve of their individuals' performance levels — but it’s a question of how well you can see it and how accurately the picture describes the reality.

In our latest research effort, we looked in depth at the effect that our customers reported back from deploying performance and talent management software. What we saw was a shift in the curve of relative distribution as illustrated below. Our customers reduced the percentage of low performers and increased the percentage of high performers. They are, in essence, moving mountains — by developing their low and mid performers to reach their potential, or managing them out of the business and replacing them with individuals that contribute more.

Performance and Talent Management software greatly improved companies’ performance distribution by reducing the percentage of low performers, and increasing the percentage of high performers.
Assuming high performers at a 2x productivity factor, medium performers at 1x, and low performers at 0.5x, a company of 10,000 employees would yield a productivity improvement factor of 5.4%.

<table>
<thead>
<tr>
<th></th>
<th>BEFORE SuccessFactors</th>
<th>AFTER SuccessFactors</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td>10,000</td>
<td>10,000</td>
<td>–</td>
</tr>
<tr>
<td>Low</td>
<td>2,011</td>
<td>1,542</td>
<td>(468)</td>
</tr>
<tr>
<td>Medium</td>
<td>4,150</td>
<td>4,155</td>
<td>5</td>
</tr>
<tr>
<td>High</td>
<td>3,839</td>
<td>4,302</td>
<td>463</td>
</tr>
<tr>
<td>Average Salary</td>
<td>$45,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Salary</td>
<td>$450,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$1,000,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved Productivity</td>
<td></td>
<td>5.43%</td>
<td>5.43%</td>
</tr>
<tr>
<td>Productivity Gain as Measured on the Cost</td>
<td>$24,453,246</td>
<td>$24,453,246</td>
<td></td>
</tr>
<tr>
<td>Productivity Gain as Measured on the Revenue</td>
<td>$54,340,546</td>
<td>$54,340,546</td>
<td></td>
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**Productivity gain as measured on the direct labor cost (assuming average salary to $45K) = $24.2M**

**Productivity gain as measured on the revenue (total revenue $2Bn) = $107.5M**

*How much would it be worth to your organization to get at least a fraction of that productivity gain? Can you afford not to drive this productivity improvement?*

Again, variance is a very good tool for figuring out how to make the best improvements. From our research, we clearly see that the variation in the results is, to a large extent, explained by their approach and the strategic weight they put behind their implementation. The more strategic approach our customers took to driving execution and change from their investment in SuccessFactors software, the greater the productivity gains.

<table>
<thead>
<tr>
<th>Approach to SuccessFactors Implementation</th>
<th>Productivity Impact</th>
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<tr>
<td>Strategic change</td>
<td>5.43%</td>
</tr>
<tr>
<td>Integrated Human Capital Management</td>
<td>3.29%</td>
</tr>
<tr>
<td>Process efficiency driven automation</td>
<td>0.9%</td>
</tr>
<tr>
<td>Weighted average</td>
<td>2.92%</td>
</tr>
</tbody>
</table>

*Productivity impact based on increased investments in strategic execution.*

*Source: Past SuccessFactors Implementation data, Q1 2009, Top tier consulting and SF Research Analysis, n=527*
Driving Strategic Change

Many companies have extensive tools and measures to analyze and track their business results, but very few have systems and business processes that provide detailed insight into understanding and influencing how employees drive these results. Few leaders can truly say “I have tools that tell me what everyone is working on and how well they are performing.” This lack of insight into people performance is amazing considering that people are the company’s largest cost and have the greatest influence on company performance.

What we clearly see from our customers is that the more strategically they use performance and talent management software, the more value they realize from the investment.

SuccessFactors Value Realization Model®
**Bottom Line — Getting It Done**

Can your company afford not to capitalize on this opportunity — using performance and talent management software to align, arm and incite your workforce to drive strategy execution? By putting the right talent in the right positions and providing your managers and executives with real-time visibility to track, measure and influence individual performance, you can maximize the contribution of your talent investment.

Your competition will eventually discover this solution and do something about it. Acting now gives you a temporary edge on which you can capitalize before evolution levels this competitive differentiator as well. Adding 1-5% of your topline straight to your bottom line while saving money on improved efficiencies is not only good for your shareholders, but for your customers and your employees as well.

*A more in depth discussion will be featured in the forthcoming book — Return on Execution®.*

**References**


4. “*Turning Great Strategy into Great Performance,*” Mankins and Steele, July 2005

5. *The Discipline of Getting Things Done*, Bossidy, Charan, and Burck, 2002

