



Optimizing Talent

*An Emerging Industry Standard to
Continuously Improve Human Capital:
Introducing the Net Impact System*



Background

As the western world has shifted from a manufacturing economy to a service economy, tremendous wealth has been created. Surprisingly, most companies that rely on talent as a competitive advantage do a poor job of using data to create even more wealth.

CEOs and CFOs are largely disappointed with HR's ability to use data to build better leaders and a more productive workforce. HR and Talent leaders struggle with what to do with all the available data. Studies by EY and others suggest that organizations that more effectively use data to drive continuous improvement could generate 5% to 15% more productivity. Very few HR organizations have implemented a comprehensive continuous improvement process.

The SEC is now requiring public companies to share more data and insights on their Human Capital. Why? Because smart investors realize that developing leaders and talent in more rigorous, quantifiable ways can provide superior returns. HR and Talent executives want to provide more quantifiable evidence of impact and value creation. Business executives and board members want to access better talent information to maximize shareholder value.

Fortunately, a new industry standard has been developed to help meet the SEC requirements and to provide a blueprint for how HR and business leaders can begin to use data in more valuable ways.

The new standard is called **Net Impact System**. It has been developed by leading organizations and industry experts, including Deloitte, KPMG, PwC, the Department of Defense, JetBlue, Cigna, Performitiv, i4cp, and the ROI Institute. Net Impact System is based on Dr. Gary Becker's Nobel Prize winning research on Human Capital. It is scientifically sound, yet practical. It leverages the simplicity of the Net Promoter System and the fundamentals of Six Sigma and Lean. It is specifically designed to optimize the Talent Development Process.

One of the top Human Capital data scientists, Dr. Nick Bontis, co-chaired the council that developed the Net Impact System. Nick was the lead data scientist for the first Human Capital benchmarking company, Saratoga Institute. The other co-chair is Kent Barnett. As the founder of KnowledgeAdvisors, the Center for Talent Reporting, and Performitiv, Kent has worked closely with most of the Fortune 500. His advisory boards over the past 20 years include Dr. Gary Becker, Dr. Jac Fitz-enz, Fred Reichheld (creator of NPS), Dr. Matt Barney (Six Sigma Leader at Motorola University), Don Kirkpatrick, Rob Brinkerhoff, Josh Bersin, Jeff Pon, Kevin Oakes and many others.

Net Impact System

In March 2019, 25 leading talent organizations and experts agreed to work together to create the first industry standard for continuously improving the Talent Development Process.

CO-CHAIRS:

Kent Barnett, Performativ

Nick Bontis, Human Capital Data Scientist

- ✓ Aaron's
- ✓ Allstate
- ✓ American Airlines
- ✓ Banker's Life
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- ✓ Cigna
- ✓ DAU
- ✓ Deloitte
- ✓ Grainger
- ✓ Guardian Life
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- ✓ JetBlue
- ✓ KPMG
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Talent Development as a Strategic Business Process

The first step in understanding what to do with all the data is to realize that developing talent is a strategic business process. Successful organizations need to continually recruit talent, onboard new recruits, train and develop employees, build better leaders, and engage the workforce. The Center for Talent Reporting, led by Dave Vance the former Chief Economist of Caterpillar and former President of Caterpillar University, developed a comprehensive Talent Development Process based on the following six components.



Like all business processes, there is waste in the Talent Development Process. Organizations will make poor hires, waste a significant portion of their L&D investments, employ poor leaders and have poor performing employees. That is to be expected in all organizations. What should not be acceptable to business and HR leaders is not knowing how much waste is in the process. Net Impact System provides a practical approach to reduce waste and increase workforce performance.

Net Impact Score: A Way to Keep Score Across Talent Development

Net Impact System enables organizations to score and benchmark the impact of each component in the talent development process. Having a common way to keep score of recruiting, onboarding, L&D, leadership development, engagement, culture and performance provides for more effective management of human resources. Net Impact System uses the same formula as Net Promoter Score but enables the replacement of the traditional NPS question with questions aligned to the Talent Development Process.

Net Impact Rating is a Predictor of Impact



Impact Rating = % High Impact - % Low Impact

- Did you find this useful at the moment of need?
- Are you a better leader as a result of this program?
- Would you recommend this program to a colleague or a friend?
- Are you more productive as a result of this program?
- Any other valid and reliable predictive impact questions.



Improving Leadership Development from Good to Great

Leadership Development is one of the six primary sub-processes of Talent Development. It is arguably the most important part of HR for any organization. Very few organizations do a good job of measuring and benchmarking Leadership Development effectiveness and impact. Most learning evaluations for Leadership Development are poorly designed and scores tend to be presented in averages or the old customer satisfaction scoring of “Top 2 Box.”

In the NPS book *The Ultimate Question 2.0*, Fred Reichheld does a good job of explaining why we shouldn’t settle for “Top 2 Box” or averages for strategic programs such as recruiting, leadership development, sales training, onboarding or transformational initiatives.

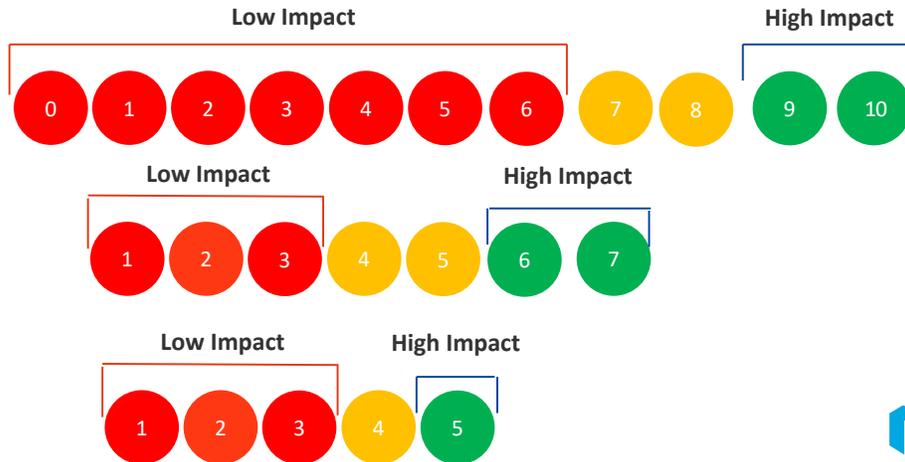
One of his examples is Enterprise Rental Car. Enterprise used a 5-point scale on its customer satisfaction surveys. For years, Enterprise calculated customer satisfaction scores based on responses of 4 or 5. In 1994, the CEO challenged the organization to provide a better customer experience. He only allowed perfect scores of 5 – the equivalent of a promoter - to be counted in the customer satisfaction rating. He then required each branch to report the “Top Box” score with their monthly financial performance. As a result of the higher standard, branches worked hard to improve the customer experience. As the “Top Box” score rose, financial performance rose. Later, they found that customers that provided a rating of 5 accounted for a startling 86% of the variation in referrals and repurchases. The bottom-line: high-top box scores translated to higher growth and profit.

Over the next ten years, Enterprise’s shareholder value skyrocketed past Hertz, making Enterprise the most valuable rental car company in the world. The CEO credits the top box approach with customers as the single biggest reason for the strong growth.

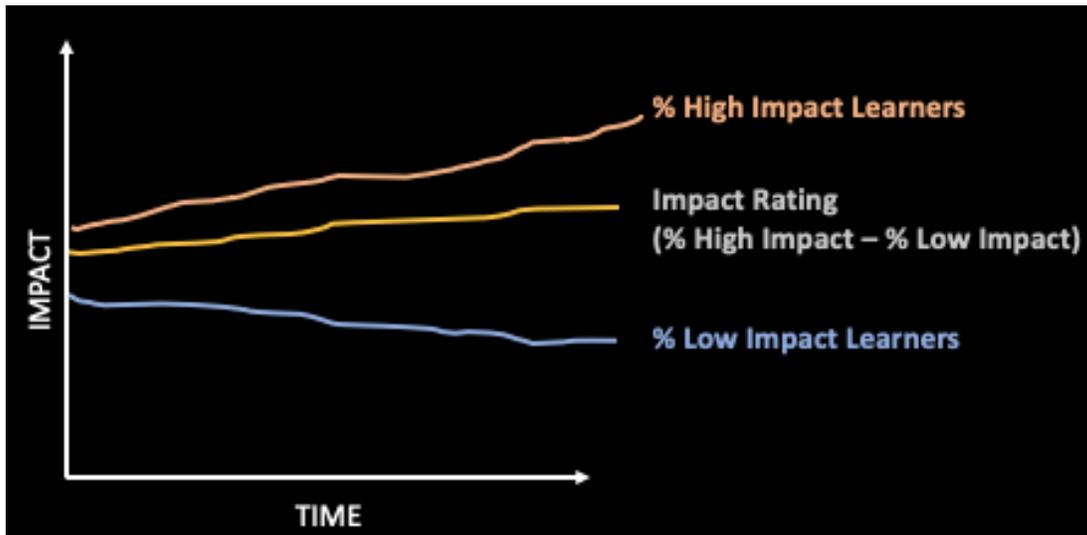
In the Net Impact System, the equivalent of a Promoter is High Impact. The equivalent of a Detractor is Low Impact. When using the traditional 0 to 10 scale, High Impact is 9 and 10 and Low Impact is 6 or below. In a 5-point scale, Promoter and High Impact is only the top box, 5. Detractors and Low Impact is 3 or below.

How to Calculate Net Impact Score

Net Impact Score = % High Impact less % Low Impact



For business executives that are serious about Talent Development, setting a more challenging target will garner better results.



Examples of Net Impact Score for Learning & Development

Most corporate universities use the Net Promoter Score as part of their learning evaluation process. Asking the traditional NPS question “Would you recommend this program to a colleague or a friend?” arguably may be the ultimate question for a CLO. After all, CLOs want to know their promoters and detractors.

The ultimate question for a CEO is probably not NPS. Most CEOs want to know if participants are more productive or better leaders or more engaged or whatever their primary goal is for each program. That is why Net Impact Score enables the use of multiple questions. The questions are categorized into constructs that enable comprehensive reporting and analysis. For Leadership Development, it may be “Are you a better leader as a result

of this program?” For Sales Training, it may be “Are you able to sell more as a result of this program?” Net Impact System enables the use of all these questions, including NPS, and provides a common way to keep score and benchmark across organizations, programs and modalities.

Blended Learning Impact

Here is an example of how Net Impact Score can be applied to a Blended Learning Program.



* Assumes equal number of respondents



Linking Talent Development to Financial Performance

- 1) Objectives and Key Results
- 2) Workforce Performance Hard Data
- 3) Continuous Improvement Soft Data

Objectives and Key Results

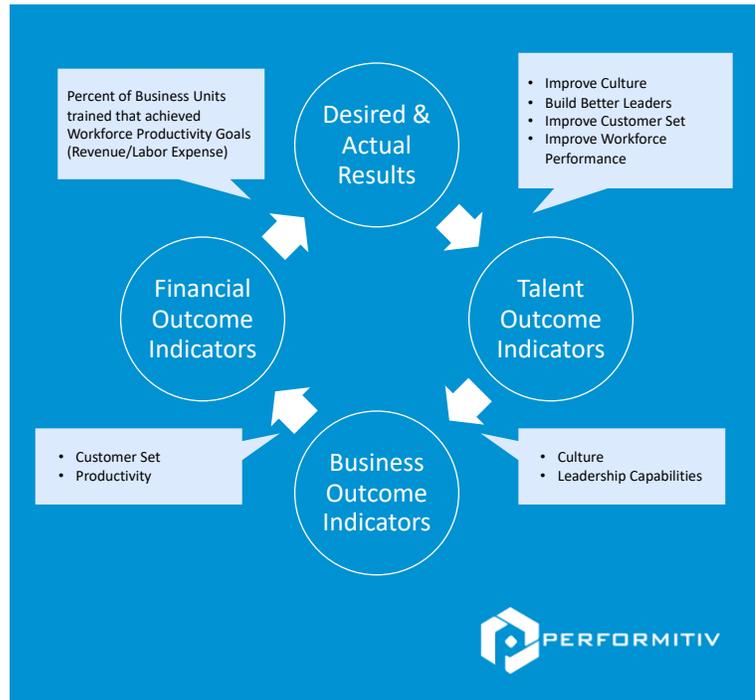
Google, Intel and several other leading organizations have made OKRs (Objectives and Key Results) a critical component of improving talent, business and financial performance. Net Impact System leverages the fundamentals of OKRs to address financial impact of talent programs and to provide a highly effective continuous improvement approach.

The key to understanding the ROI of Leadership and other talent programs is to identify the desired outcomes and establish measurable goals. Just like NPS has a closed-loop process to improve Customer Experience, NIS has a closed-loop process to improve Talent Development.

One way Talent can address ROI is by showing how their programs can help achieve or exceed key financial objectives. For example, if an organization’s objective is to grow profit margins, then Talent should show how their programs are designed and delivered to achieve or exceed Workforce Productivity goals. Increasing Workforce Productivity will result in lower Cost of Labor. Lower Cost of Labor will help improve overall profit margins.

EXECUTIVE REPORTING OUTCOME INDICATORS

- This example requires four participant questions regarding Culture, Leadership Capabilities, Customer Satisfaction, and Productivity.
- Finance can report on what percent of Business Units achieved their Workforce Productivity goals defined as Revenue/Labor Expense.



For more information on OKRs, John Doerr’s book *Measure What Matters* is a great resource.

Workforce Performance Hard Data

The primary way Talent Development drives financial performance is through Workforce Productivity. Surprisingly, very few talent executives know how productive their workforce is even though the data is easily accessible.

$$\text{Workforce Productivity} = \text{Revenue/Labor Expense}$$

Every organization and business unit with a P&L sets goals for Revenue and Labor Expense. Finance may not publish the goals and actual performance in traditional financial statements, but labor expense is a planned expense and can easily be calculated by Finance.

Shouldn’t every talent executive know if the business units they support achieved their planned workforce productivity targets? By using the concept of OKRs, talent executives can add, delete or modify their offerings to help achieve or exceed workforce productivity goals. If talent development is a strategic business process for your organization, this is a critical and simple first step. Once talent executives get comfortable with the data and how they can impact it, they should start sharing it with business executives.

A corollary to Workforce Productivity is Workforce Profitability:

$$\text{Workforce Profitability} = \text{Revenue less Labor Expense}$$

VPs of Manufacturing know the Gross Profit of the manufacturing process; Revenue less Cost of Goods Sold. Shouldn’t VPs of Talent know if their business units achieved their workforce profitability targets?

Whether a company is growing or shrinking, talent programs should reduce the cost of labor as a percent of revenue. If talent programs are making employees more productive, then labor expense as a percent of revenue (or adjusted revenue when external factors impact revenue) should be going down over time.

$$\text{Cost of Labor} = \text{Labor Cost/Revenue}$$

These are measures that can be used to help address SEC reporting requirements. Deploying Net Impact System will also help address SEC requirements for sharing insights. Perhaps more importantly, your shareholders and Board of Directors will start demanding better reporting and analysis on Human Capital. Implementing Net Impact System can be a very important step in the process.

Continuous Improvement Soft Data

Most organizations do a poor job of leveraging learning evaluation data. L&D organizations tend to primarily use evaluation data to demonstrate value. Arguably, the best use of evaluation data is to reduce waste. The CEO of Agilent Technology said at a CLO Symposium that “HR Executives like to look at the green, business executives like to look at the red.”

Here’s why. Just think of the impact of reducing waste in L&D programs by 5%, which is very achievable in most organizations. If 5% of participants are more productive because of better designed and delivered programs, that could generate \$50 million in shareholder value for each \$100 million in labor expense. Here’s the math: 5% of \$100 million is \$5 million in profit. Most public companies trade well above 10 times earnings. Ten times \$5 million is \$50 million in shareholder value.

The learning evaluation process is a great way to begin implementing Net Impact System. As CTR research shows, the Talent Outcomes of L&D are the five other primary components of the Talent Development Process.



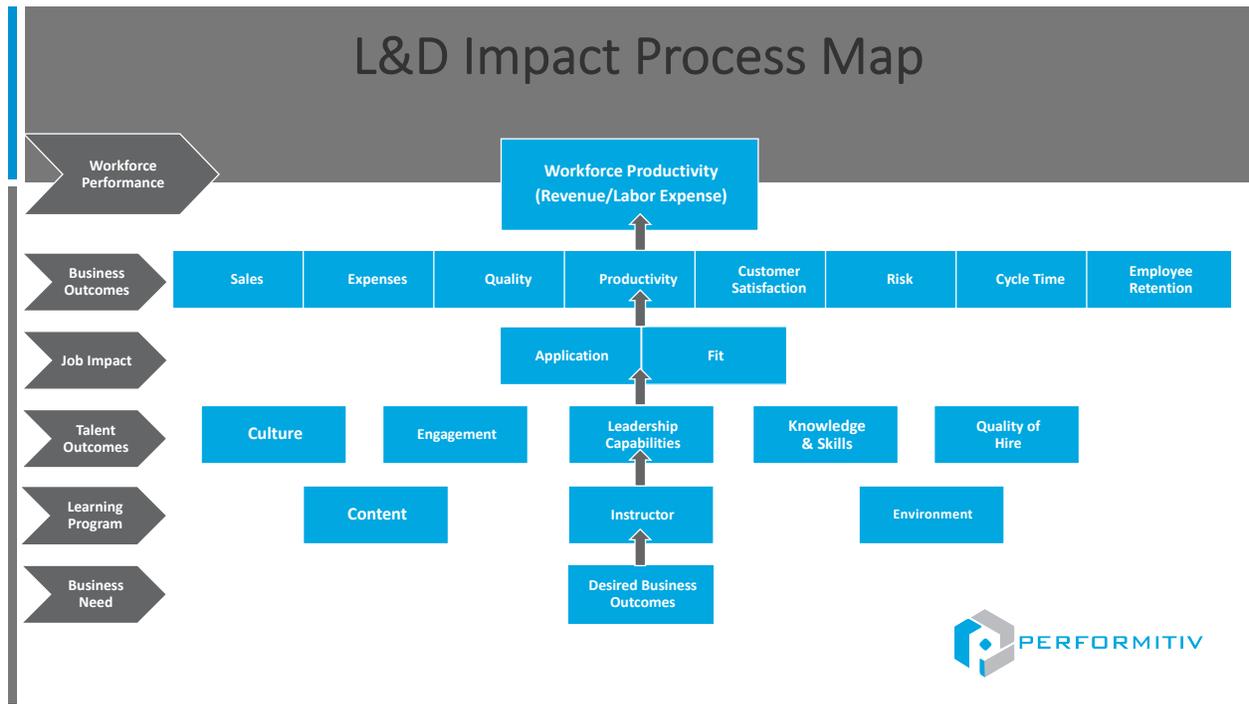
Onboarding evaluations can provide great insights on the recruiting process. Leadership Development evaluations can provide great insights on leadership. Skills training can provide insights on capabilities. Programs on culture can provide insights to inclusion and engagement. Learning evaluations can provide a continuous stream of insights on performance and productivity.

You Can’t Optimize Talent Programs Without Process Maps

Most talent experts agree that it is time for the industry to shift its focus from demonstrating value to optimizing impact. In other words, let’s worry less about demonstrating value and focus more on generating the best return possible on talent investments. By collaborating with business leaders to get the biggest impact, Talent will be demonstrating its value as part of the process.

Organizations that successfully implement Six Sigma, Lean and NPS use process maps to identify where waste occurs and where there are opportunities for improvement. Net Impact System has a process map for Talent Development. It has a scoring system with benchmarks to identify where unnecessary waste occurs. As waste measures are reduced, business results and financial results will improve.

The following is a process map for Learning and Development:



There are 19 measures and levers where learning programs may not be as impactful as they could be. They fall into four primary buckets:

Learning Deliverables

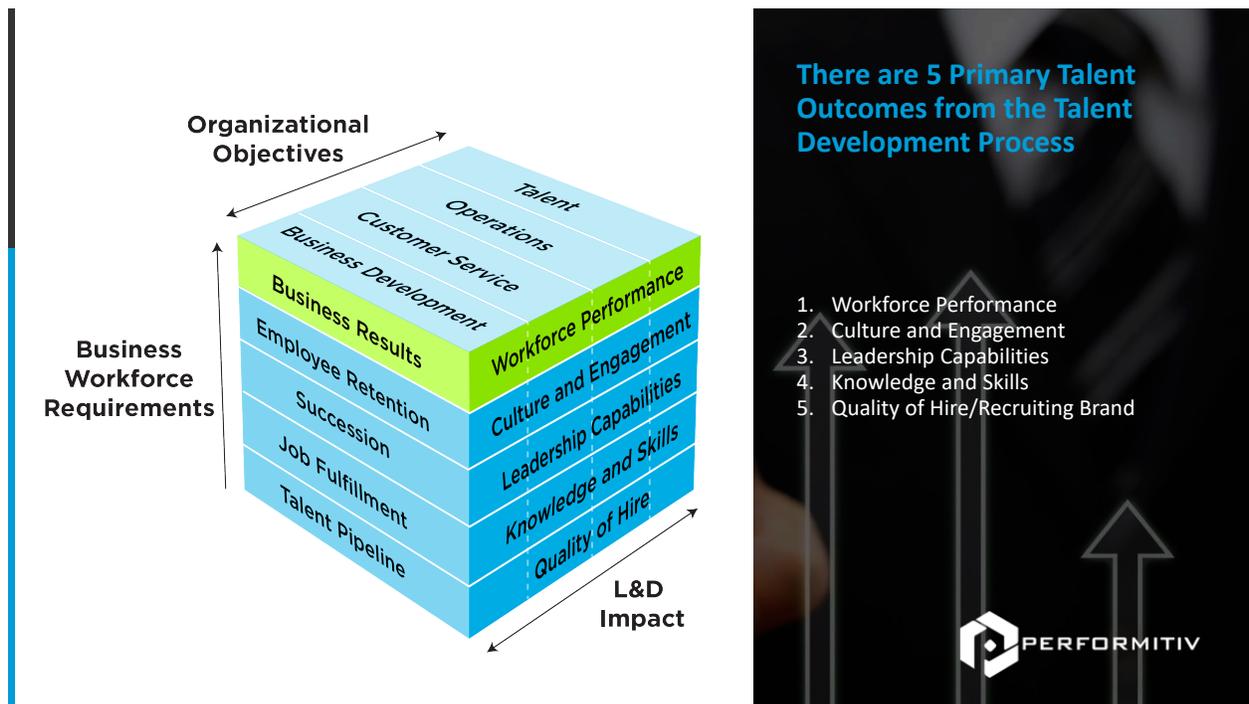
- 1) Content
- 2) Instructor
- 3) Environment

If content is not designed well it can result in less productive employees. Not all instructors are capable of providing great training on leadership development, sales, customer service, onboarding, etc. Shifts from classroom to virtual platforms may result in better or worse learning environments. Setting goals for waste in each of these areas will help improve impact. If L&D professionals are not doing this, programs won't be as valuable.

Talent Outcomes

- 1) Capabilities
- 2) Engagement
- 3) Culture
- 4) Leadership Capabilities
- 5) Recruiting Brand

The following visual helps describe the three-dimensional impact learning programs can have on the business, including the five primary talent outcomes:



All L&D programs should have at least one of the above desired talent outcomes. At Booz Allen, their primary focus is building capabilities. Their approach is capacity times capabilities drives earnings per share. At Lincoln Financial, the focus is on engagement. JetBlue University is viewed as the culture factory by leadership. KPMG invested \$500 million in a learning center with the primary goal of being a more attractive place to work for high potential candidates. All roads lead to building better leaders, that is where the most value is created. Ultimately, each of these talent outcomes will lead to better workforce performance.

Based on the desired talent outcomes, learning evaluations should be adjusted to ask questions aligned to the primary desired outcomes. For example, if the goal is to build better leaders, ask participants the question “Are you a better leader as a result of this program?” Use the Net Impact Score to identify where participants don’t feel like they are better leaders and identify the root cause for why they feel that way, then take action to improve it.

Job Impact

- 1) Application
- 2) Fit

One of the biggest areas of waste in Talent Development is Scrap Learning; defined as those participants who did not apply the learning to the job. In some programs it can be as high as 50%. Another area of waste is Fit. Was the program too long or too short? Was it not aligned with business needs? Was it the wrong mix of modalities?

The term Scrap Learning was made famous by General Frank Anderson, the former President of the Defense Acquisition University (DAU). General Anderson and DAU won numerous industry awards, including Chief Learning Officer of the Year and Corporate University of the Year. General Anderson created billions of dollars in savings for taxpayers by implementing one of the first continuous improvement processes for corporate universities. DAU was a model for creating Net Impact System. Their focus on “driving out the red” across all aspects of their business built a tremendous culture of continuous improvement.

Business Results

- 1) Productivity
- 2) Revenue
- 3) Costs
- 4) Risk
- 5) Cycle Time
- 6) Customer Satisfaction
- 7) Quality
- 8) Employee Retention

Net Impact System's scientific approach to the Talent Development Process identified eight primary business results, as listed above. Most L&D programs try to impact two or three business results. As examples, a sales program may try to improve productivity, revenue and cycle time, and a leadership program may try to reduce employee turnover and improve quality.

Net Impact System encourages organizations to adjust their learning evaluations to measure the top one to two desired business outcomes. Since productivity is critical to financial impact, a common question is "Did this program improve your productivity?" By using Net Impact Score, you can see where there was perceived high productivity gains and perceived low productivity gains. Conducting periodic studies to estimate average productivity gains by response, provides for a cost-effective way to predict future impact.

Financial Results

- 1) Workforce Productivity
- 2) Workforce Profitability
- 3) Cost of Labor

The Process Map links L&D investments to Talent Outcomes that drive Business Outcomes that drive Financial Outcomes.

For example, at Lincoln Financial where the primary L&D goal is to improve employee engagement, higher levels of engagement will improve business outcomes such as employee retention and productivity. Improvements in those business results will impact financial outcomes including workforce profitability and operating profit margins.

Management Reporting is Where the Rubber Meets the Road

A critical component of the Net Impact System is providing a world-class executive reporting framework. Whether your organization wants to build better leaders, transform itself, reinvent its culture, drive growth, improve profit margins or thrive through more productive talent, business executive reporting and goal setting is vital. Without setting goals and monitoring impact overtime, Talent executives will never achieve the kind of results they desire.

Net Impact System leverages the Management Reporting framework developed by the Center for Talent Reporting:

- **Operational Reporting:** Realtime and periodic reporting for quality control and continuous improvement purposes. Audience: CLO, Program Managers, Content Managers, Trainer Managers and Vendor Managers.
- **Executive Sponsor Program Reporting:** Typically, monthly reporting based on program goals to ensure alignment and impact. Audience: Executive Sponsors, Talent Executives and Program Managers.
- **Summary Executive Reporting:** Typically, quarterly reporting based on organizational goals and how learning helps to achieve those goals.

Net Impact System adds to the CTR Management Reporting framework by adding the following components:

- 1) Net Impact Score
- 2) Talent Outcome Indicators
- 3) Business Outcome Indicators
- 4) Impact Process Maps
- 5) Workforce Performance Hard Data

Net Impact System also incorporates these fundamental tenets of Executive Reporting:

- Executive Reporting is a process and will vary by organization, executive and program.
- The value of any strategic investment is a matter of opinion. Having access to a balanced set of KPIs, including talent, business and financial KPIs, helps executives better understand the value.
- Reporting for Talent Executives needs to be a superset of Business Executive Reporting.
- Talent Development is a strategic business process. All processes have waste. Reporting for Talent Executives should include waste indicators, such that waste can be mitigated and impact optimized.

By incorporating these components and fundamental tenets, Net Impact System helps business and talent executives understand what to do with the data. By adopting a continuous improvement mentality driving out waste and improving impact, talent-driven organizations will thrive.

Case Study: Current State and Desired State of the Professional Services Industry

Even the most respected and admired leaders in Talent Development recognize the need to advance how we measure and improve impact. A close look at how the services industry measures talent development programs highlights the importance of improving executive reporting and optimizing impact.

For this case study, we will not use a specific organization. However, the case study will be based on where the services industry largely is today, steps they are taking to improve and the desired state for the industry. We will use a fictional name, PSI. As background, PSI is a global firm offering a variety of consulting services around the world. It has a federated model of internal talent services for Recruiting, L&D, Leadership Development and Performance Management, as well as a measurement framework for talent with different levels of sophistication based on region and practice.

For executive reporting purposes on Talent Development, PSI provides quarterly reporting on a roll-up basis and on a distributed basis. The business partners would like better reporting and the talent executives would like to

provide better reporting. The problem is there isn't a good industry solution that the firm could leverage and no one in the firm has the time to solve it.

Executive reporting generally consists of activity data, including number of participants, number of unique participants, and number of hours spent in learning programs. Hard data is generally not presented as talent executives struggle explaining the impact. Learning evaluation data is used in archaic ways that other lines of business discarded years ago. Talent executives struggle to understand what to do with the data. Consequently, they rely on third parties to do impact studies or internal analysts to do statistical analysis. These studies are important, but do not address the need for continuous improvement.

PSI uses a five-point scale on its learning evaluations. For reporting purposes, it averages each question, category and overall. As long as the average score is four or better, they deem it acceptable. For most programs, the average score is between 4.1 and 4.4. These scores have very little meaning to business or talent executives. PSI also asks the NPS question and uses the traditional 0 to 10 scale. Talent executives find NPS valuable, but business executives want more because NPS does not address alignment or business impact. Furthermore, evaluation questions are largely based on traditional learning topics, not business topics.

For certain programs, executive reporting includes "% Favorable", often referred to as "Top 2 Box." At PSI, a favorable rating includes 4s and 5s on a 5-point scale. This is more helpful than averages, but still only requires a score many consider to be a B or a C. Whereas Promoters in NPS require a 9 or 10, which many consider to be an A or A minus.

Perhaps the biggest issue with executive reporting is that there wasn't a comprehensive continuous improvement process in place. Executives knew intuitively there was value in their programs, but they also knew they could do better. They knew a better program could be a competitive advantage and generate more partner value.

After Learning about Net Impact System, PSI Leadership decided to implement it. Here are the first steps they took to start the process:

- 1) In addition to averages and % favorable, Net Impact Score was calculated and reported.
- 2) A baseline for each program was created to see trends and comparisons of % Low Impact, % High Impact and Net Impact. PSI decided to only use responses of 5 for High Impact after recognizing that scores of 4 were too easily achieved.
- 3) The baselines enabled executives and talent professionals to monitor % Low Impact and begin to drive out waste.
- 4) For new strategic programs, learning evaluations were modified to include desired talent and business outcome questions.
- 5) For leadership development programs, the evaluations were modified to focus on the top desired outcomes, including leadership capabilities, engagement and team productivity.
- 6) For sales programs, the evaluations were modified to measure desired outcomes, including revenue generation, cycle time and productivity.
- 7) Other strategic programs were modified accordingly.
- 8) Executive reporting was enhanced based upon the Net Impact System.

- 9) For each business unit supported by L&D, talent executives would get quarterly reports on which ones achieved their workforce productivity goals and which ones did not. The highlights are now included in executive reporting with discussions on how talent can improve future results.
- 10) PSI increased its investment in developing talent professionals' abilities to do ROI forecasting and analysis; helping to address where programs can be enhanced to optimize impact.

Conclusion

If Talent Development is a strategic business process for your organization, then it is in everyone's best interest to start managing it in more valuable ways. Net Impact System can be implemented over time with minimal disruption. It has been developed by leading experts and organizations with a common goal of creating an open-source industry solution. Organizations are encouraged to use Net Impact System as a blueprint they can modify and make their own.

About Performativ

Performativ is analytics software that optimizes learning impact by demonstrating value and identifying improvement opportunities. This modern measurement system collects evidence of impact from methodology-sound surveys and automated, secure operational data uploads. We go beyond traditional measurement tools to paint a complete picture of impact by automating the aggregation, integration and analyses of critical predictive and prescriptive data. Performativ has transformed the practice of impact optimization from a tactical, reactive exercise, to a credible, cost-effective, repeatable measurement process.

