

READERSHIP INSTITUTE

Media Management Center, Northwestern University

THE BUSINESS CASE FOR PEOPLE MANAGEMENT:

*Pre-Reading for
Impact Study Participants*

July, 2000

Contents

Introduction	1
The Challenge	2
Business Case Overview	3
Why Is This Important?	7
Precipitous Time and Sense of Urgency	8
Why Launch Newspaper-Specific Effort?	8
Focus of the Newspaper Industry Survey	10
People Management Model.....	11
Drivers	12
Shapers.....	12
Intermediate Outcomes	13
Three Levels of Analysis	14
Selection.....	17
Overview of High-Impact Practices	17
Development.....	21
Overview of High-Impact Practices	21
Performance Management	26
Overview of High-Impact Practices	26
Compensation.....	28
Overview of High-Impact Practices	28
Employee Retention	31
Overview of High-Impact Practices	31

Introduction

The purpose of this document is to begin raising the awareness and understanding of Impact Study participants about the business case for people management.

The pre-reading that you are being asked to do is extremely important and will enable you to better understand and interpret the newspaper industry findings as a whole as well as to understand your specific newspaper's results.

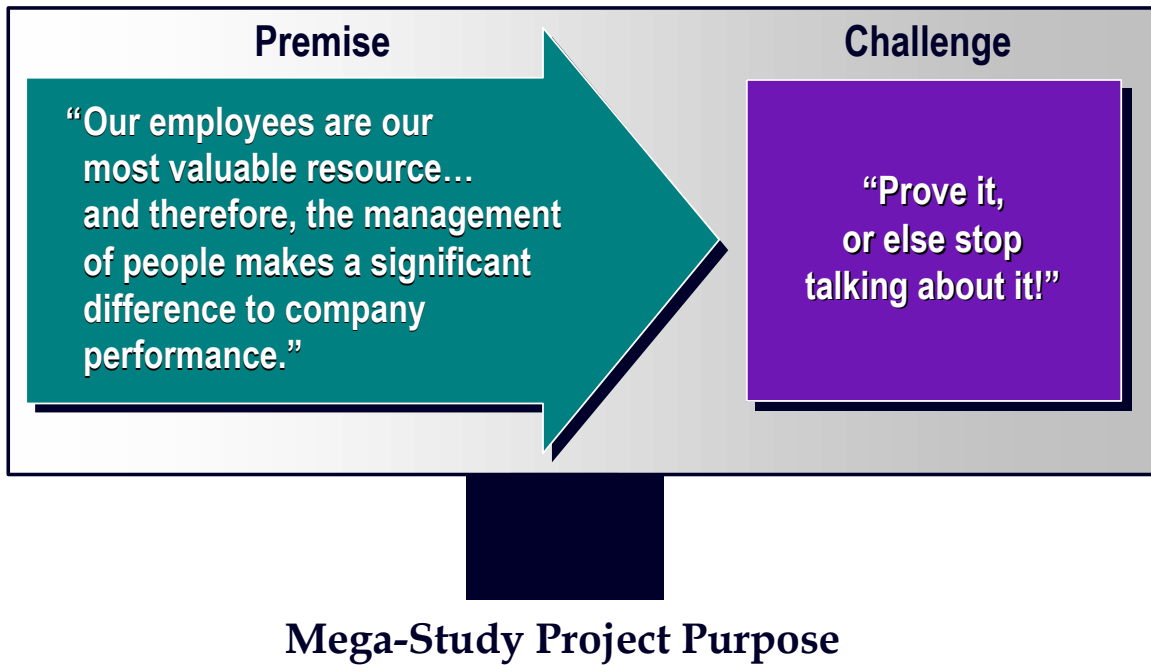
Specifically, this pre-read discusses:

- Framework and methodology of the people management mega-study upon which the current newspaper industry effort is based
- Important concepts and terminology for seventeen (17) specific **high-impact practices** that are strongly associated with the achievement of superior business performance

In sum, this pre-read is designed to provide Impact Study participants with a “running start” understanding of the business case for people management.

The goal of our face-to-face working session is to spend as much time as possible discussing the newspaper industry-wide findings as well as helping each Impact Study participant understand what his/her individual newspaper's results means and what specific near-term activities might take place between now and when the Impact Study participants reconvene again in the fall.

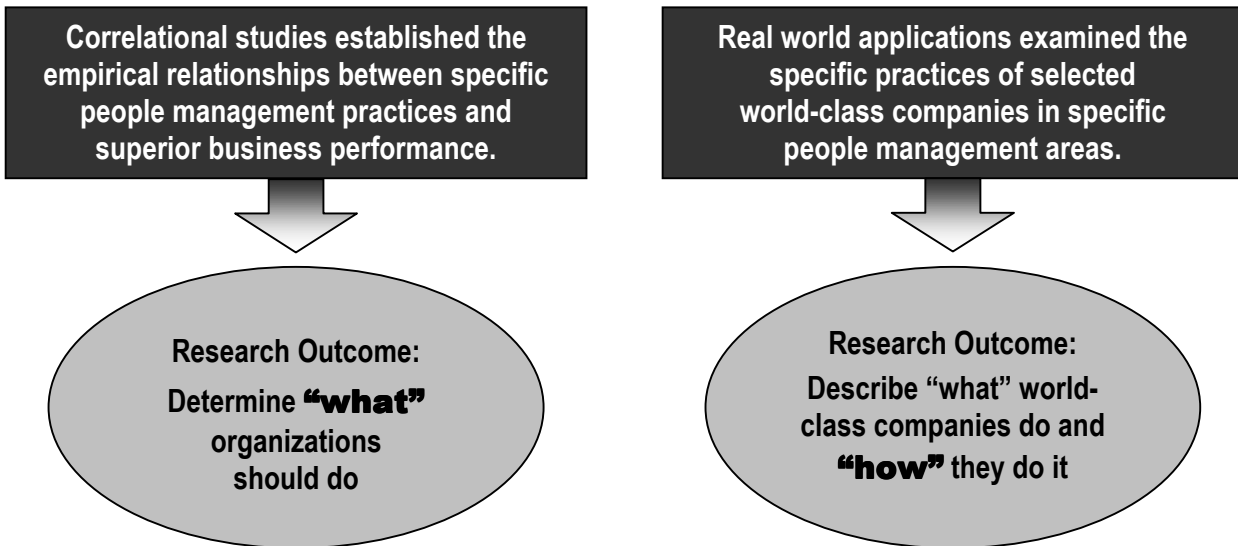
The Challenge Over the past several years, many business leaders, management consultants, academicians and other researchers have argued on behalf of a central premise. This **central premise focused on the business case for people management** and led to an exciting and formidable challenge which subsequently formed the basic purpose of the people management mega-study upon which the current newspaper industry effort is based.



This recently completed cross-industry people management mega-study demonstrated that strong relationships exist between the effective development and execution of specific people management practices, and the achievement of superior business performance.

This study of over 21,000 organizations was, and we believe still is, unprecedented in terms of its scope, rigor and scale. The study focused primarily on information-intensive and service-based companies. Numerous media, entertainment and communications companies were examined.

Business Case Overview The business case for people management was built in two ways:



Scope:

- Reviewed 300+ correlational studies, over 60% of which were published since 1995
- Encompassed over 21,000 organizations
- Focused primarily on service companies
- Resulted in an integrated model that reflects the impact and interrelationships among specific people management practices and superior business performance
- All relationships were found to be statistically significant at the 95% confidence level

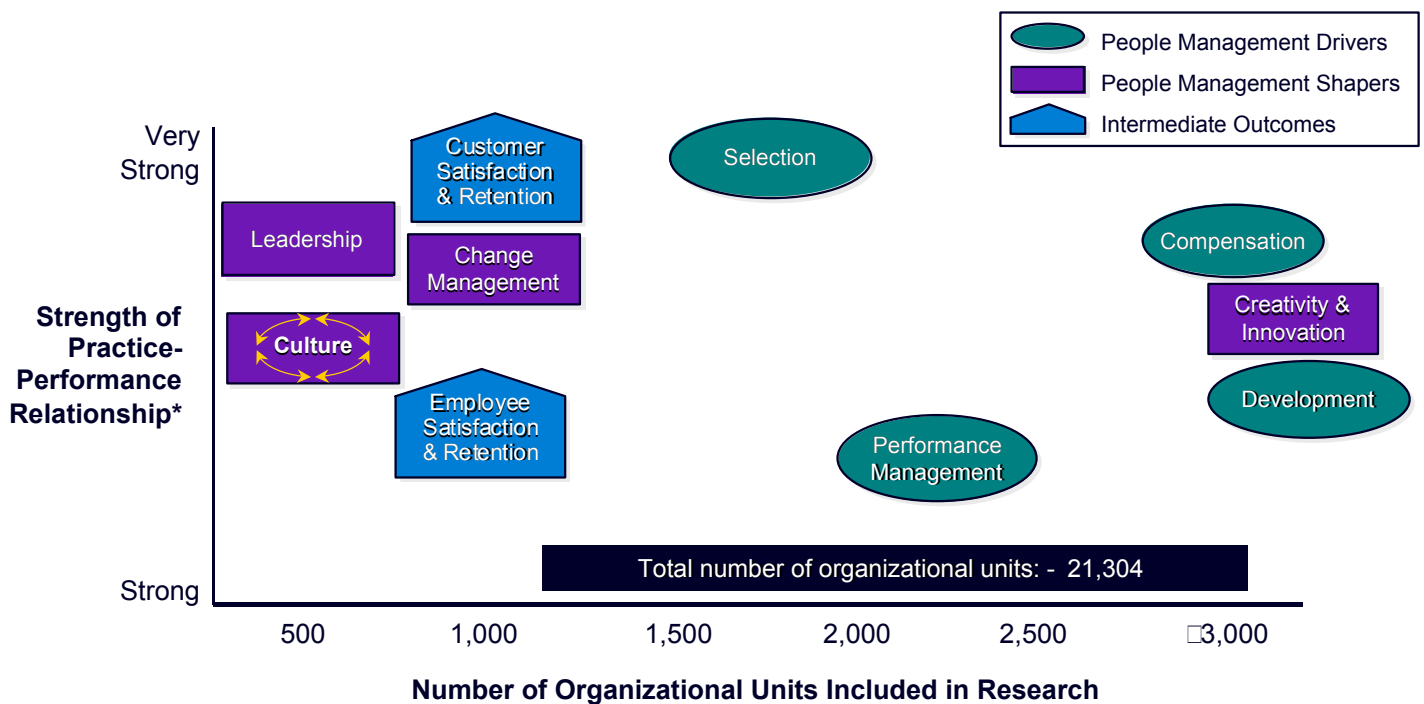
Scope:

- Examined 150+ world-class companies
- Focused primarily on global companies
- Encompassed service and non-service companies
- Examined how they execute specific people management practices within their organization

Starting with no preconception as to what areas of people management might be proven to be most impactful on the business, the mega-study demonstrated with extraordinary levels of statistical reliability that eleven areas of people management are highly influential.

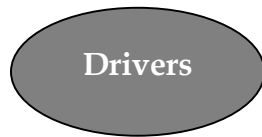
As shown below, each of the people management areas was found to possess either a “strong” relationship with superior business performance (95% confidence level), or a “very strong” relationship with superior business performance (99% confidence level).

EMPIRICAL VALIDITY

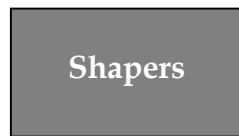


- *Note:
- The vertical dimension measures the strength of the relationship between the people management practices within a given area (e.g., Selection) and the probability that superior business results will indeed occur.
 - A “strong” relationship indicates that the probability of results occurring is 95%. “Very Strong” indicates that this probability is 99%.
 - “Knowledge Management,” the eleventh people management area is not represented on the graphic, since no relevant correlational studies could be found.

As you can see in the previous graphic, there are several different shapes associated with the people management areas. This is quite purposeful and extremely important. While the significance of these differences is discussed in greater detail later in this Introduction, a brief summary is provided below.



“**Drivers**” are relatively straightforward areas of action that can be managed directly and have relatively rapid impact on business performance.



“**Shapers**” are significantly more complex clusters of action requiring both more complex development and implementation strategies, as well as more implementation time. It takes a much longer period of time before changes in a Shaper translate into measurable business impact.



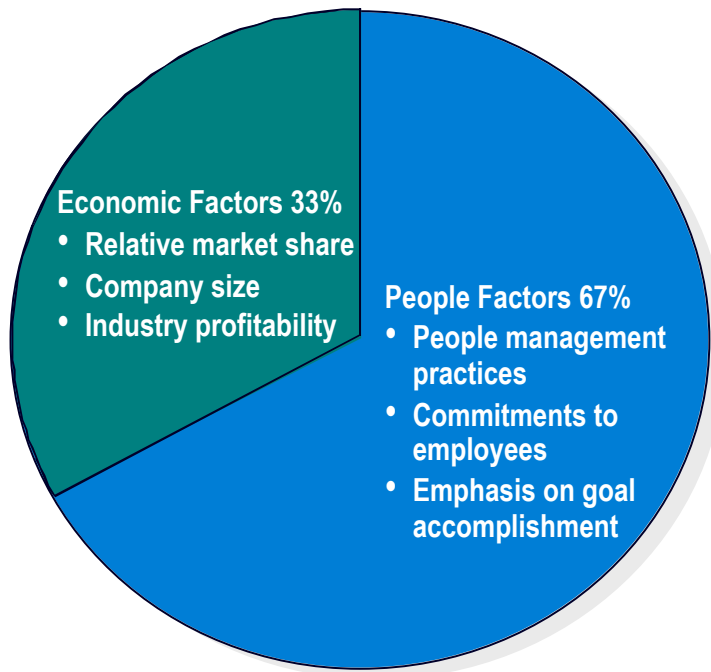
“**Culture**” is an overarching Shaper and envelops all of the other Shapers and Drivers.



“**Intermediate Outcomes**” represent an important connecting bridge between the effects generated by all of the other people management areas and the ultimate impact on overall organizational performance. Intermediate Outcomes often appear as early indicators of Driver and Shaper impact on overall organizational performance prior to actual financial results.

Lastly, the mega-study demonstrated something quite exciting yet unexpected: People factors are twice as important as economic factors when explaining the overall differences between high performing companies and average performing companies, as shown below.

OVERALL BUSINESS IMPACT



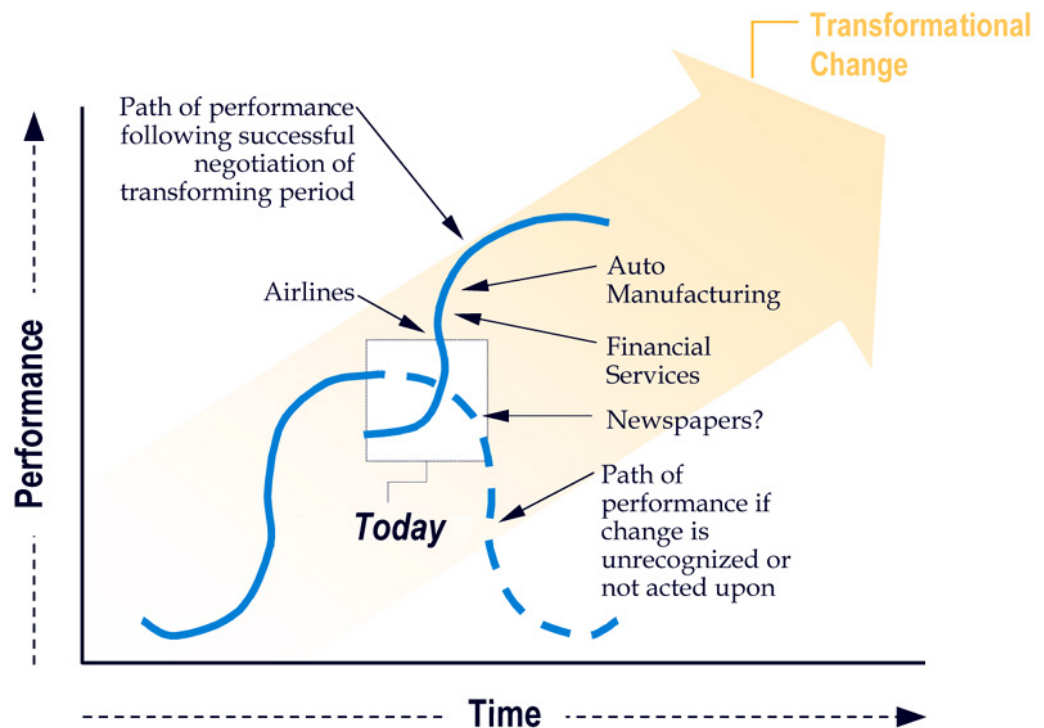
Research Scope:

- 60 large corporations
- 300+ different lines of business
- 5-year performance confidence level: 90%

Why Is This Important?

Industries are known to follow certain patterns of performance which roughly follow the paths that are shown below. The findings in this study may indicate that the newspaper industry is about to undergo a period of transformation (both painful and laden with opportunity) that other U.S. industries began to experience some time ago. Stated somewhat differently, in order for the newspaper industry to enjoy continued high levels of performance results, it will likely need to “shift the curve” and compete differently in the rapidly changing world that surrounds it.

INDUSTRY TRANSFORMATION



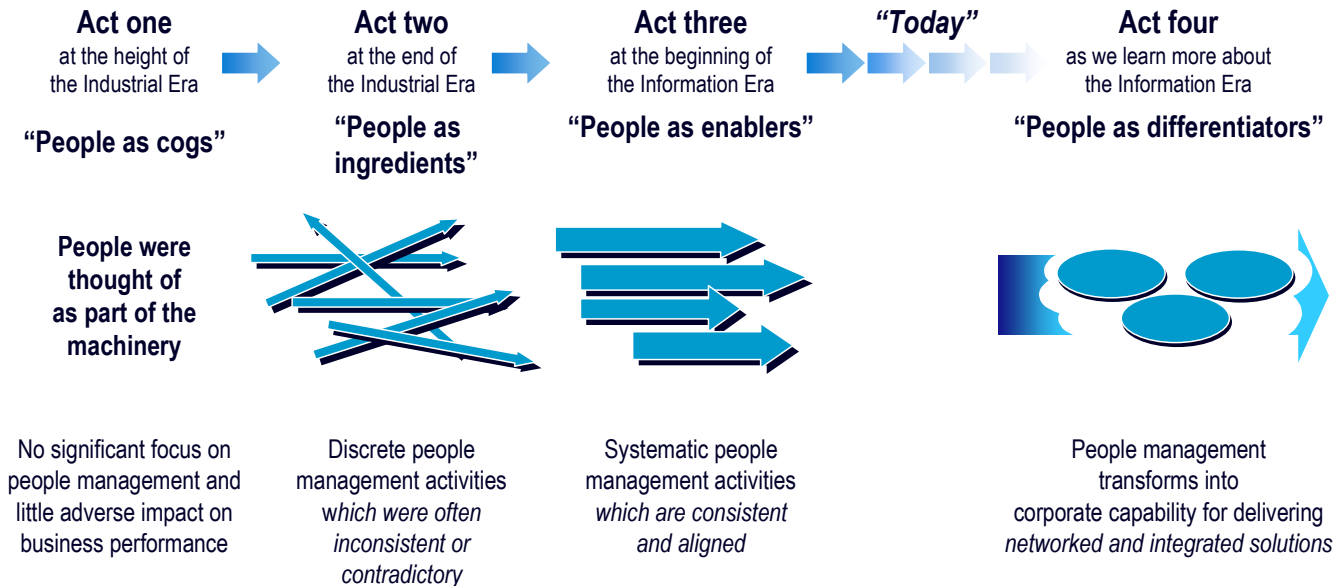
The recognition of the facts that:

- People Management is evolving into a new strategic era; *and,*
- The newspaper industry is undergoing a fundamental transformation, like it or not...

...raises both the opportunity and urgency for understanding how newspapers can use people management practices to facilitate their transformation and “move the readership needle” in their “new world.”

Precipitous Time and Sense of Urgency

The research findings ultimately indicated that the mega-study was launched at a very important time.



In summary, the mega-study demonstrated that people management practices are key competitive differentiating factors in each of the industries that were examined. Furthermore, the mega-study showed that leaders in these various industries concluded they and their teams could make decisions and take specific steps to directly influence these practices, thereby strengthening their organization’s ability to deliver significantly better performance results.

Why Launch Newspaper-Specific Effort?

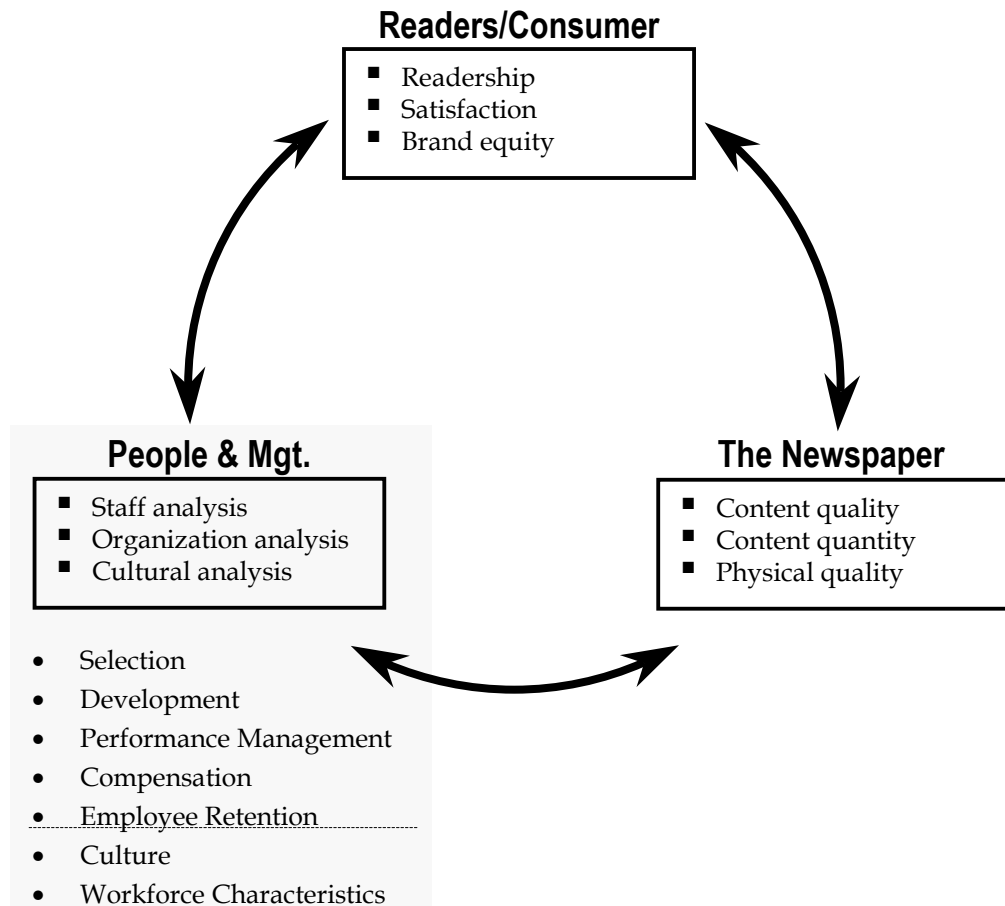
So, given what appears to be a compelling and overwhelming preponderance of data, why did we elect to launch a separate newspaper industry people management research effort? We could have simply accepted the results of the previously conducted cross-industry studies, recommended the findings to you, and left it at that. However, we know that the newspaper industry has never deeply examined the area of people management before. We also know that while many similarities exist across various industries, every industry possesses some unique characteristics. Therefore, we concluded that a rigorous examination and validation of people management practices in the newspaper industry is timely,

necessary and likely to produce significant benefits to the members.

We believe this to be the case since the “people leg” is said to have been neglected in the newspaper industry. This decision led to the people management practices survey that you participated in during the past three months.

People Management Practices is one of three research efforts comprising The Readership Institute’s current Impact Study. The overall goal of the Impact Study is to understand what specific factors have the greatest impact on “moving the readership needle.”

IMPACT STUDY



Focus of the Newspaper Industry Survey

The most recent people management practices survey focused on understanding the extent to which newspapers engage in those specific people management practices that we believe may be most strongly associated with high levels of readership and other key performance outcomes in the industry.

A total of 100 newspapers were asked to participate in the people management practices survey, and we received responses from 82 newspapers. This equates into a response rate of 82%.

Given that the survey focused on factors that may be related to success in growing and sustaining readership, we requested specific information about those departments most directly concerned with creating and selling products and services – news, advertising, circulation, and marketing.

In addition to analyzing department information, we also segmented and analyzed the data based on the following circulation strata.

Strata	Circulation Ranges
I	0 – 25,000
II	25,001 – 50,000
III	50,001 – 100,000
IV	100,001 – 200,000
V	200,001+

These findings will be addressed in a report that you will receive during the face-to-face working session.

This report focuses on five of the seven aspects of people and management

People Management Model

Before you arrive at the working session where we will present the survey findings from the newspaper industry survey, it is important to understand the basic framework upon which the survey and subsequent analyses are based.

The People Management Model shown below was derived from the previously mentioned cross-industry mega-study. The model represents an integrated and strategic approach to people management. The model will help you understand the various pieces of the people management puzzle - and explain how these pieces fit together.

PEOPLE MANAGEMENT MODEL



Drivers

As alluded to briefly earlier, the People Management model consists of three sets of components.

- Drivers
- Shapers
- Intermediate Outcomes

People Management Drivers	
• Selection	• Performance Management
• Development	• Compensation

Thus, the People Management Drivers provide leaders with powerful and focused opportunities to “move the performance needle.” As you already know, these four areas along with Employee Retention, an important “Intermediate Outcome,” represent the five areas covered in this report.

Shapers

The second set of components is referred to as Shapers. **Shapers are distinctly different from the Drivers because:**

- Leaders can exert **only indirect influence** over the Shapers
- Shapers are **themselves influenced** by the decisions made and actions taken with respect to the Drivers, and the other shapers as well
- Shapers are **not “discrete”** in the sense that they are also influenced by the interactions they have among themselves

It takes a long time to see the impact that “reshaping a shaper” has on overall business performance.

The mega-study found that of the five people management Shapers, **Culture was determined to be the most foundational and enveloping Shaper.**

People Management Shapers	
• Culture	• Knowledge Management
• Leadership	• Change Management
• Creativity & Innovation	

The interaction of the four Drivers, and the five Shapers creates value for two important groups of stakeholders of an organization – its employees and its customers.

This is discussed below.



Intermediate
Outcomes

Over the past several years, a great deal of research has demonstrated that a strong, positive relationship exists between high levels of employee satisfaction and retention and corresponding high levels of customer satisfaction and retention.

Furthermore, the research demonstrates that these dimensions of performance translate directly into “bottom line” results in terms of greater profitability, productivity and shareholder returns. **Therefore an organization’s ability to positively affect levels of employee satisfaction/retention presents a controllable and powerful way to “move the customer satisfaction needle.”**

We refer to employee satisfaction/retention and customer satisfaction/retention as “**Intermediate Outcomes**” because they mediate between outcomes produced by the people management drivers/shapers and the bottom-line results. Intermediate Outcomes therefore comprise the third and final set of components in the People Management Model.

Both of the intermediate outcomes add value to an organization, albeit in related yet different ways.



Employee Satisfaction
& Retention

Creates value creation for employees by the increasing levels of their capability, knowledge, commitment and contribution in an organization that encourages personal growth and fulfillment. This translates into higher levels of employee satisfaction, which subsequently strengthens an organization’s ability to retain employees, particularly its strongest performers.

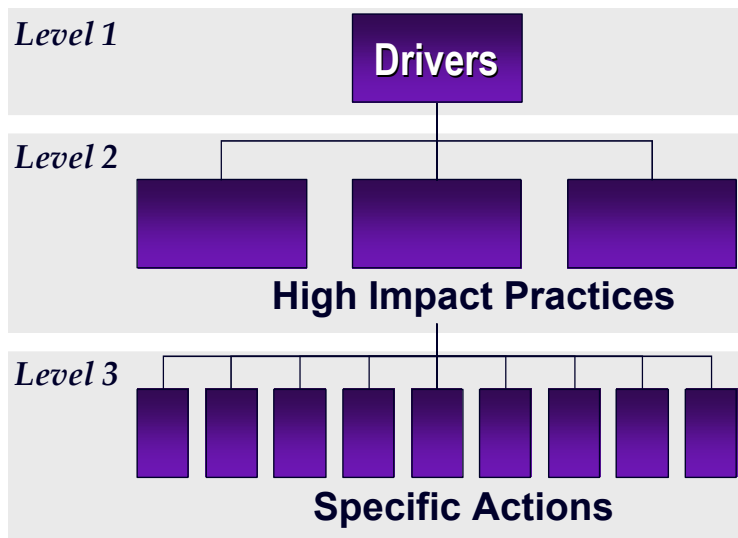


Customer Satisfaction
& Retention

Creates value for customers by increasing levels of the employees’ ability to successfully meet our customers’ needs. This translates into higher levels of customer satisfaction, which subsequently strengthens the ability to retain customers, particularly the most valuable and loyal.

Three Levels of Analysis

The survey asked newspapers to respond to a total of 90 specific statements. Respondents were asked to indicate the extent to which they “agreed” or “disagreed” with each statement on a 1 - 4 scale. Respondents were also provided the opportunity to indicate “cannot assess/not applicable.”



It is important that you understand the distinctions among the three levels of analysis since the report that discusses the newspaper-wide industry results, as well as the report addressing your individual newspaper's results, address each level in an iterative fashion. Thus, please take time to review the table below.

Level of Analysis	Definitions
Level 1: Drivers	<ul style="list-style-type: none"> • Drivers represent the fundamental areas of people management that leaders can influence in a very direct and hands-on manner to improve organizational performance, particularly over a shorter-term. • Drivers inform leaders about “what to focus on.” • The mega-study demonstrated that there are four such drivers, plus one additional “Intermediate Outcome.” • The Drivers correspond to the major sections of the survey that the participating newspapers filled out; i.e., Selection, Development, Performance Management, Compensation, plus the additional section that focused on Employee Retention [where Retention is viewed to be an “intermediate outcome”].
Level 2: High-Impact Practices	<ul style="list-style-type: none"> • High-impact Practices represent the actionable practices that correlate with superior performance for each Driver. • High-impact practices inform leaders about what they should “strive to achieve.” • The mega-study demonstrated that there are seventeen such practices. These are discussed on the following page. • With respect to the survey that participating newspapers filled out, the High-Impact Practices were “invisible,” since they reflected the consolidated dimensions into which the specific survey items rolled-up. This will be discussed in greater detail later on in this report.
Level 3: Specific Actions	<ul style="list-style-type: none"> • Specific Actions represent the specific decisions leaders can make - and the related actions leaders can take - to build and sustain high-impact work management practices. • Specific actions inform leaders “what to do.” • The mega-study demonstrated that there are a total of ninety-two such actions. • The Specific Actions correspond to each of the ninety-two individual questions that were contained in the survey that participating newspapers filled out and returned to The Readership Institute.

As was discussed on the previous page, the mega-study identified and validated 17 high-impact practices that, when achieved, truly make a difference in organizational performance. These practices represent Level 2 analysis. While these practices will be discussed in detail in the newspaper industry-wide findings report, a brief overview is provided here for your information and review.

Drivers (Level 1)	High-Impact Practices (Level 2)
Selection	<ul style="list-style-type: none"> • Selection criteria and processes have consistent structure • Selection skills are a key leadership attribute • Seek to fill positions internally
Development	<ul style="list-style-type: none"> • Promote integration and corporate glue • Significant leadership responsibility • Commitment is balanced between organization and individual • Effective succession planning and talent pool processes
Performance Management	<ul style="list-style-type: none"> • Clear mutual expectations • Stretch objectives with meaningful measures • Ongoing coaching and feedback
Compensation	<ul style="list-style-type: none"> • Market-based compensation • Performance-driven rewards and recognition • Alignment of employee and shareholder interests
Employee Retention*	<ul style="list-style-type: none"> • Latitude and authority for determining how best to execute job accountabilities, particularly to meet customer needs • Quality and sustainability of highly effective leadership, particularly employee's immediate supervisor • Extent to which employees possess the knowledge and skills to contribute – plus – the opportunity to grow and advance • Customer satisfaction is a high priority and is balanced with “making the numbers” – plus – rewards are provided for contributions

The remainder of this pre-read discusses the business impact of each people management Driver and the specific high impact practices that, when executed effectively and on a consistent basis, is associated with the achievement of superior business performance.

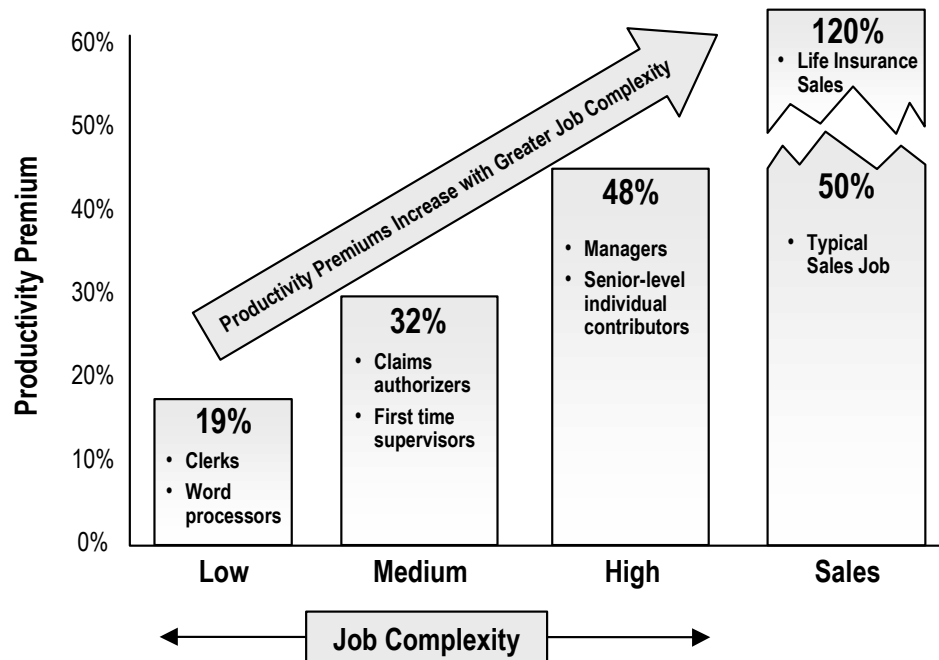
* Note: Employee Retention is an “Intermediate Outcome.”

Selection

Overview of High-Impact Practices

We begin our discussion with Selection, because it provides the gateway to talent. "Selection" refers to the integrated set of activities for identifying, assessing, choosing, and inducting external and internal candidates for specific positions.

Recently completed research of almost 1,800 organizations across industries indicates that the incremental business impact one can expect from selecting and hiring high caliber talent is truly enormous. This is illustrated in the graphic below which shows that the "better the talent" the "greater their productivity." And this productivity premium increases with greater job complexity.



Note: Business impact for the "top 16%" of those organizations performing a given practice compared to the peer group average.

Furthermore, the research demonstrated that three specific high-impact selection practices strongly correlate with superior performance. These three practices all focus on enabling organizations to excel at matching talent "to task." These are briefly discussed on the following pages.

Practice #1:
Selection criteria and processes have consistent structure.

What does this really mean?

It means that world-class companies utilize a systematic and integrated approach to select individuals for positions in their organizations.

Why is this important?

Cross-industry research indicates that organizations incorporating specific approaches in their selection processes enjoyed significantly higher levels of profitability, growth, productivity, employee satisfaction and retention, and customer satisfaction.

How do world-class companies actually implement this practice?

Three of the most effective and frequently used approaches are:

- *Structured and standardized selection interviews.* Interviews are targeted to assess the degree to which an individual possesses the important and specific skills and expertise required for the given position under consideration. In addition, these interviews are designed to assess the degree of fit between the individual candidate and the organization, in terms of culture, environment and values. A specific set of guidelines and protocols are deployed to ensure that all assessment and selection activities are applied consistently and are aligned with an agreed upon set of standards.
- *Employment tests.* Employment tests are used to objectively and rigorously assess the degree to which an individual possesses the important competencies and values for a given position under consideration. Many organizations are now administering employment tests on-line via protected sites on the Internet to screen out clearly unqualified candidates and pre-qualify qualified candidates at the front-end of their selection processes. This appears to result in a significantly more effective, efficient and targeted interviewing process.

- *Follow-up validation studies.* Follow-up validation studies are used to assess the effectiveness of the various “methods” and “instruments” that are deployed during the selection and hiring process. In addition, an increasing number of organizations are using follow-up validation studies to assess the effectiveness of the various “sourcing channels,” i.e., the channels used to source or identify candidates such as current employee referrals, internet-based recruiting, summer internship programs, advertising, etc.

Practice #2:

Selection skills are a leadership attribute.

This high-impact practice is quite straightforward. Several world-class companies renowned for their selection processes have attained world-class status, in part, from making selection skills a key attribute for their leaders.

Different companies have applied this practice in somewhat different ways. For example:

- Cisco Systems, the networking systems company that has increased its market value by a factor of almost 20x over the past seven years, uses “proven abilities” to hire high caliber talent as an important criterion when choosing among existing Cisco leaders to open a new market and/or start up a new business.
- GE makes selection skills a key leadership attribute for its top 120 executives in the corporation. Jack Welch, GE’s Chairman and CEO, serves as an effective role model in applying this practice by personally interviewing all candidates for the top 500 positions at GE.
- Merck Corporation, a major global pharmaceutical company, requires its senior executives to play a leading role in recruiting and selection. Merck’s leaders visit colleges and universities to make presentations, conduct seminars, interview candidates and play a highly visible role in the civic affairs of the most important localities from which they recruit. In addition, individual leader’s success at recruiting and retaining top talent is evaluated. Each leader’s success at selection is reflected in their performance management compensation outcomes. On average, Merck’s leaders spend 10% to 20% of their time on selection activities.

Practice #3:

Seek to fill positions internally by creating an internal employment market.

This high-impact practice is strongly supported by the research findings.

The correlational research indicates that the degree to which job vacancies were filled from within the organization correlated positively with the organization's return on equity, sales growth and/or market share.

Logically, this makes sense since a strong internal employment market creates value for the employees (i.e., career advancement opportunities) and also creates value for the organization's customers (i.e., more experienced and more knowledgeable "proven performers" who know how to serve customer needs at a high level of quality).

While promoting from within was associated with achieving better results, world-class companies balance this practice by selectively hiring external candidates to close specific skills and knowledge gaps.

One of the more enlightening findings is that the business impact associated with filling jobs from within the organization was most profound for companies pursuing "innovation" as a core element of their business strategy.

Development

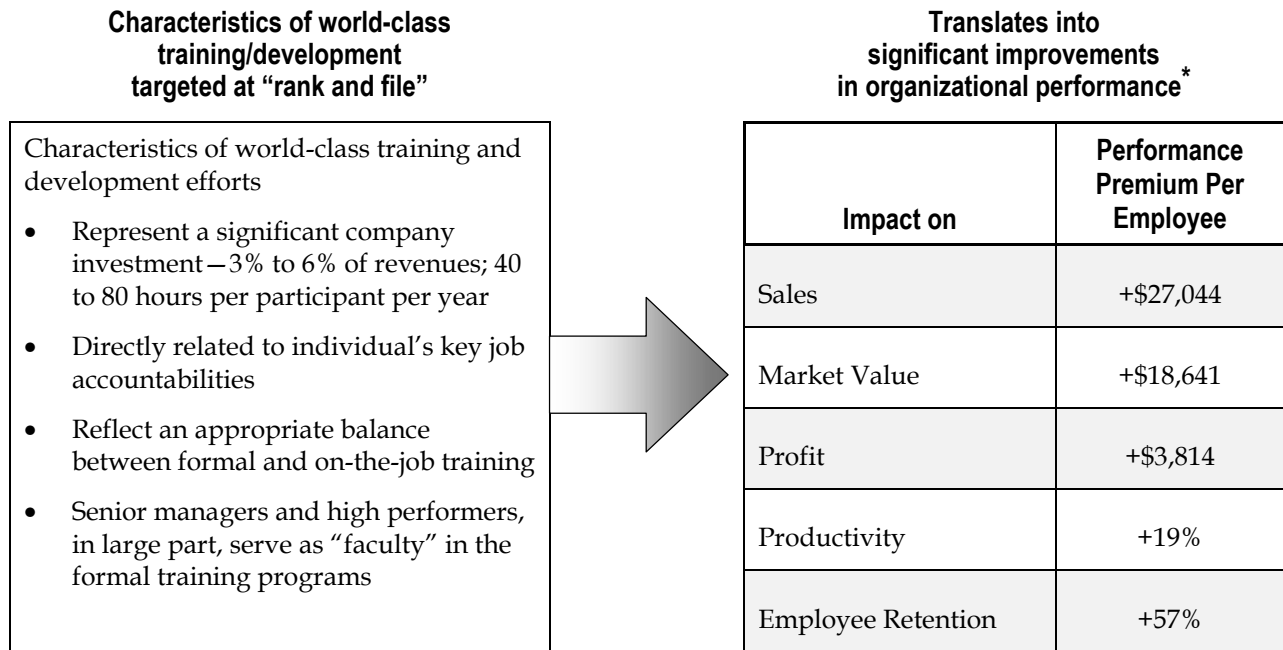
Overview of High-Impact Practices

“Development” is the second people management Driver that was examined in the survey.

Development refers to the activities intended to enhance an individual’s capabilities (skills, knowledge, experience and behavior) to accelerate their growth, thereby strengthening our organizational competencies.

Development encompasses both development and training-related activities.

Recently completed research of over 5,200 organizations – across industries – indicates that world-class development practices targeted at “rank and file” individuals throughout the organization make a significant impact on business results.



Furthermore, the research demonstrated that four specific high-impact development practices strongly correlate with superior performance. **The four practices all focus on enabling organizations to institutionalize “learning for their future success.”** These are discussed on the following pages.

* Note: Business impact for the “top 16%” of those organizations performing a given practice compared to the peer group average.

Practice #1:

Promote Integration and Corporate Glue

Numerous world-class companies utilize their development efforts to “promote integration and corporate glue.” What does this really mean?

“Integration” – The mega-study research indicates the most effective development efforts promote the integration between an organization’s business strategies and the competencies needed to execute those strategies.

Specifically, organizations typically seek to promote integration through their development efforts by:

1. Selecting the competencies, knowledge and skill sets to focus on based upon:
 - The company’s key drivers, as identified in their business strategies, *and*
 - The required leadership capabilities derived from studying their organization’s most successful people.
2. Designing, developing and delivering the “learning” experiences in ways that are strongly linked to the organization’s business strategy and its well-defined leadership needs.
3. Utilizing a variety of development approaches beyond the traditional formal classroom experience. For example, some of the more frequently used approaches included job rotation, business projects, on-the-job mentoring by senior leaders, distance learning, etc.

“Corporate Glue” – refers to the ways in which an organization binds all of its internal stakeholders together to create a strong culture. Organizations that utilize their development efforts to consciously and deliberately create and institutionalize corporate glue, focus on strengthening participants’ understanding of such topics as:

- *Core purpose:* the company’s explicit statements of vision, mission and core values

- *Common management methods*: the most important processes that a company uses to support how it creates value for its principal stakeholders; e.g., strategy development, knowledge management, creativity and innovation, valuation, etc.
- *Common vocabulary*: the unique words and expressions used by a company to create shared awareness and understanding about important business concepts and challenges.
- *Networked community*: the ability of individuals to work together, learn from and teach each other, regardless of geographic and/or structural boundaries
- *Sense of belonging and “specialness”*: the strong sense of pride, ownership and “specialness” from belonging to their organizational community
- *Widespread and actionable understanding of strategy* the accountabilities, “local” strategies, priorities, and actions, with the overall strategic direction of the enterprise

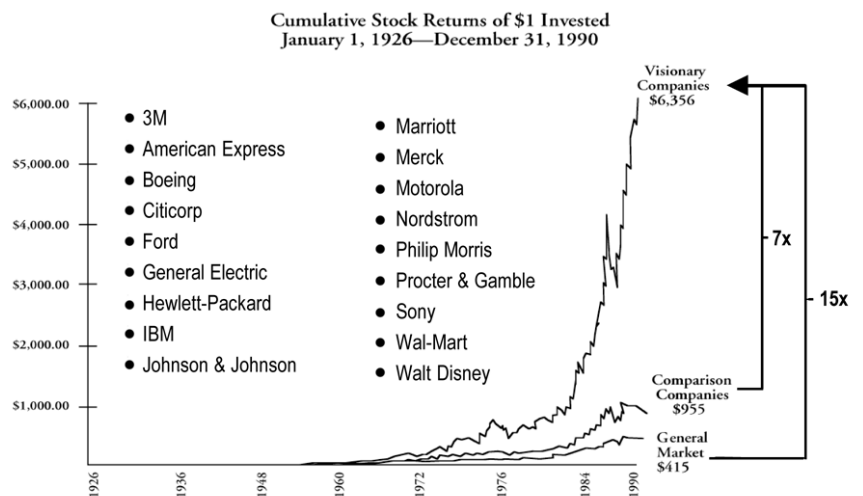
The bottom line outcome is that the development practice of “promoting integration and corporate glue,” particularly when targeted at the executive and managerial levels, helps create a **“strong organizational culture.”**

As illustrated by the following graphic, organizations with strong cultures typically develop and then promote their senior-most leaders from within and create superior long-term economic value for their shareholders.

IMPACT OF SENIOR LEADERSHIP CONTINUITY

Promoting integration and corporate glue creates strong cultures that:

- Align values, behaviors and management approaches
- Send consistent messages to stakeholders
- Ensure continuity of leadership
- Outperform the general market and peer group averages of 15x and 7x, respectively.



From Collins and Porras, *Built to Last*, 1994.

Practice #2:

Significant leadership responsibility for development

World-class companies make development a key organizational priority and hold their most senior leaders personally accountable for successful development outcomes. Companies utilize varying approaches for realizing these goals, including making development a criterion for promotion and survival, and rewarding for the degree of personal and effective involvement.

Practice #3:

Commitment for development is balanced between organization and individual

Research findings in the area of Development indicate that organizations that create a balanced commitment for development between the organization and the individual out-perform those who do not. This balance is one of the important factors that enables an organization and its people to anticipate and adapt to environmental change.

Highly adaptive organizations are characterized by three attributes:

- Initiative and leadership is encouraged at all levels, particularly the ability for leaders to rise above their narrow self-interests
- Individuals are encouraged and supported to take genuine prudent risks to create something new, and are rewarded for the results
- Balanced emphasis is placed on understanding and meeting the changing needs of customers, employees and shareholders

“Adaptive” organizations enjoy significantly higher performance across four dimensions of growth: growth in net income, revenue, stock price and employee population. This is illustrated in the table below.

Growth	Adaptive Organizations	Non-Adaptive Organizations	“Adaptive Premium”
Revenue	682%	166%	4 x
Net Income	756%	1%	756 x
Stock Price	901%	74%	12 x
Employment	282%	36%	8 x

Note: Based upon a study of 207 companies across 22 different industries. “Adaptive premium” refers to the ratio of the performance achieved by adaptive organizations to the performance achieved by the non-adaptive organizations. From Kotter and Heskett, *Corporate Culture and Performance*, 1992.

Organizations that build and sustain a strong culture combined with a high degree of adaptiveness typically possess “constructive cultures.”

Practice #4:

Effective succession planning and talent pool processes

The last development high-impact practice focuses on the presence and effective use of succession planning and talent pool processes. Research indicates that the more importance an organization places on its succession efforts, the stronger its performance. Specifically, research findings indicate that several elements of succession planning and talent pool processes are positively correlated with profitability and shareholder value creation. These elements are shown below.

Characteristics of Effective Succession Planning and Talent Pool Processes
Ownership – Ownership of these processes at the top of the organization, thereby reinforcing leadership’s accountability for development
Involvement – Extensive senior leader involvement in assessing, selecting and monitoring the talent pool, thereby strengthening the organization’s understanding of the strengths/weaknesses of its people, future development resource requirements, and the degree to which organizational and individual competencies enable the business to execute its strategy
Requirements – Clear and comprehensive descriptions of key corporate positions, thereby enabling leadership to determine future development experiences required of talent pool members for subsequent deployment into new management roles
Instruments – Empirically validated instruments and evaluation processes to adjust and refine the company’s various development efforts in order to close existing capability gaps vis-à-vis both the current and anticipated strategic needs of the business
Input – Broad and deep performance and development input, thereby producing an objective and holistic view about an individual’s performance
Alignment – Strong alignment and linkages with other development-related efforts, thereby improving the returns on the organization’s investment in development

Performance Management

Overview of High-Impact Practices

“Performance Management” refers to the practices and processes used to measure and improve organizational and individual performance. Recently completed research of almost 2,400 organizations across industries indicates that performance management can and does make a difference in better bottom line performance for each group of primary stakeholders. The research demonstrated that:

Primary Stakeholders	Business Impact
Shareholders	<ul style="list-style-type: none"> Companies with a performance management process delivered 40% higher Total Returns to Shareholders than those without such a process Return on Assets was 30% higher for companies that focused on results as opposed to appraisals that focused on behaviors
Customers	<ul style="list-style-type: none"> Providing effective performance feedback to employees was associated with higher levels of customer satisfaction and employee “service passion”
Employees	<ul style="list-style-type: none"> Providing effective performance feedback also had a positive impact on employee satisfaction and retention

Furthermore, the research demonstrated that three specific high-impact performance management practices strongly correlate with superior performance. **These three practices all focus on enabling organizations to excel at “performance communication that matters.”** These are briefly discussed below.

Practice #1: **Clear mutual performance expectations**

What does this really mean and why is it important?

Research findings indicate that performance improves when:

- Performance expectations are clearly established and agreed upon by the individual and his/her superior
- Employees have a very clear understanding of the relationship between their individual actions and specific performance outcomes
- Expectations are expressed in terms of the “quantity” of contribution that is expected of a given individual as well as the “quality” of the contribution; i.e., **how** the individual both performed their work and lived the values of the company

Practice #2:

Stretch objectives with meaningful measures

World-class companies consistently establish stretch objectives – for the corporation overall, as well as at the division, department, team, and individual levels.

Practice #3:

On-going internal coaching and feedback

As was mentioned earlier, providing clear and frequent performance feedback to individuals is positively correlated with employee service passion, and this further translates into higher levels of customer satisfaction.

- Assigning a mentor whose role is to provide coaching and feedback to the employee. The mentor is held accountable for knowing all there is to know about the employee, such as how satisfied they are with their job, what their aspirations are, whether they have the qualities to move ahead aggressively in the organization and what additional training they might require in order to develop to their fullest potential.
- Using team-based performance appraisal and feedback systems to evaluate performance, provide developmental feedback, formulate the next year's development plan and, at some companies, even to make pay and promotion decisions.

Compensation

Overview of High-Impact Practices

“Compensation” refers to the cash or equity-based rewards provided to employees, based upon their level of performance and contributions. Recently completed research of almost 3,400 organizations – outside of the newspaper industry – indicates that three specific high-impact compensation practices strongly correlate with superior performance. **These three practices all focus on enabling organizations to provide “superior rewards for superior performance”,** and are briefly discussed below.

Practice #1: **Market-based compensation that recognizes organizational diversity.**

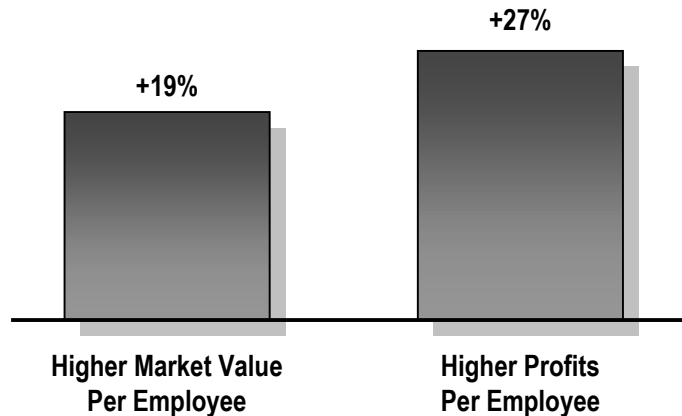
What does this really mean? First of all, let us be very clear about what we mean by the word “diversity” when used in this context. In a compensation context, organizational “diversity” refers to the way a given company makes explicit distinctions in how it designs and administers its compensation programs to meet the different [perhaps “unique”] needs of various entities within the company. Entities can encompass different lines of business, different geographic territories, different departments, etc.

For instance, in the newspaper industry, it might not be uncommon for units and individuals in the Advertising area to be compensated on a different basis than might be the case for let’s say the News area. This difference might be reflected in terms of such considerations as:

- Different amounts of compensation placed “at risk” as a percentage of base salary/hourly wage based upon unit/individual performance
- Different business targets and different measures of performance used to calculate incentive pay-outs
- Different policy decisions in terms of the level that base salaries and/or hourly rates are set relative to the “competition,” etc.

The use of the word “diversity” does NOT connote making compensation distinctions based upon differences in ethnicity, gender, age, etc.

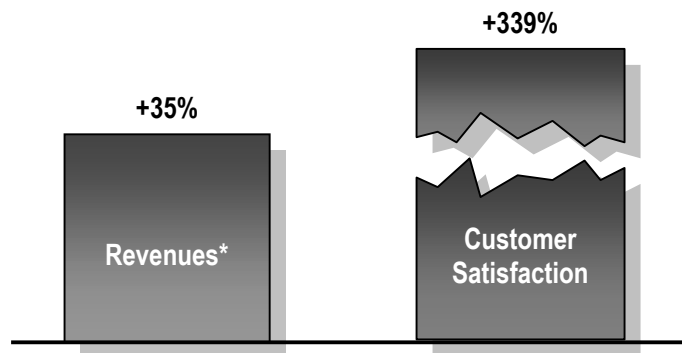
Why is “compensation diversity” important? Cross-industry research findings indicate that organizations that have high pay levels relative to the market for “superior results” achieve superior business performance. As the graphic below indicates, the practice of “superior rewards for superior performance” is accompanied by higher market value and higher profits generated on a per employee basis.



Note: Business impact for the “top 16%” of those organizations performing a given practice compared to the peer group average.

Practice #2:
Performance-driven rewards and recognition.

The mega-research study concluded that companies that utilize incentives as an integral component of their compensation strategy enjoy higher levels of revenue and customer satisfaction, particularly when faced with one or two specific business conditions, as shown below.



*Per employee

Note: Represents the business impact for the “top 16%” of those organizations performing a given practice compared to the peer group average.

Another particularly interesting finding surrounded the use of incentives by companies where the leaders “micro-managed their employees”. In this case, these companies actually experienced a negative impact on business results. In fact, the research findings demonstrated that, on average, the use of incentives combined with a micro-management approach was associated with a 36% decline in net profits, again adjusted on a per capita basis.

Practice #3:

Alignment of employee and shareholder interests through stock-based ownership and interest

The third and final high-impact practice in Compensation focused on the use of equity-based programs.

Employee Retention

Overview of High-Impact Practices

“Employee Retention” refers to the activities for strengthening the bond and relationship between the organization and its employees in order to lengthen employee tenure, particularly among the best and the brightest.

Recently completed cross-industry research of more than 2,000 organizations indicates that employee retention is a critical “intermediate outcome” and important component of the integrated People Management Model.

As you may recall from the Introduction, we refer to Employee Retention as being an “Intermediate Outcome” because it is an important bridge:

- **From** ...the performance impact contributed by the Drivers, as well as by the Shapers...
- **To** ...the other companion Intermediate Outcome, Customer Satisfaction/Retention.

Specific definitions and desired future states for both intermediate outcomes are noted below:

	Employee Satisfaction & Retention	Customer Satisfaction & Retention
Desired Future State	<i>“Strengthening a critical bridge for creating customer loyalty”</i>	<i>“Customer loyalty leads to superior sustainable value creation”</i>
Definition	<ul style="list-style-type: none"> • Employee Satisfaction: the degree to which employees are satisfied with their company and the related work experience • Employee Retention: the percentage of employees who remain with the organization 	<ul style="list-style-type: none"> • Customer Satisfaction: the relationship between what a customer expects and the value of what he/she perceives to have received • Customer Retention: the extent to which customers repurchase from the current provider...the next time

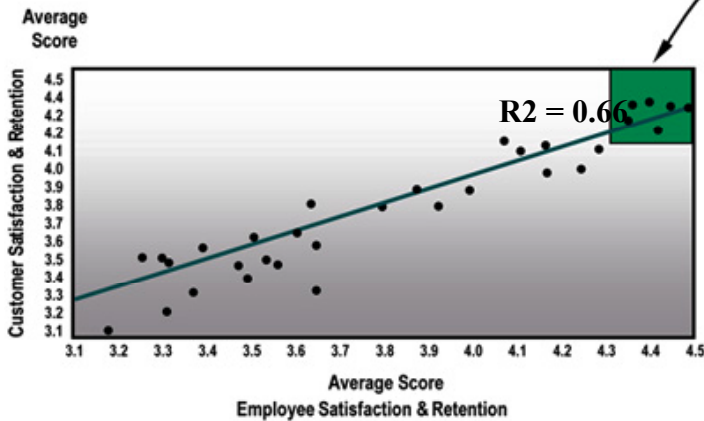
Why are these intermediate outcomes important?

Intermediate outcomes are important for two basic reasons.

First, research findings demonstrate that a strong positive and statistically significant relationship exists between employee satisfaction and retention [ES&R], and Customer Satisfaction & Retention [CS&R]. Therefore, an organization's ability to positively affect ES&R levels provides a controllable and powerful way to "move the CS&R needle."

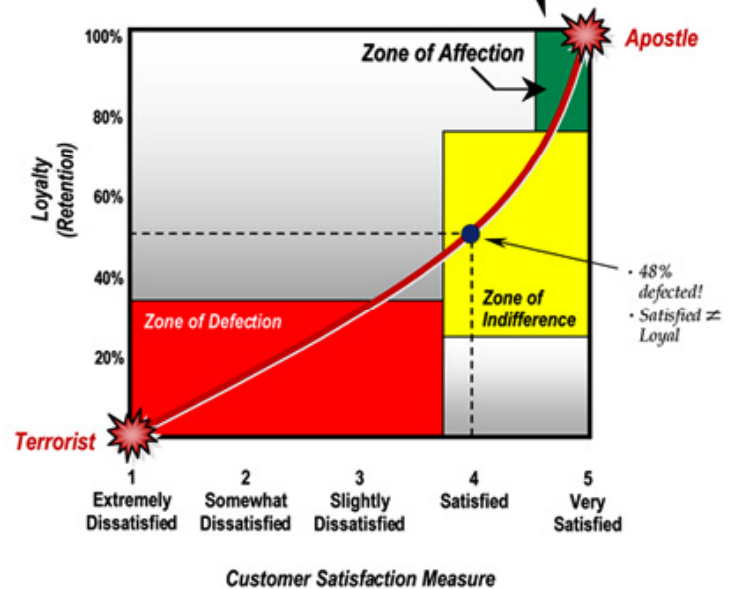
The correlation between CS&R and ES&R, along with the resulting impact of moving the needle, is shown in the graphics below.

ES&R and CS&R are strongly and positively correlated...



Source: RNW Research

... and provide a powerful opportunity to move the customer satisfaction needle



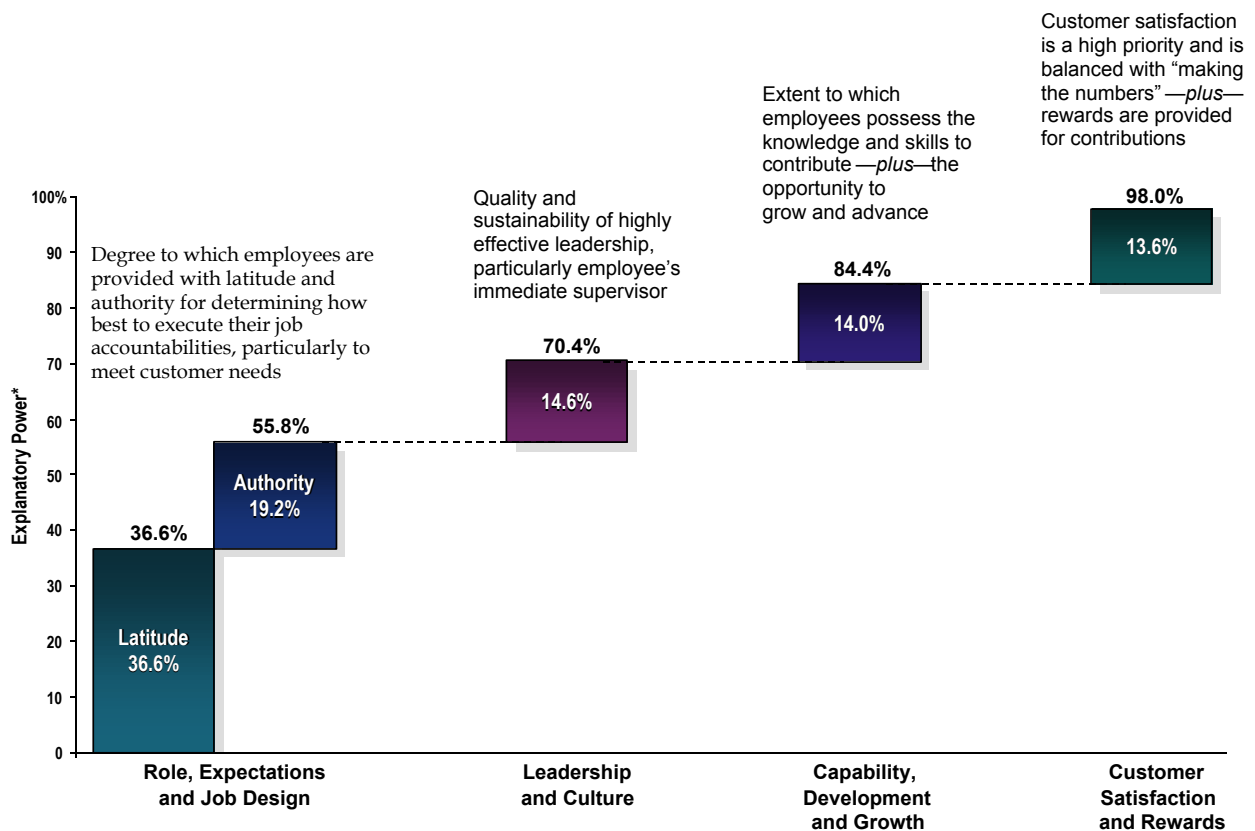
Source: Harvard Business School; Heskett, et. al.

The second reason intermediate outcomes are important is that the research has helped to identify, isolate and validate the select few factors that determine why employees choose to leave, and conversely, why they choose to stay.

As is discussed below, four sets of factors essentially explain 98% of the reasons why employees choose to leave.

EMPLOYEE SATISFACTION & RETENTION RESEARCH FINDINGS

Factors	Definition
Role, Expectations and Job Design	<ul style="list-style-type: none"> • Role and Expectations refers to the extent to which an individual has received clear, unambiguous and consistent communication about his/her role and what he/she is expected to contribute on-the-job. • Job Design refers to the basic responsibilities and daily work activities that an employee focuses on and performs. • Latitude refers to the range of ways that an employee has at his/her disposal to determine how they can best execute their major job accountabilities, particularly when trying to meet customer needs. • Authority refers to the degree of sanctioned permission given to an employee in terms of their ability to take action without consultation with their supervisor.
Capability, Development & Growth	<ul style="list-style-type: none"> • Capability refers to the extent to which employees possess the knowledge, skills, and tools to perform their jobs with excellence. • Development refers to the quality and quantity of the “institutional” training and development which employees receive, where “institutional” means training/development efforts delivered by individuals/programs apart from the development provided by their direct supervisor. • Growth refers to the opportunity that an employee has within the organization.
Customer Satisfaction & Rewards	<ul style="list-style-type: none"> • The extent to which employees feel appropriately recognized and rewarded for their performance/contributions, particularly for those contributions which help increase customer satisfaction.
Leadership & Culture	<ul style="list-style-type: none"> • Leadership refers to the quality, commitment, and “value-added” by an individual’s immediate supervisor/manager, particularly as it relates to all of the four other factors discussed above. • Culture refers to the values, behaviors and priorities that are instilled and encouraged, along with what it “feels” like to live and work in the organization’s environment.



*Represents the proportion of the total R² explained by each determinant.

Finally, before we turn our attention to the newspaper-specific survey results, the research findings below illustrate how the relationship between the two intermediate outcomes, ES&R and CS&R truly plays out in the real world.

Company	Employee Satisfaction & Retention	Customer Satisfaction & Retention
State Farm	Average agent tenure is 200% longer than industry average, and average agent productivity is 150% higher than industry average	93% customer retention rate
USAA	7% employee turnover rate which is two-thirds lower than industry average	98% customer retention rate in auto business
Northwestern Mutual Life	Most productive organization reflected by home office cost per \$1,000 of face value premiums sold	95% customer retention rate, highest among major life insurance companies