

# Viewpoints

# Q & A

## The *New* Human Capital Framework

### Human Capital Framework: Part I



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This article is the first article in a five-part series on Willis Towers Watson's human capital framework. In this discussion, Willis Towers Watson experts in talent and rewards look at how the increasingly complex business environment is driving organizations to develop human capital solutions that attract and retain the right talent — and ensure the objectives of the business are met.

**Q Sejen:** The importance of having talent and reward strategies and programs that are integrated is well known, but do most employers know how those elements connect back to the organization's business objectives and desired culture? If not, why? And how can employers begin making those connections?

**A Bremen:** As global business challenges become more complex, they also become more interdependent. Talent markets are becoming both more sophisticated and more competitive as companies find themselves competing for talent with employers in entirely new industries, countries and regions. At the same time, employees are becoming increasingly sophisticated buyers of companies' missions,

cultures, values, total rewards programs and career development opportunities. This not only is requiring some organizations to transform their existing business models, but also requiring all leaders to understand how the various elements of their human capital strategy, employee value proposition (EVP) and desired organizational culture fit together.

For this reason, Willis Towers Watson has updated its model for human capital to be more holistic and interconnected, so that the various components of business strategy, human capital strategy and the programs that lead to desired outcomes fit together.

**Employee value proposition (EVP):** the employment deal that defines what an employer expects from its employees and what it provides in return

**Van Hulzen:** Employers intuitively know it's crucial for their employees to understand both their roles in the organization and what success means for them as individuals, to have clear performance objectives, and to understand both the intrinsic and extrinsic rewards for strong performance. Employers also know that having a great workplace environment and culture makes sense. It helps employees feel engaged and deliver high performance. But I think many struggle to align their talent management and total rewards programs with those desired business objectives. How do you make that leap?

That's where our framework comes in – by providing very specific guidance supported by our consulting. The framework helps employers better understand how to build those linkages and create the programs, workplace culture and environment that can foster those desired outcomes.

**Q Sejen:** How can HR help the organization create the right culture for achieving its business objectives, and how does culture connect with employee engagement and business performance?

**A Zuckerman:** Our research has found that organizational culture is a primary influencer of high performance. There are two sides of this that are important to consider. First is the impact culture has on employee engagement. This effect has gotten a lot of recognition and is well understood. There are certain aspects of culture that tend to enhance engagement and other aspects that tend to undermine it, and we do a lot of work with clients to help them understand those influences.

The other aspect of culture is how it helps facilitate or undermine the achievement of strategic goals. Though that aspect has received relatively less attention from most employers, it's equally or more critical. Our research has found that organizations compete in different ways. Successful organizations have structures that support the type of company they are. Organizations that compete on customer focus, for example, tend to have cultures that support that competitive factor. That kind of cultural profile is very different from an organization that competes on price and therefore is primarily concerned with being a more efficient organization.

So there's a real connection between being able to achieve your strategic goals and developing the kind of culture that supports those goals and engages employees. We see culture as a crucial connector between the business strategy and positive business results. And HR plays a critical role in helping create that culture by designing aligned talent and reward programs, as well as by creating an EVP that's aligned with and promotes the kind of culture that will help the business compete.

**Van Hulzen:** I'd love to hear your perspective on the cultures of two different types of organizations: a start-up, high-tech organization that's focused on innovation, on one hand, and a well-established, high-tech company with an established business strategy and a focus on quality or customer service on the other. How would you describe those different cultures?

**Zuckerman:** An innovation-focused organization, whose primary business goal is to get to market with products not offered by its competitors, requires a culture to support that goal. That employer wants a diversity of thought and opinion inside the organization, a willingness to take risks, a tolerance for failure and a bias for action. These are the cultural elements that tend to support innovation.

For an efficiency-focused organization, whose main strategic goal is to be more efficient than its competitors in order to be a low-cost provider, things like employees' willingness to take risks, and diversity of thought and opinion are less important. Instead, this type of organization needs clearly defined job roles, a clear and effective organizational structure, very comprehensive training on basic work processes, and metrics to regularly evaluate where the organization can be more efficient. These two very different cultures require different talent and reward programs and EVPs. Everything about how the organizations hire, develop, train and reward people must be aligned with the culture.



**Q Sejen:** How important is leadership in all of this? What can effective leaders and managers influence?

**A Zuckerman:** The role of leadership is really critical here, and it's reflected in our framework very prominently. It's an overarching role that sets the cultural tone of the organization. Obviously, leaders have a vested interest in the organization's success and the execution of the organization's goals. This plays out in a variety of ways at senior leadership levels and on down through the organization.

It's critical that there be agreement among senior leaders on the top strategic goals of the organization. Surprisingly, we've found that isn't always the case. It's a crucial prerequisite for the development of talent programs. If there isn't leadership agreement on the primary goals, the talent programs won't have anything to align with. So that's really job one for leadership.

There are three ways of thinking about leadership roles: professional, people and pioneering. We define the professional role as demonstrating capability and doing the job well. It's essentially about having technical and material competence. People leadership involves working with colleagues, creating an environment that fosters collaboration and being sufficiently accessible to employees. Pioneering is the highest level of leadership roles. Pioneers can create a vision that inspires and motivates employees, and promotes change and transformation.

It's also crucial for employers to understand and be able to assess those levels of leadership. I know we'll get into measurement a bit more later, but I'll say now that an organization's ability to measure leadership effectiveness – to ensure that leaders and managers are supporting the organization in all these critical ways – is really an important factor.

**Van Hulzen:** Leadership is an overarching element in our human capital framework because the influence and accountability of leadership clearly run from the business strategy through the culture and EVP, and finally to desired outcomes. Ultimately, leaders have accountability for achieving outcomes, both at the employee and organizational levels. So leaders really do have the most critical role to play across the whole framework, and our research reinforces that.

We know that good leadership is the primary driver of each of the three components of sustainable engagement: traditional engagement, enablement and energy. And trust and confidence in senior leadership is among the top drivers of retention for employees around the world.

And when it comes to retention, employees' relationship with their immediate supervisor is extremely relevant for employees around the world. Even when the word "manager" isn't specifically mentioned, the hand of the manager is evident in many retention drivers, such as clarity around goals and objectives, workload, work/life balance and whether employees feel they're empowered. Managers affect all of those elements, and all of those elements affect the employee experience. So those two aspects of leadership and manager effectiveness really are paramount in employers getting this right.

**Q Sejen:** Once employers have reviewed and redefined their human capital strategy, how can they track their success in implementing the strategy? How do they know what adjustments to make?

**A Bremen:** Measurement is an important component of the overall framework. If employers aren't measuring their outcomes, they don't know whether they're making progress toward achieving the future state they've laid out in their EVP and total rewards strategy. So at the outset, employers must determine which measures of organizational success will be useful as they work at delivering on the EVP, and get a baseline read on where they are at the start. To what degree are they able to attract their desired caliber of employees? How well are they able to retain high-potential employees or top performers? What are their engagement rates? How are their productivity levels? Where are they in terms of their desired financial outcomes? And so on.

If employers establish the baseline and then create designs that foster progress toward achieving the desired future state, then in 12 to 36 months, they can measure that progress.

**Zuckerman:** For employers to manage the organizational culture, they must first understand the current state, the future state and the gaps between them, and then try to close those gaps. Periodic measurement is crucial, and the employee opinion survey is the most effective way to do that. Our new framework – with its explicit linkage between business strategy, culture, EVP and organizational outcomes – has informed the elements we measure in an employee survey and helps us better understand the culture from the employee's perspective.

In other words, the most important measures in an employee survey concern those aspects of culture that are most relevant to achieving the organization's business goals. For years, employers conducted employee surveys because it seemed like a good idea, but they weren't particularly strategic about what they asked employees about. Surveys would include everything that was part of the employee experience. Now we encourage our clients to focus on identifying and measuring the aspects of culture that are most relevant to their business. That way, they can prioritize the issues and drive actions in areas that will influence business results and can affect critical factors such as customer satisfaction and employee engagement.

### About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW ) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 39,000 colleagues in more than 120 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at [willistowerswatson.com](http://willistowerswatson.com).