What You Don’t Know Can Hurt You — Measuring Workforce Performance and Productivity to Maximize Profitability

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Those who prefer the bliss of ignorance take solace in the belief that what you don't know can't, or won't, hurt you. This notion still rings true for some even in the current "Information Age" where human progress is largely fueled by increasingly powerful, efficient, and user-friendly digital platforms for information and knowledge management. However, in some instances exactly the opposite is true. Few situations are more consequential to commercial interests than knowing how well a revenue-generating workforce is performing, especially when performance is measured by appropriate criteria. If at any point in time it is not known exactly how well an employee—and perhaps even more critically an entire team of employees—is performing on the work they have been tasked, it can indeed hurt different stakeholders in many different ways.

However, successful implementation of relevant performance metrics provides company leaders vital information for consideration in strategic decisions. At all levels, managers need objective, measurable indicators of departmental effectiveness. Appropriate metrics also provide employees unambiguous evidence as to their own individual professional development.

Over time, the established status quo is convenient to follow but a firm's approach to talent management can become lax if objective performance metrics are not clearly established and communicated to employees. They must also be regularly evaluated for suitability within the organization's workplace culture and appropriate for the organization's standing in the economic marketplace. This is even more critical for departments whose value to the company is vitally important, yet not easily quantified, such as Information Technology, Human Resources, and Research & Development divisions. In contrast, sales team performance is usually measured with a numeric scale of productivity such as sales figures, while industrial performance is commonly measured with production quotas. However, employee performance in certain other departments may be best described by the quality and progress of their work, but unless criteria for meeting certain levels of quality and progress are clearly defined, it can become a process vulnerable to personal biases, false impressions, and subjective opinions.

However unintended, the consequences of these negative effects on performance review measures can be dire, resulting in a workforce that is less-than optimally efficient and productive. This could be wasting precious company resources. Existing talent pools in departments with subjective performance metrics are vulnerable to becoming stagnant, resulting in a human talent management policy that allocates valuable company resources to low- to moderately-productive individuals. The long-run effects of poor human capital management are stifled growth, failure to reach target earnings, and compromised market position.

The only way to know whether both financial and non-financial resources are being used for optimum employee output is to first objectively define differing levels of performance for a particular job, and then to determine the performance level that best represents current employees' performance. For instance, performance can be easily measured if it is described as business unit output or percent of business potential reached, and productivity could easily be identified as any type of work product or output over a set period of time. These now objectively-defined measures tell organizational leaders how a workforce is performing in real time, according to measurable standards that exemplify successful performance in certain professional roles. Workforce management decisions can then be made that optimize the talent of top performers and either strengthen or reduce potential negative impacts of the work of less-favorable performers.

Profiles International has touched on the issue before, urging companies in the August 2009 Expert Insights white paper, "Why Smart Employees Underperform: 7 Hazards to Avoid," to set what Paul J. Meyer calls in "Attitude is Everything" SMART Goals®—Specific, Measurable, Aligned, Realistic, and Timed. Applying the SMART® metric of performance attainment for current and even long-standing employees would involve not only setting SMART Goals® that are objectively measured at regular intervals, but also policies for performance accountability and a reward system for exceeding them. Research to date on the matter has focused on the benefits to companies having a measurable goal on productivity. It is clear that implementation of a quantifiable performance measurement system, as well as establishing methods of recognizing employees' contribution to the company, increases not only worker performance, but also their attitude while on the job.

Equally important as recognizing the value of the use of performance metrics at all is identifying the type of performance metric that will have the greatest positive impact on current employees' productivity. In determining the appropriate performance metric to adopt, employers could ask a number of questions, such as: Would differing performance metrics be most appropriate for various different departments? What features of departments affect the optimum performance metric to be used? How do managers currently choose performance review measures? Do they consider the quantifiable aspects of employees' performance and rely on data to inform the performance review or do they use an intuitive process that produces more qualitative descriptions of job performance? Are department supervisors more satisfied with their departments' or certain individuals' productivity after establishing a quantifiable performance metric and adherence policy? Does having objective measures of employee performance cause conflict between supervisors and employees; and, can potential issues be anticipated and addressed in implementation plans?

Different levels of performance measurement can include Macro-level measures of the entire company or an entire plant, Mid-level measurement of a single department's performance, and Micro-level measures of individual employees' performance. A cost-benefit analysis of the relative contributions of various advantages of performance metrics weighed against implementation costs and other anticipated consequences can elucidate the level at which organizational benefits of performance measurement are maximized. The choice of performance measurement level must also be considered in light of companies' unique output, goals for productivity, and the workplace culture.

One commonly used performance metric is a forced ranking system whereby employees' performance is compared to their coworkers' and ranked from top to bottom in sequential order. However, if a department is already stocked with relatively high performers or increasingly qualified and effective new hires have been added to the mix, there may be very little variability between workers' performance levels. Ranking employees whose performance is very similar provides minimal useful information as to the myriad of performance dimensions that do vary across individuals, likely resulting in misinformed workforce management decisions based on inappropriate performance data analysis procedures.

Steve Scullen of Drake University found that forced ranking, and General Electric's practice of firing the bottom 5-10%, resulted in a 16% productivity increase over the next two years. However, 3 to 4 years out, productivity gains dropped to 6% over baseline, and in 10 years, productivity gains disappeared altogether.

There are a number of different types of employee performance measures, each offering a different type of information with variable usefulness in predicting new hire success. The least specific type of measure is nominal. Nominal measures classify employee performance into categories such as High, Average, and Low, without the use of numerical evidence whatsoever. There is no evidence as to the standing of employees within categories, and nominal measures provide the least specific—and least useful—employee performance data. Ordinal measures rank-order performance information, and is most commonly used in behavioral measurement.

However, there is no information as to the specific performance levels of individuals, providing only the relative standing of employees within the incumbent group as a whole. Ratio scale performance measures provide the most specific, valuable, and relevant information on employee performance. Ratio scales imply the presence of an absolute zero—that on some level, there is a baseline of the total absence of any employee output—and that the difference between individuals' performance can be numerically determined in terms of distinct units.

One potential pitfall in implementing a new job performance measure is the possibility of employees feeling threatened that they are judged by a system that they may not fully understand. Consider including employees in performance metric development and implementation so that they gain a comprehensive understanding of the system, perhaps engendering trust in the performance measurement system and individual ownership in the conclusions and outcomes that result. Implementing clearly defined performance metrics and goals boosts employee motivation, morale, and physical, mental, and emotional welfare. Workplace anxiety is reduced when individuals know how they are being measured, particularly for something as vitally important as the source of their livelihood.

When measures for job performance are well thought out and valid, existing employees can improve their performance as a result of the knowledge gleaned from performance analysis and feedback. They may also be motivated by high-performing new hires added to the organization over time. This helps develop an effective workforce performing at a level even greater than the sum of individual employee's contributions.

This enhanced performance results because an organization invested the time to collect valid employee performance data and used these data not only to provide accurate feedback to employees but also to more clearly understand the characteristics they were looking for in applicants to effectively determine their potential for success in the company. These data became usable for powerful statistical analysis because they are directly applicable to success in the position.

Building a company of top performers is the goal of every organization. Employers must develop and implement measurements that discern what can be subtle, yet consequential, differences in work performance, continually evaluate and revise them as necessary to address changes in factors that affect workforce performance overall, and collect the most detailed, quantifiable level of performance measurement data that practical considerations will allow. Doing so will significantly enhance the applicability of the information gleaned from HR assessments, leading to a workforce stocked with well-qualified, high-performing employees who are successfully fitted to the roles in which they work—the ultimate return on investment in HR assessment systems in the long-term.

About the Author

Dr. Kurt Hulett received his B.S. in Public Administration with a minor in Special Education from James Madison University, his M.Ed. in Special Education from the University of Virginia, as well as his Ed.D. in Administration and Supervision. He has served in education in the classroom and in an administrative capacity. A published author, Hulett has also worked as a professional in the private sector as a Senior Director of Research & Business Development and Vice President of Assessment for Pearson Assessment and Triumph Learning.

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