GAO

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HUMAN CAPITAL

Key Principles From Nine Private Sector Organizations

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United States General Accounting Office
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Congressional Committees:

The Government Performance and Results Act of 1993 (GPRA) requires federal agencies to set goals, measure performance, and report on their accomplishments as a means of achieving results. Effective implementation of performance-based management, as envisioned in GPRA, hinges on agencies' ability to strategically manage all of their resources—financial, information technology, and people—to achieve their missions and goals. However, agencies' discussions on how they plan to strategically manage their most important asset—their people or "human capital"—to achieve results has been notably absent from many federal agencies' annual performance plans.[1] The federal workforce represents the largest portion of the federal government's operating costs, yet many agencies have not sufficiently indicated how they will identify their human capital needs, nor how they will acquire, develop, and deploy their human capital to improve the economy, efficiency, and effectiveness with which they serve the American people.

As part of your Committees' ongoing efforts to provide federal agencies with information that may help them better implement performance-based management, you asked that we identify what common principles, if any, underlie the human capital strategies and practices of private sector organizations regularly cited as leaders in the area of human capital management. This report provides case illustrations that offer practical examples for federal agencies to consider as they work to improve their own human capital strategies.

To gather this information, we interviewed representatives of nine private sector organizations that have been recognized in the current literature as being innovative or effective in strategically managing their human capital: Federal Express Corp.; IBM Corp.; Marriott International, Inc.; Merck and Co., Inc.; Motorola, Inc.; Sears, Roebuck and Company; Southwest Airlines Co.; Weyerhaeuser Co.; and Xerox Corp., Document Solutions Group. Appendix I provides more details on the organizations included in our review.

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[1] See Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

Certain fundamental differences exist between the private and public sectors that may raise questions regarding the applicability or transferability of management principles derived from private sector practices. Not only does the government not operate for profit, but it also takes on duties (such as defense) that are prescribed by the Constitution, is subject to statutory requirements that do not apply to the private sector, and takes actions in the public interest (such as securities or environmental regulation) that the private sector is not empowered to take. Moreover, the government must meet social, political, or even moral expectations that may or may not coincide with economic efficiencies, and government decisionmakers must operate in a fishbowl, often with legal requirements for open deliberations and public involvement that make the decisionmaking process both lengthy and subject to controversy. Notwithstanding the unique challenges facing federal agency leaders, our previous work has shown that many management principles identified from the private sector are indeed applicable to the federal sector, and that these principles can be applied without changing current law in many cases.[2] This report is intended to provide human capital principles and associated illustrative examples that federal managers may wish to consider as they steer their agencies toward higher performance.

Results in Brief

Each of the nine private sector organizations in our review implemented human capital strategies and practices that were designed to directly support the achievement of their specific missions, strategic goals, and core values. Although human capital management alone cannot ensure high performance, proper attention to human capital is a fundamental building block to achieving an organization's mission and goals. On the basis of the information they provided, we identified 10 underlying and interrelated principles of human capital management that are common to the 9 organizations:

1. **Treat human capital management as being fundamental to strategic business management.** Integrate human capital considerations when identifying the mission, strategic goals, and core values of the organization as well as when designing and implementing operational policies and practices.

2. **Integrate human capital functional staff into management teams.** Include human capital leaders as full members of the top management team rather than isolating them to provide after-the-fact

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[2] See Transforming the Civil Service: Building the Workforce of the Future—Results of a GAO-Sponsored Symposium (GAO/GGD-96-35, Dec. 20, 1995).

support. Expand the strategic role of human capital staff beyond providing traditional personnel administration services.

3. Leverage the internal human capital function with external expertise. Supplement internal human capital staff's knowledge and skills by seeking outside expertise from consultants, professional associations, and other organizations, as needed.

4. Hire, develop, and sustain leaders according to leadership characteristics identified as essential to achieving specific missions and goals. Identify the leadership traits needed to achieve high performance of mission and goals, and build and sustain the organization's pool of leaders through recruiting, hiring, development, retention, and succession policies and practices targeted at producing leaders with the identified characteristics.

5. Communicate a shared vision that all employees, working as one team, can strive to accomplish. Promote a common understanding of the mission, strategic goals, and core values toward which all employees are directed to work as a team to achieve. Create a line-of-sight between individual contributions and the organization's performance and results.

6. Hire, develop, and retain employees according to competencies. Identify the competencies—knowledge, skills, abilities, and behaviors— needed to achieve high performance of mission and goals, and build and sustain the organization's talent pool through recruiting, hiring, development, and retention policies and practices targeted at building and sustaining those competencies.

7. Use performance management systems, including pay and other meaningful incentives, to link performance to results. Provide incentives and hold employees accountable for contributing to the achievement of mission and goals. Reward those employees who meet or exceed clearly defined and transparent standards of high performance.

8. Support and reward teams to achieve high performance. Foster a culture in which individuals interact and support and learn from each other as a means of contributing to the high performance of their peers, units, and the organization as a whole. Bring together the right people with the right competencies to achieve high performance as a result of, rather than in spite of, the organizational structure.

9. Integrate employee input into the design and implementation of human capital policies and practices. Incorporate the first-hand knowledge and insights of employees and employee groups to develop responsive human capital policies and practices. Empower employees by making them stakeholders in the development of solutions and new methods of promoting and achieving high performance of organizational missions and goals.

10. Measure the effectiveness of human capital policies and practices. Evaluate and make fact-based decisions on whether human capital policies and practices support high performance of mission and goals. Identify the performance return on human capital investments.

These 10 principles of human capital management demonstrate that the 9 organizations viewed human capital as the foundation for their ongoing success and viability. Because these principles could generally be applied in federal agencies without statutory changes in many cases, agencies need only adopt and adapt, if necessary, these principles to give human capital higher priority as they implement performance-based management to achieve success and higher performance.

Background

The human capital idea centers on viewing people as assets whose value to an organization can be enhanced through investment. As with any investment, an organization's goal is to maximize the value of its people to increase organizational performance capacity, and thus its value to clients and other stakeholders, while managing the related costs and risks.[3] Like many organizations, federal agencies are trying to determine how best to manage their human capital in the face of significant and ongoing change. Moreover, GPRA requires that agencies incorporate human capital management into their annual plans. This report is intended to provide perspectives on how some private organizations recognized for good human capital practices go about managing their people to achieve their missions and goals.

Scope and Methodology

To gather the requested information on private sector organizations' human capital management strategies and practices, we interviewed officials representing nine private sector organizations on their approaches to human capital management, using questions that we developed on the basis of our previous work on human capital. We provided these questions in advance, and we pretested them during the first of the nine interviews. We also analyzed documents and data that were provided by the

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[3] See Human Capital: A Self-Assessment Checklist for Agency Leaders (GAO/GGD-99-179, Sept. 1999).

organizations or that were publicly available, including annual and strategic planning documents, human capital policies, manuals, and other guidance. We did not independently verify the organizations' responses regarding their specific human capital strategies, policies, and practices, nor did we speak with the organizations' employees or unions regarding the organizations' practices. Our characterizations of the organizations' practices in this report are based primarily on what they told us they did.

We used a summary of the organizations' responses as our primary vehicle for identifying common human capital principles that described strategies or practices exhibited by five or more of the nine organizations. We prepared case illustrations to show how the organizations managed their human capital to respond to their unique circumstances and needs to achieve organizational missions and goals.

To identify the private sector organizations included in our review, we reviewed our previous work on human capital issues and completed an extensive review of the current human resources literature as well as published reports and case studies.[4] For example, we reviewed reports published by the National Academy of Public Administration (NAPA) and descriptions of Malcolm Baldrige National Quality Award winners. We then judgmentally selected the organizations to represent a range of industries, professions, and organizational sizes. Appendix I provides more information on the organizations included in our review.

The principles of human capital management that we have identified may not be generalizable to the universe of all private sector organizations, because we judgmentally selected the small number of organizations included in our review from a limited number of organizations that have commonly been recognized as leaders in the field of human capital. The selection of a different group of organizations might have yielded different principles.

We asked the representatives with whom we consulted to review and comment on a draft of this report. These comments are discussed at the end of this letter.

We performed our review in Washington, D.C.; Memphis, TN; Armonk, NY; Raleigh, NC; Bethesda, MD; Hoffman Estates, IL; Dallas, TX; Seattle, WA;

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[4]See GAO/GGD-99-179; GAO/GGD-96-35; and Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO/OCG-99-1, Jan. 1999).

and Rochester, NY; between April 1999 and October 1999, in accordance with generally accepted government auditing standards.

Principle 1: Treat Human Capital Management as Being Fundamental to Strategic Business Management

The private sector organizations included in our review said they integrated human capital management with their strategic and day-to-day business management efforts. Representatives of these organizations told us that human capital issues were of strategic importance to overall business management because recruiting, hiring, developing, and retaining employees who have the specific knowledge, skills, abilities, and behaviors needed to support missions and goals enabled the organizations to achieve high performance. For this reason, the organizations explicitly considered and incorporated human capital issues when developing their strategic missions, strategies, and core values as well as when designing and implementing specific policies and practices. For example, the organizations told us that they (1) included language on the importance of human capital as part of their corporate missions, (2) included human capital goals in their strategic plans, and/or (3) adopted core values and management models that incorporate human capital and strategic business management.

Case Illustration: Sears, Roebuck and Company

In response to Sears, Roebuck and Company's poor financial performance and increasing competition in the retail industry during the mid-1980s and early 1990s, representatives told us that the organization adopted strategic goals that focused on the importance of managing its human capital as a means of achieving a financial turnaround. Since that time, its three strategic goals were to make the organization a compelling place to work, a compelling place to shop, and a compelling place to invest. In adopting these goals, the organization recognized the importance of investing in the capacity of its people as a means of improving employee performance and satisfaction and ultimately satisfying the organization's customers and shareholders. The organization's top management team derived these goals, referred to internally as "the three compellings" or "the three Cs," on the basis of their human capital staff's evaluation of employee and customer surveys as well as financial data that demonstrated the value of proactively managing an employee-customer-profit chain. According to the representatives, the organization's top management team integrated human capital and strategic planning as it designed and implemented many of its organizational processes, including training and employee development programs, performance management programs, and systems for rewards and recognition.

Case Illustration: **Xerox Corp., Document** **Solutions Group**	According to a representative of Xerox Corp., Document Solutions Group, the organization adopted a management model to guide the design, implementation, and evaluation of its strategic goals and objectives in an effort to compete more effectively for both customers and skilled employees in the highly competitive and fast-paced technology industry. The organization's model included human capital as one of the key components that managers must address as a means of achieving organizational high performance. The model also included components on leadership, business process management, and maintaining a market focus. Each model component identified specific issues that managers were to consider as they implemented strategies and policies. Because the model was directly linked to the organization's overall mission and goals, its application was intended to keep managers focused on the achievement of those goals as they made strategic and day-to-day decisions. The representative told us that management teams used the model to assess their human capital needs regarding existing and needed employee competencies, training, and career paths, and the extent to which each business unit promoted an empowering work environment, as a regular part of their decisionmaking process.

Principle 2: Integrate Human Capital Functional Staff Into Management Teams

The private sector organizations in our review included human capital functional staff on management teams rather than isolating them organizationally. Representatives of these organizations told us that human capital staff must assume responsibility beyond providing personnel administration services by participating as full members of management teams and ensuring that those teams proactively address human capital issues. By acting in this capacity, the human capital staff could directly contribute to the development of a pool of employees who were capable and motivated to accomplish the organizations' missions and goals. For example, the organizations told us that they involved their human capital staff as decisionmakers and internal consultants by having leaders or members of their human capital staff (1) serve on senior executive planning committees, (2) consult directly with line managers regarding specific human capital strategies, and/or (3) offer expert advice via centralized human capital offices or Intranet sites.

Case Illustration: **IBM Corp.**	In response to IBM Corp.'s significant downturn in the early to mid-1990s during which it experienced business losses and a declining stock price, representatives told us that the organization placed a renewed focus on its human capital strategies and practices. To incorporate human capital issues into all strategic business planning and decisionmaking, the organization included its human capital functional staff on management teams at all levels of the organization. For example, the organization's

Vice President for Talent served on the top management team responsible for all high-level strategic business planning and implementation. The organization also organized a group of human capital staff, referred to as HR Partners, to serve as internal consultants and work directly with management teams throughout the organization. The HR Partners served on teams with managers and provided guidance and expert assistance on designing and implementing human capital programs that were legally sound and supported individual units' goals as well as the organization's overall strategic goals of improving profitability and market share within the computer hardware and software industries.

Case Illustration: Marriott International, Inc.

A Marriott International, Inc., representative told us that the organization integrated its human capital function with strategic planning and implementation efforts at both the corporate and operational levels on the basis of internal research that indicated staff performance was one of the primary determinants of the organization's business success. According to the representative, two human capital executives served as members of the Chief Executive Officer's senior executive committee to help that committee incorporate human capital management considerations into the organization's strategic plan. Human capital staff also contributed to the decisionmaking processes of the operational managers. For example, the organization required that business expansion plans receive the approval of the organization's human capital staff before they could be implemented. The representative told us that this policy ensured that any plans to build and open a new hotel included an analysis showing that the targeted area had a sufficient talent base of the employees—housekeeping, hourly staff, chefs, and managers—needed to support the proposed expansion and that the organization had the resources and ability to compete for that area's best workers.

Principle 3: Leverage the Internal Human Capital Function With External Expertise

The private sector organizations included in our review leveraged the knowledge, skills, and abilities of their human capital staff by seeking outside expertise from consultants, professional associations, and other organizations. Representatives of these organizations told us that such outside experts (1) provided cost-efficient and specialized expertise on an as-needed basis, (2) introduced a fresh perspective to addressing the organizations' human capital challenges, (3) allowed the organizations to benchmark their human capital policies and practices against those of other organizations, and (4) ensured confidentiality when obtaining employees' input on human capital issues.

Case Illustration: Motorola, Inc.	A representative of Motorola, Inc., told us that this organization uses outside consultants to augment its human capital staff when they do not have the knowledge, skills, abilities, or experience to support certain human capital initiatives. For example, the organization's Cellular Infrastructure Group tasked a team of senior leaders with identifying core leadership principles upon which to develop a cadre of leaders capable of sustaining the unit's long-term success. The group worked with several outside consultants in developing these principles. The team initially attended team-building activities led by contractor staff and held at off-site locations. The team also contracted with retired military officers to gain an understanding of military leadership principles. As part of this process, the organization's executives took guided tours of Civil War battlefields to learn how different leadership practices and styles influenced the outcomes of specific battles. On the basis of these experiences, the team identified leadership principles that were specifically tailored to support the organization's success at satisfying customers' increasingly complex needs in the fast-paced communications industry. While the organization could have researched and developed leadership competencies on its own, the representative told us that the senior leaders and human capital staff benefited from the contractors' first-hand and highly specialized expertise on team building and effective leadership characteristics.
Case Illustration: Xerox Corp., Document Solutions Group	A Xerox Corp., Document Solutions Group representative told us that the organization improved its human capital strategies and practices on the basis of external human capital expertise afforded through its participation in a national management award competition—the Malcolm Baldrige National Quality Award Program.[5] As part of the award process, the organization completed a rigorous self-assessment of its human capital and other business policies and practices (using award criteria) and submitted paperwork that was subsequently reviewed and commented on by outside examiners who were trained and experienced in quality management. A group of the examiners subsequently visited the organization to observe its operations and interview key employees. Upon the completion of that review, the organization received a written report that summarized what the examiners identified as strengths and weaknesses, relative to the award criteria, of the organization's various management policies and practices, including those related to human capital. According to the representative, the organization used this information to improve and strengthen its internal operations and maintain the competitiveness of its documents consulting business. The organization also adopted a modified

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[5] Xerox Business Services, which formerly included the Document Solutions Group, was awarded the Malcolm Baldrige Award for Quality in 1997.

version of the award criteria to continue guiding the design, implementation, and evaluation of its human capital policies and practices.

Principle 4: Hire, Develop, and Sustain Leaders According to Leadership Characteristics Identified as Essential to Achieving Specific Missions and Goals

The private sector organizations in our review considered developing and sustaining their leaders to be a critical success factor to effective human capital management and, ultimately, to achieving organizations' missions and goals. Each of the organizations identified its own unique set of leadership characteristics that it believed were essential for achieving organizational results and long-term success, and that served as the basis for policies designed to recruit, hire, develop, and sustain leaders who embody the identified leadership characteristics.[6] The organizations commonly established central training sites, or universities, that provided training specifically targeted at assessing, developing, and maintaining those leadership characteristics among their current and future leaders.

Case Illustration: Federal Express Corp.

Federal Express Corp. representatives told us that their organization used highly structured leadership development and succession programs to maintain a pool of employees capable of assuming positions as first-level managers and executives to ensure the organization's ongoing business success in the dynamic global express delivery industry. As the basis for all of its leadership programs, the organization identified core leadership competencies that defined the knowledge, skills, abilities, and behaviors that the organization believed its leaders must possess to effectively manage its global workforce. The organization required all first-level management candidates to complete a series of assessments, including a face-to-face interview, designed to determine the extent to which they possessed the identified leadership competencies. The organization used the assessment results to screen and select amongst candidates when filling open, first-level management positions. Senior executives were required periodically to assess the extent to which mid-level managers exhibited the organization's desired leadership characteristics (using an automated, Intranet-based tool), any unmet development needs, and their readiness for further promotion. The organization supported its leadership programs by providing internal training that focused on helping managers develop and maintain their leadership skills, and that included courses on teamwork, coaching, diversity, and personal effectiveness.

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[6] The organizations in our review generally regarded their specific identified leadership characteristics as proprietary and essential to their organizations' competitive advantage. Thus, we did not include examples of the specific characteristics they identified in this report.

Case Illustration: Weyerhaeuser Co.	In response to significant changes in needed organizational capabilities and an expected increase in retirements, Weyerhaeuser Co. representatives told us that the organization viewed leadership development and succession planning as essential to maintaining a cadre of leaders with the customer focus, interpersonal skills, motivation, and industry-specific knowledge needed to achieve the organization's ongoing success in the forest products industry. The organization centered its leadership programs on the use of individual employee development plans. Specifically, it required leadership candidates, with the assistance of their immediate supervisors, to complete individual development plans that outlined the candidates' career goals and their strategies (including training and developmental assignments) for achieving those goals. The candidates also received 360-degree feedback from peers, supervisors, and other employees with whom they worked on the extent to which they exhibited the leadership competencies that the organization identified as essential for competing and succeeding in the forest products industry. This feedback was gathered using a questionnaire, the results of which were used by the candidates and their supervisors to identify any deficiencies or needed amendments to the candidates' development plans. Thus, the individual development plans were living documents that were changed and updated to reflect each candidate's progress toward developing their full leadership potential.

Principle 5: Communicate a Shared Vision That All Employees, Working as One Team, Can Strive to Accomplish

The private sector organizations included in our review generally said they communicated a consistent vision about the organizations' missions, goals, and core values. As a result, representatives of these organizations told us that their employees had a shared or common understanding of how their individual—and more importantly, their combined—efforts contributed to the organizations' overall results and successes. The representatives told us that the organizations used several communication formats to build organizational teamwork, including formats that encouraged or enabled two-way communication between leaders and employees, to create a line-of-sight between employees' efforts and their organizations' outcomes.

Case Illustration: Federal Express Corp.	To build employees' sense of organizational teamwork in the face of their being physically dispersed around the world, Federal Express Corp. representatives told us that the organization viewed communication as a key factor in achieving the organization's mission and goals. To help employees understand how their individual efforts contributed to serving customers in the global express shipping industry, one of the organization's primary communication strategies was to establish a company television station, referred to as FXTV, that broadcasted a daily 5-minute message (via videotape) to all work sites. The broadcast was

repeated throughout the day to accommodate employees' varied work schedules. Senior managers also used the broadcast system on a monthly basis to hold town hall meetings or call-in shows that allowed employees to directly communicate with the organization's leadership. In addition to the organization's use of technology, the representatives stated that Federal Express also continued to rely upon its work-site managers to effectively communicate the shared vision of the organization with employees. Federal Express provided managers with printed material as a supplement to the messages televised on FXTV so that their communication with employees was accurate and consistent. According to the representatives, the organization believed that these broadcasts and employees' communication with managers encouraged employees to identify themselves as members of a larger team working together to achieve the success of the organization.

Case Illustration: Southwest Airlines Co.

Southwest Airlines Co. representatives told us that the organization believed that continuous formal and informal communication among and across all levels of staff was essential to instilling and maintaining their employees' strong sense of organizational teamwork, pride, and commitment that contributed to its ability to provide affordable airfare for its customers, job security for its employees, and profitability for its investors in the highly competitive passenger airline industry. Recognizing the difficulties of communicating consistently with employees who are located at geographically dispersed work sites and who may additionally be airborne at any given moment, the organization relied on multiple avenues of formal communication. For example, their communications staff published regular newsletters and other written publications; sponsored on-site bulletin boards; produced videotapes; and more recently, maintained a redesigned company Intranet. All communications were intended to keep employees informed of the organization's strategies, performance, programs, and current events. The organization also encouraged informal communications by sponsoring regular "celebrations" and community-based charitable events that provided increased opportunities for employees to interact with each other.

Principle 6: Hire, Develop, and Retain Employees According to Competencies

Given recent high employment labor markets, the private sector organizations in our review placed particular emphasis on maintaining a pool of employees who exhibited competencies—commonly defined in the private sector as including knowledge, skills, abilities, and behaviors—that they deemed essential to achieving their specific missions and goals. After identifying these competencies, the organizations implemented human capital policies and practices that were designed to competitively hire,

develop, and retain employees with the desired competencies within their industry and market locations.

Case Illustration: Marriott International, Inc.	A Marriott International, Inc., representative told us that the organization placed special emphasis on developing its employees' skills to support personal development as well as the organization's mission and goals of maintaining and expanding its market share in the lodging and hospitality services industries. Specifically, the organization adopted a career-banded pay system that explicitly identified the skills and abilities needed for broad categories of jobs and that was designed to focus employees more on achieving long-term professional development than on periodic pay increases. The system's career bands allowed employees to take lateral assignments that could potentially develop their professional skills and broaden their experience within the organization without necessarily affecting their rate of pay, as was often the case under the organization's previous pay system. The representative also told us that the organization planned to provide all employees with access to an assessment survey (originally available only to executives and managers) that he said would help employees identify their career development goals and develop action plans to help them achieve those goals. The organization also sponsored a variety of training opportunities, provided internally or by a contractor, that were intended to support all employees' career development goals.
Case Illustration: Merck and Co., Inc.	A Merck and Co., Inc., representative told us that in 1995, senior management concluded that the organization needed to develop the leadership skills of all of its employees to enhance their ability to respond effectively and efficiently to changes in the marketplace and successfully accomplish the organization's mission of developing drugs and other treatments to improve human health. To respond to this challenge, the organization developed a leadership model consisting of core competencies that guided the design and implementation of its recruitment, selection, development, evaluation, rewards, and retention strategies. For example, the organization explicitly evaluated all job candidates on the extent to which they exhibited the organization's identified competencies and hired those individuals whose behaviors, skills, and attitudes helped to fill certain perceived gaps in the organization's workforce. The organization's formal training and development programs also focused on developing those same competencies, and managers were required to work with employees in preparing individual development plans that did likewise. Decisions on informal rewards as well as merit and incentive pay were again linked to employees' performance regarding the core competencies.

Principle 7: Use Performance Management Systems, Including Pay and Other Meaningful Incentives, to Link Performance to Results

The private sector organizations included in our review used performance management systems, including pay and other meaningful incentives, to link performance to the achievement of the organizations' missions and goals. To promote this linkage, the organizations generally implemented pay for performance, profit sharing, variable pay, and/or some combination of these approaches as well as various incentive policies. The organizations commonly attempted to balance their pay and incentive programs to encourage both individual and team-based high performance. For example, the representatives of one organization told us that they specifically limited the use of cash incentives because they believed that (1) such incentives promoted internal competition at the expense of organizational teamwork and (2) employees might view extra cash payments as entitlements rather than rewards for exceptional performance.

Case Illustration: IBM Corp.

IBM Corp. representatives told us that the organization used a dynamic performance appraisal system tied to incentive pay to increase employees' accountability for and reward their success at personally aligning their efforts to support the success of their business units and the organization as a whole. After senior managers completed the annual strategic planning process, the organization required that all employees develop personal business commitments that described what specific contributions they would make to help their team, business unit, and the organization to achieve that year's strategic goals. Employees were then assessed on the extent to which they subsequently met their commitments during year-end performance appraisals, and managers used appraisal results to distribute any available bonus money within and across business units. Such a system is said to be dynamic because the standards for high performance change, and often become more challenging, from year to year. The representatives told us that allowing employees to set their own goals and limiting the percentage of employees eligible to receive an enhanced share of available bonus money motivated employees to set higher goals each year and ultimately enabled the organization to regain its profitability and ongoing viability after suffering business losses and stock price declines during the early to mid-1990s.

Case Illustration: Sears, Roebuck and Company

Sears, Roebuck and Company representatives told us that the organization's performance management system evaluated and rewarded employees on the basis of whether their contributions helped the organization achieve its three strategic goals of making the organization a compelling place to work, a compelling place to shop, and a compelling place to invest. The organization also evaluated the extent to which employees possessed certain competencies and how well they fulfilled

individual goals that they established with their supervisors. Employees were eligible for various cash awards, including stock options and bonuses linked to a specific store's financial performance. The specific performance appraisal and reward processes varied according to whether employees were full-time and salaried versus part-time associates. Moreover, the executive performance appraisal process also included a 360-degree feedback component that allowed their performances to be measured on the basis of input provided by supervisors, peers, and other employees as well as financial performance data.

Principle 8: Support and Reward Teams to Achieve High Performance

The private sector organizations included in our review commonly supported and rewarded teams as a means of achieving high performance. The organizations implemented a variety of mechanisms to promote doing work as teams, including the use of cross-functional (or matrixed) teams to address strategic goals or customer-specific needs, and team-based incentives and reward programs.

Case Illustration: Motorola, Inc.

A Motorola, Inc., representative told us that the organization often relied on cross-functional and cross-business unit teams to address strategic business issues, design internal work systems and processes, and meet customer demands more effectively. For example, the representative told us that two distinct divisions of the organization worked together to provide cellular services in Japan—one designed cellular phones while the other developed the cellular network infrastructure. These divisions formed teams, which also included external stakeholders, such as customer and supplier representatives, to align their efforts to meet customer demands. Also, to support and reward teamwork, the organization sponsored competitions in which manufacturing and service delivery teams established objectives and competed with each other on the basis of how well their team's members worked together to satisfy their customers. According to the representative, thousands of employees working in hundreds of teams representing organizational divisions worldwide entered the competition, and a group of these teams were recognized annually by being selected to participate in a final round that was judged by the senior management team.

Case Illustration: Southwest Airlines Co.

Southwest Airlines Co. representatives told us that the organization's employees viewed themselves as one unified team working together to achieve the organization's mission and strategic goals in the passenger airline industry. To support and reward employees for working together as one team, the organization explicitly incorporated maintaining teamwork as a component of nearly every human capital strategy. However, the organization believed that the key to maintaining its team-

oriented workforce was through carefully recruiting and selecting new employees primarily on the basis of their attitudes as opposed to their skills, which the organization believed could generally be taught either on-the-job or during formal training. The representatives stressed that pilots and mechanics were also required to exhibit appropriate attitudes in addition to clearly meeting skills requirements. The organization, with assistance from a consulting organization, identified the high performance attributes associated with specific jobs and administered a behavioral interview process to identify which job candidates possessed those desired characteristics. The organization generally hired 1 of every 50 candidates it interviewed. Moreover, the organization kept only those employees who fit its culture, and the representatives told us that employees who did not fit generally elected to leave on their own within a short time—about 20 percent of new hires left the organization during the initial 1- to 5-week training period and another 15 percent left within their first 6 months.

Principle 9: Integrate Employee Input Into the Design and Implementation of Human Capital Policies and Practices

The private sector organizations included in our review commonly sought their employees' input on a periodic basis and explicitly addressed and used that input to adjust their human capital strategies and practices. The organizations collected employees' input using employee satisfaction surveys, convening focus groups, and/or including employees on task forces. They sought to draw on employees' frontline knowledge of work processes and customer needs and to empower employees to contribute constructive ideas for improvement to the organizations' existing human capital policies and practices.

Case Illustration: Federal Express Corp.

Consistent with the Federal Express Corp. management philosophy that investing in employees leads to customer satisfaction and profitability, representatives told us that the organization explicitly considered employees' input when designing and implementing human capital strategies and practices to support its mission and goals. The organization used a structured survey-feedback-action process in which it periodically distributed a voluntary and confidential survey to collect employee views on managers, strategies and practices, and the work environment. The representatives told us that the organization began using this survey-feedback-action process in 1979 and approximately 97 percent of its employees elected to participate each year. First-line managers discussed the survey results with their employees to elicit employees' ideas on which issues were of most concern and what corrective actions were needed. Managers submitted this information, including who would be accountable for implementing each proposed action and within what specific deadlines, to the next highest level of management where implementation of the action plans was monitored. As an additional accountability measure, a

portion of the survey also comprised the organization's leadership measure; thus, survey results could affect managers' annual bonuses.

Case Illustration: Weyerhaeuser Co.

Weyerhaeuser Co. representatives told us that the organization included employees who represented multiple units on teams that were tasked with addressing human capital or business process challenges identified using employee satisfaction surveys because the organization believed it could improve efficiency and effectiveness and lower overall costs by more consistently implementing strategies and practices across its varied forest product units. The organization created task teams to develop new or redesigned strategies and practices to address perceived challenges consistently throughout the organization. The teams, which generally consisted of managers, employees, union representatives, and outside consultants, followed a structured process to define desired outcomes or measures of success for new/redesigned policies, identify and assess possible options, and consider any barriers or boundaries to successful and consistent implementation of the option they ultimately proposed. As part of their proposed solutions, the teams also designated individuals within the organization who should be accountable for ongoing implementation. The representatives told us that this task team process not only allowed employees to influence the organization's human capital practices, but also provided them with training and developmental opportunities that supported the organization's leadership development and succession programs.

Principle 10: Measure the Effectiveness of Human Capital Policies and Practices

The private sector organizations included in our review generally measured the effectiveness of their human capital policies and practices using a wide variety of approaches and indicators. They emphasized the importance, but also the difficulty, of developing fact-based measures by which to judge not only bottom-line results but also the success of specific human capital strategies and practices. The organizations' representatives told us that measures of organizational performance, outputs and outcomes, and customer and employee satisfaction helped their employees understand how their efforts directly contributed to the organizations' success. They also told us that the use of such measures helped hold managers accountable for designing and implementing human capital strategies that supported the organizations' missions and goals.

Case Illustration: Sears, Roebuck and Company

Sears, Roebuck and Company representatives told us that they evaluated the success and effect of their human capital strategies and policies using measures that they believed to be as rigorous and auditable as more traditional financial measures. The organization developed its human capital measures with the assistance of an econometric/statistical firm to

provide managers with information on the likely drivers of future financial performance. These measures included employee and customer satisfaction survey data as well as financial performance data. The representatives told us that, among other things, the measures consistently demonstrated that career advancement, responsive first-line supervision, and access to training opportunities directly affected employee satisfaction and ultimately supported the organization's ability to achieve its mission and goals in the highly competitive retail industry. Thus, the organization used its evaluation results to adjust its human capital strategies and practices to help the organization continuously improve its performance.

Case Illustration: Merck and Co., Inc.

A Merck and Co., Inc., representative told us that the organization periodically measured and evaluated the effectiveness of its human capital policies and practices because it believed that treating employees with dignity and respect would lead to high performance of the organization's mission to develop drugs and other treatments that improve human health. In 1999, the organization completed a global assessment of its human capital strategies and practices by visiting several of its locations throughout the world to collect employees' views on whether these policies and practices were supporting the organization's mission and goals. The global assessment consisted of convening focus groups of employees who were assembled to respond to a satisfaction survey and discuss in more detail specific results of that survey and the impact of certain human capital policies and practices. The representative told us that senior managers used employees' input to help identify the extent to which each human capital policy supported the organization's mission and goals and under what conditions. Moreover, the senior managers could opt to redesign or revise certain human capital policies on the basis of employee input to improve the organization's ability to achieve its mission and goals.

Observations

Representatives of the nine private sector organizations included in this review emphasized that their organizations strategically managed their human capital as a means to achieve success and high performance of their missions, goals, and core values.   The 10 principles of human capital management that we identified demonstrate that these organizations viewed human capital as the foundation for their ongoing success and viability.

The people that define agencies' character and capacity to perform—their human capital—are also the foundation for achieving high performance in federal agencies. Yet reforming the management of agencies' human

capital remains an unfilled gap in the recent overall management framework that Congress has created for federal agencies, which addressed financial management, information technology management, and performance-based management. However, the application of the 10 principles of human capital management identified in this report would not require statutory changes in many cases. Agencies need only adopt and adapt, if necessary, these principles as part of their efforts to give human capital a higher priority as they implement performance-based management. Although many factors ultimately contribute to highly performing organizations, agencies, like the private sector organizations we reviewed, could increase the likelihood of achieving success and high performance by incorporating these principles into the management of their human capital.

Organization Comments and Our Evaluation

We requested that knowledgeable representatives from each of the nine private sector organizations review and comment on a draft of the principles, case illustrations, and corporate information for accuracy and completeness. We received a mixture of written and oral responses from all of the organizations, and they agreed that the principles we identified and the case illustrations we provided accurately described the organizations' human capital strategies for achieving their missions, goals, and core values. Several organizations offered comments of a technical or clarifying nature. We made changes, as appropriate, to this report to reflect these comments.

We are sending copies of this report to the Honorable Janice R. Lachance, Director, Office of Personnel Management, and the Honorable Jacob J. Lew, Director, Office of Management and Budget. Copies will also be made available to others upon request.

Key contributors to this report are listed in appendix II. If you have any questions, please call me or Jennifer Cruise at (202) 512-8676.

Michael Brostek
Associate Director, Federal Management
  and Workforce Issues

List of Congressional Committees

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The Honorable Richard J. Durbin
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The Honorable Joe Scarborough
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The Honorable Elijah E. Cummings
Ranking Minority Member
Subcommittee on Civil Service
Committee on Government Reform
House of Representatives

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Private Sector Organizations

The following is summary information about the private sector organizations' respective industries, workforce sizes, and workforce compositions. The percentage of unionized employees varied among the organizations from 0 percent to 85 percent.
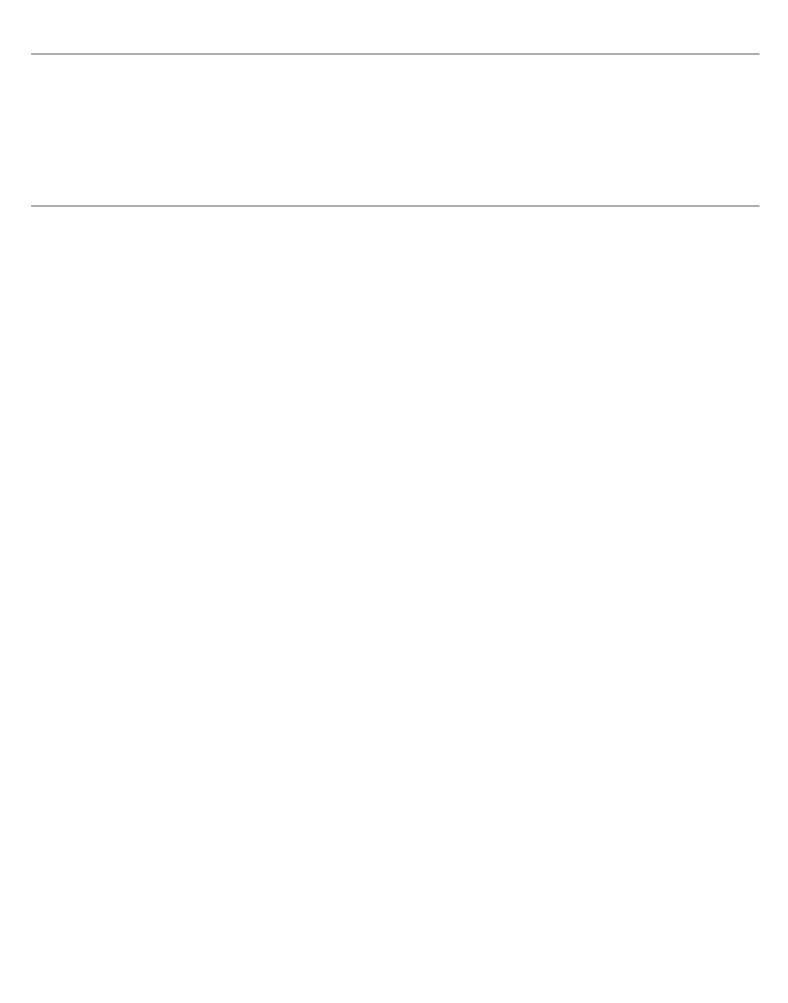
- **Federal Express Corp.**, a global express distribution corporation, delivers packages to approximately 210 countries each work day. The organization employs a workforce of 148,000 individuals worldwide, including couriers, package handlers, drivers, and pilots as well as corporate management.

- **IBM Corp.** creates, develops, and manufactures computer systems, software, networking systems, storage devices, and microelectronics among other information technologies. The organization also offers advanced technology consulting services worldwide through its professional solutions and services businesses. IBM employs approximately 300,000 individuals worldwide, including 150,000 employees in the United States, and has business operations in 164 countries.

- **Marriott International, Inc.**, is a worldwide hospitality company with a broad portfolio of hotels, resorts, senior living services, and food distribution services. The organization's workforce consists of over 140,000 employees, including hotel staff—hourly associates, supervisors, and managers—and corporate managers.

- **Merck and Co., Inc.**, is a global research-driven pharmaceutical company that discovers, develops, manufactures, and markets a broad range of human and animal health products. The company has a workforce of about 57,000 employees.

- **Motorola, Inc.**, is a worldwide provider of wireless communications, semiconductors, and advanced electronic systems, components, and services. The organization employs over 133,000 employees in approximately 50 countries throughout the world as technicians, software technicians, manufacturers, salespeople, marketing executives, project managers, administrative personnel, and corporate executives and officers.

- **Sears, Roebuck and Company** operates more than 850 retail department stores and 2,100 specialty stores, including automotive and hardware stores. The organization's workforce consists of approximately 330,000 employees, most of whom are part-time employees, in a variety of positions, including local sales associates, service technicians, credit specialists, and store managers as well as corporate executives and officers.

- **Southwest Airlines Co.** provides passenger airline service to 56 cities in the United States. With a workforce of about 29,000 individuals, the organization employs reservation agents, flight attendants, customer service representatives, mechanics, ramp agents, pilots, administrative staff, and corporate executives and officers.

- **Weyerhaeuser Co.** is an international forest products company that grows and harvests trees; manufactures, distributes, and sells pulp, paper, and packaging products; and constructs and develops real estate. The organization employs more than 35,000 individuals in the United States and Canada in a variety of professions, including production employees, construction workers, research scientists, information technology specialists, and operational specialists in areas such as finance, human capital, and corporate management.

- **Xerox Corp., Document Solutions Group** is a document consulting organization that provides business services, such as document outsourcing, systems integration, Internet and software assistance, manufacturing, and graphic artistry. The organization employs more than 20,000 employees, including copier and computer technicians, salespeople, manufacturers, administrative personnel, operational specialists, and corporate executives and officers.

GAO Contacts and Staff Acknowledgments

GAO Contacts

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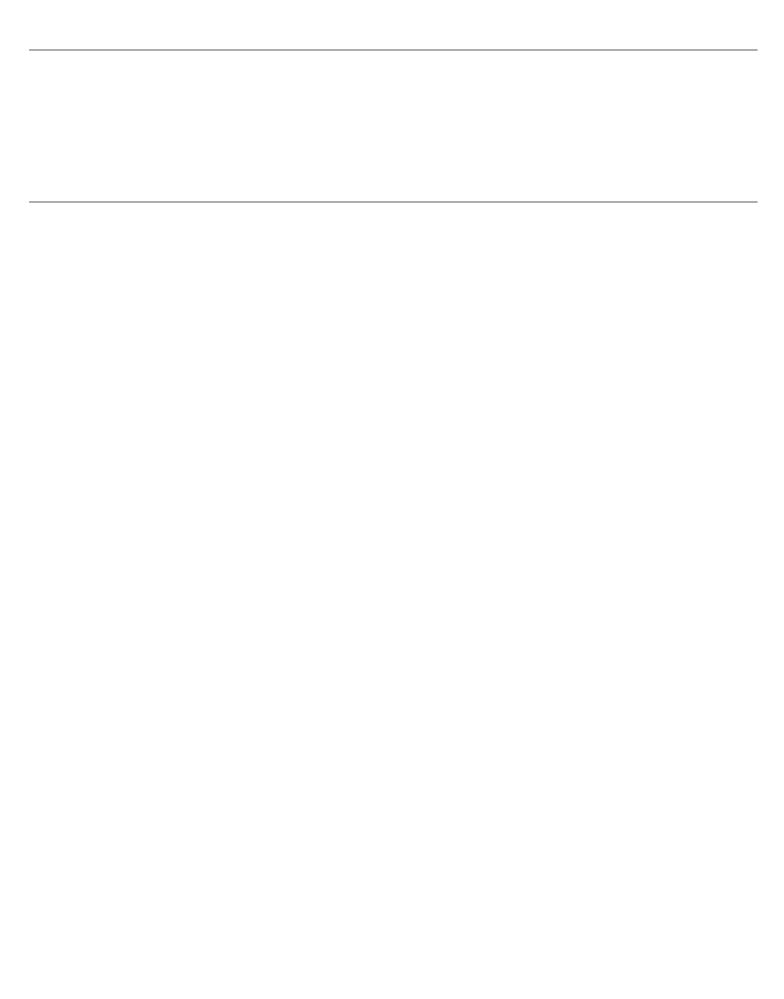
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