

Character-Driven Cultures Have A Competitive AdvantageSM

Changing times: changing trends

“Leadership of most organizations wants to recruit people whose values fit with those of the company, creating systems of recruitment, development, and compensation that are structured to encourage, strengthen and support this fit. A workforce developed over time becomes part of the organization’s competitive advantage, which means the traits of employees who engaged with the company are unique, not easily identified.”
(Employee engagement survey: Panacea, pretense or something else? The Saratoga Review, September 2007)

“The pace of change has accelerated dramatically in recent decades, producing seismic changes in business and society. One consequence of these shifts is that people are more important than ever to success. Their importance will only grow in the future.”
(Creating People Advantage: How to Address Human Resource Challenges Worldwide through 2015, Boston Consulting Group: study of 47,000 executives in 83 countries)

Even in the face of unprecedented progress and change in the new millennium, one truth has not changed: the heartbeat and life force of any organization is its people. Thus, the improvement of human capacity—increasing and ongoing investment in development of human talent (also known as “human capital”) is a necessary component of organizational success.

In today’s global climate, the human capital space is extremely fragmented and the evidence is in that the landscape requires a makeover. The overcrowded competitive nature of the human capital consulting business will require change and consolidation from organizations that once dominated in a particular area of expertise.

- Those organizations that want to lead will need to achieve breakaway performance that will drive a new vision and cost-effective integrated human capital solutions.
- Those organizations that remain focused only on providing human resource specialty services will lose their competitive advantage.
- Those organizations that resist change will be dead and gone.

Success Factors for Restructuring

The vision of an organization is critical to its long-term success. However, within a growing organization’s vision there must be strategies transcending the following traditional elements:

- ✓ Market trend studies
- ✓ Product offerings that are superior
- ✓ Sales, marketing and public relations strategies
- ✓ Cost-effective distribution methodologies
- ✓ Technology and operations support systems

The above elements of a successful business plan are certainly critical. Of equal, if not greater importance, are an organization’s human capital requirements.



As Price Waterhouse Coopers noted in their recent report, *Managing People in a Changing World: Key Trends in Human Capital, A Global Perspective—2008*, “A prime finding of this 2008 report is the growing recognition on a global basis of the undeniably critical role that human capital plays in the sustainability of organizations in all sectors of business and community-related activity.”

The 4 human capital drivers identified that will have the most significant influence upon organizational performance in the years immediately ahead include **leadership, engagement, talent management learning and innovation**.

The right people are an organization’s greatest asset and the wrong people its greatest liability! People truly are the differentiating success factor for any organization. Many organizations have had great ideas, products and services, but still failed to achieve the goals of the business due to human capital issues.

Beyond The Competitive Landscape (Operating above the Crowd)

“Enhancing workforce performance in today’s business environment requires: 1) an adaptable workforce that can rapidly respond to changes in the outside market; 2) leadership to guide individuals through change and deliver results; 3) an integrated talent model that addresses the entire employee life cycle and 4) data and information to deliver strategic insights and measure success.” (IBM Global Human Capital Study, 2008)

Future Achievement International® is taking an innovative lead within the human capital space by providing pioneering technology and human capital solutions that address all critical human capital needs identified above, within the essential framework of individual and corporate character as the core foundation of an organization’s vision, mission and corporate culture. Character has a direct correlation to performance, productivity, stock value and net profits!

“The most successful organizations manage their human capital as a strategic asset by aligning the workforce with business objectives and using measurement to drive decisions, monitor performance, and improve results.”
(*US Human Capital Effectiveness Report 2007/2008summary of results—Part 1 of 3 The Saratoga Review, October 2007*)

Future Achievement provides an innovative pre-employment assessment solution that helps organizations define the key success factors for each hiring position. This technology may also be thought of as a **prevention strategy** aimed at avoiding costly mis-hires. The cost savings from Future Achievement’s proprietary process will allow for other necessary internal human capital investments (i.e. employee development and succession planning), for which Future Achievement has developed a proprietary **intervention and retention integrated solution process** to meet the demand.

Attracting and retaining quality people is an important strategy to any organization. The key today in a mobile and ever-changing global business environment is for entrepreneurs to help others become *intrepreneurs* within the corporate vision. The only way for this to happen is to select the right people and then to create a culture in which others take ownership through empowerment and coaching support systems. Last, but not of lesser importance, successful human capital systems built within an organization will ultimately have a profound impact upon partners and vendors, as well as each employee’s family and the community at large. Each are vital extended customers whom an organization ultimately serves if the organization is to be successful long-term.

Culture Transformation

Changing a corporate culture doesn't only happen from simply hiring the right people. In many cases, it is changing an existing environment with the people you have. With an ever-changing economy and tightening job market, retaining your most important people is a critical issue facing organizations today!

Organizations cannot afford to lose their best talent, yet within many corporate environments key talent often believes that there are greener pastures elsewhere. Many people are more skilled than the challenges they are being asked to deal with so they find themselves in a high state of boredom or lack of purpose. Purpose-driven employees are vital!

Organizations must establish clear promotional paths that retain their valued talent and sustain the character foundation of the organization. The character of people within an organization is everything. For organizations to thrive character development must become a black and white issue...no longer can it be a gray issue!

Market Research Findings – Is There a Need?

1. **Saratoga Institute:** As much as 60% of the turnover at non-exempt levels is the result of “character-related” issues, such as relationship fractures, peer confrontation and self-absorption.
2. **Les Csorba, Heidrick & Struggles:** Fundamentally, what our customers are asking us is this: Can you look beneath the observable skills and talents of a candidate to tell us something about their character? *Les Csorba is the Author of a book titled TRUST – One thing that makes or breaks a leader.*
3. **Warren Bennis, Leader to Leader Institute (formerly the Drucker Foundation):** Many leaders have the drive and competence to lead. But too often, organizations elevate people who lack the integrity. Such leaders seldom last, for the simple reason that without all three, especially the moral compass, it is difficult to engage followers to sustain results.

Character Measurement Studies

(1) Kotter & Heskett – Study on Development-Oriented Cultures

- Relationship between character and business performance
- 200 companies – 11 year study
- Correlated primarily with profit and growth

Performance Measures	Focus	No Focus
Revenue growth	682%	166%
Employee growth	282%	36%
Stock price growth	901%	74%
Net income growth	756%	16%

(2) Collins & Porras – Study on Organizational Values

- **Test Group:** 18 pairs of companies in industry groups
- **Six Criteria:**
 - Consistency between stated values and character development efforts
 - Orientation of new employees
 - Reward and recognition for reinforcing character
 - Formal character development processes
 - Careful succession planning
 - Investment in human capabilities
- **Outcome Measured:** Stock value measured over time

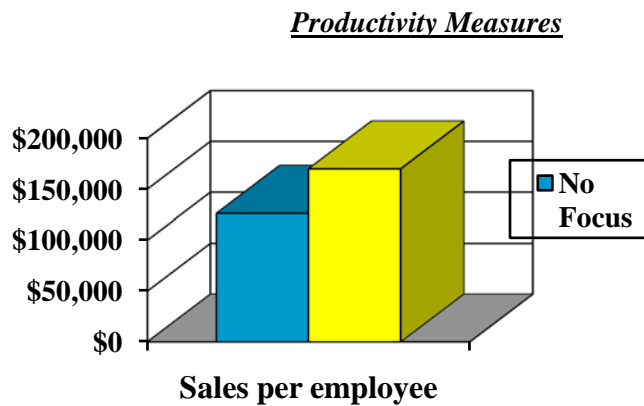
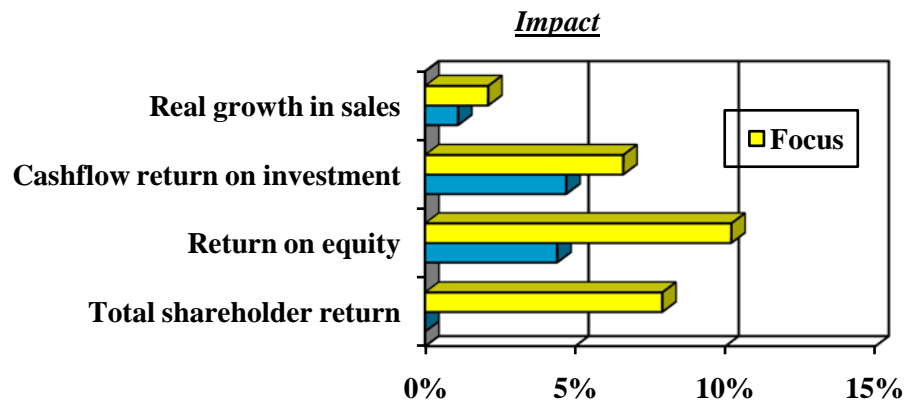
Criteria	Character & Values Companies	Comparison Companies
Consistency	13	2
Orientation	12	3
Rewards	8	2
Development	11	1
Succession	12	5
Invest in People	10	4

Character/Values oriented companies outperformed the stock market by 15 times.

Comparison companies outperformed the stock market by only 2 times.

(3) *Hewitt Study – Organizational Development*

- 232 companies with no formal leadership or character development process
- Compared with 205 companies which had intentional programs



(4) *Pfeiffer – Study on Competitive Advantage*

- Analyzed high performance stocks on the US market in the 1970's through 2004
- Measure: total return to shareholder (dividends + appreciation)

Star Performer Sample

Company	Shareholder Return
Southwest Airlines	21,775%
Tyson Foods	18,118%
Circuit City	16,410%
Plenum Publishing	15,689%

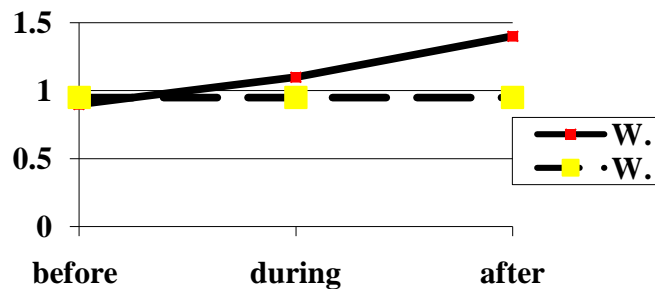
Findings

- All were late entrants into competitive markets
- Most common factor was the way in which these companies hired and developed people
 - ✓ Fussy selection based on character
 - ✓ Great training to reinforce values
 - ✓ Values rewarded when lived out
- Their employees are loyal and achieve great things

(5) *McDonald: Study on Succession Planning*

- Looked at companies before and after they had any focus on leadership development and succession planning related to character measures
- Compared company results to industry norms

Findings
Stock Relative to Market Index



In fact...

Character-oriented companies in these competitive advantage studies were

15 times

More likely to acquire and assimilate their competitors than being acquired themselves.

Implications of Studies

There is a clear pattern of greater profitability, competitive advantage and ability to attract the best workers within companies who invest in character development.

The Case for a Character Assessment

Companies like Citgo Petroleum and Starwood Hotels have already been forging ahead with interview approaches that are asking open-ended questions designed to learn something about a candidate's character as part of the hiring decision. They have sensed the need for the development of new tools that can help them get that done. Then and now, they are turning to professionals in the human capital consulting business looking for the solutions. At the root of the issue is a simple and important question?



Does character have anything to do with success and if so is it quantifiable and are their useful character assessment tools available to make better hiring and promotion decisions?

This question has caused search firms and related service providers to rethink the filters used in the recruitment and interviewing process. In fact, we are on the frontier now of experiencing potentially major shifts in what is being measured in the interview process. Concern over character will continue to dominate our culture and marketplace, as evidenced by the August, 2008 headline in the Austin American Statesman, the Texas capitol: "Recruiting Character Becoming As Important As On-Field Talent", in which the nation's top colleges candidly admit that recruiting top college scholarship talent is all about the recruiter's ability to judge a student's character.

So why has it taken so long to introduce character-oriented assessment tools into the mainstream of the hiring process? There are probably three main reasons:

- ✓ Unlike observable behaviors, character is often viewed as an intangible that cannot be easily correlated with desired business outcomes. That makes using such tools seem hard to defend in our litigious society.
- ✓ Until recent years, there may not have been enough high profile business failures associated with proven character collapse to get our attention. This is changing, as companies of all sizes have become public examples of what can happen when the necessary character safeguards are not in place.
- ✓ Until the popularization of more empirical studies associated with emotional quotient (Daniel Goleman and many others), it has not been widely understood how character can be measured and what influence it has on business.

➔ The Cost of Poor Character Reflected in Turnover

Employee turnover caused by character-related issues represents billions of wasted dollars to American business. That alone should suffice to motivate companies to address the problem. While there are differences of opinion in how the actual cost of turnover should be calculated on an individual level, the average of all reasonable estimates would be around 100% of a person's annual compensation when five key factors are included:

- New hire costs
- Direct recruitment costs
- Training costs to bring new hire up to the competency level needed
- Loss productivity costs due to an open position
- Lost business costs due to disruption of business continuity

Dattner Consulting President Ben Dattner summarizes the need as follows, "Tools that screen applicants for factors related to turnover are simply making an effort to lower the risk factors associated with 'wrong hires' and 'undesirable turnover.' *When we can tie individual test results to consistent projections of success related to desired business outcomes, we are essentially just trying to ensure that we are maximizing the hiring process.*"

Another side of this same issue is related to the losses associated with retaining the wrong people. Once a person of poor character is gone there is not much else they can do to hurt the organization. But a person of poor character who remains employed represents an internal irritant who can wreak financial havoc of far greater proportion than the cost attributed to their departure.

In our experience, even a company with relatively low turnover can have this problem in significant measure. Let's look at the following chart as an example.

- ❖ Our contention is that in any organization about 55% of the workforce is consistency competent and motivated while another 30% is marginal and the remaining 15% is either too new to have a measurable impact on results or unproductive and on the way out.
- ❖ If you examine the roots of why 45% of the employee population is new, marginal or unproductive, you will find a high correlation between character and outcomes because a person's character, as much or more than their training, is at the core of their performance.



We can expect an acceleration of these trends as more hard data are added to an already abundant supply of proof that character not only matters but that selected attributes of character are strong predictors of success in the workplace.

The Evidence is Overwhelming and Compelling!

The evidence is clear that *character-driven cultures have a competitive advantage*. Future Achievement's innovative value proposition helps organizations converge several human capital best practice initiatives regarding recruitment, employee development and succession planning. The client offering favorably affects an organization's culture (*character-driven*) and provides an integrated process to help measure the effectiveness of their human capital investments.

Future Achievement has developed several proprietary solutions to help organizations to:

- Build a character-driven culture by hiring the right people
- Maximize the performance and productivity of current employees
- Prepare future leaders to carry out the mission of the organization



Business goals for our clients:

- ✓ Reduce hiring practice risks and costs (15% - 40%)
- ✓ Assess character competencies and behavior traits in addition to job skills
- ✓ Expose the candidate's degree of "fit" within an organization's culture in advance of hiring
- ✓ Decrease turnover expenditures (minimize wrong hires)
- ✓ Minimize litigation for improper employee lawsuits
- ✓ Protect current board of directors and leadership team from ineffective employee practices

Maximizing Employee Resources...Implementing Transformation

For more information go to www.futureachievement.com