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# MAKING MILLIONS BY MINING MANAGEMENT COMPETENCY DATA

How a leading financial services company harvested 360-degree feedback data to generate $1.05 million in economic value per sales executive.

By Lawrence P. Clark and Michelle Weitzman

With the broad implementation of 360-degree feedback instruments over the past two decades, many large organizations are sitting on reams of data that hold critical clues to identifying and developing their best performing employees. But the vast majority of companies using 360-degree feedback instruments fail to fully exploit the information these tools produce – the data is most often used for developmental reviews, and seldom for increasing productivity or generating incremental revenue.

After realizing this shortcoming, a Fortune 100 financial services company launched an initiative to link their existing management competency data to key performance metrics. *Their goal was simple – they wanted to see if competencies could correlate with individual financial production.* The resulting analysis paid immediate dividends: the global company uncovered ways to slash annual turnover costs by nearly $600,000 per field manager, and boost its first-year sales commissions by more than $460,000 per manager.

The seeds of the initiative were sown by a curious senior executive who asked a novel question after his company had been using a 360-degree feedback system for several years: *"Management competencies are useful on a personal basis, but how do I know which ones make a difference to our* organizational performance *and our bottom line?"*

The question proved revelatory: it propelled the company through an initiative that established clear links between the 360-degree developmental reviews of its field managers and the revenue generated by each of their respective sales offices. In essence, they were able to establish the ways in which low-performing, average and top-performing field managers differed from each other based on how well each group understood and performed select management competencies that were assessed during developmental reviews.

This project contains rich object lessons for human resources (HR) executives looking for new ways to harvest existing management-competency data to strengthen their own organization's bottom line.

## The 360-Degree Review

The company's 360-degree tool evaluates each executive on 67 management competencies with the following five-point scale.

| Skill Rating | Definition Used in 360 Questionnaire | Importance Rating | Definition Used in 360 Questionnaire |
| --- | --- | --- | --- |
| Towering Strength | The learner is outstanding in the area, a model, one of the best you have ever seen – people might seek out this person for guidance in this area. A rare skill; a gift; anyone who knows this person well would rate this as a "Towering Strength." | Mission Critical | It would not be possible for someone to perform well in this job if they did not have better than average skills in this competency and the other essential skills; this competency would be a "have to have" to do well. |
| Talented | The learner has notable strength in this area; better than most. The Learner could be a coach in this area. Might select this person for a team just for this special talent. A clear majority of people who know him/her would agree with this rating. | Very Important | Having this competency would be very important in order for someone to perform well in this job. The job could be done well without this if the person had other essential skills. |
| Skilled/OK | The learner does what is expected; about like most others. If everyone performed this well on key skills, the organization would be competent and successful. Different raters might disagree on this rating, some seeing it a talent, some as a weakness. | Useful/ Nice to Have | Having this competency would help this person perform better in this job but is not essential. The job could be done well without this if the person had other essential skills. |
| Weakness | Almost everyone has a few of these, i.e., not always up to standard on everything. The results have fallen short, and opportunities have been missed because of this weakness. The Learner is working on improving this competency. With normal development, this could be raised at least to "Skilled/OK." | Less Important | This competency is not used very much or is not very often in play in this job. Even if this person were low in this skill, it would not have much effect on job performance. |
| A Serious Issue | There is a serious, pressing need to improve in this area; it is hurting performance. The Learner does not understand this area, does not accept the need, or does not know what to do about it. If it remains an issue, his/her career could be stalled or stopped. Almost everyone who knows him/her would agree with this rating. | Not Important | This competency is not used or is not in play in this job. Even if this person were low in this skill, it would not affect job performance. |

This competency data was traditionally used to guide the personal development of individual field managers, as it is at most companies that use similar instruments. Like most companies, the financial services firm's 360-degree feedback data lay dormant after the executives and their HR and development colleagues pored over the results and identified areas for personal improvement.

## Research Design

In their attempt to link productivity to management competencies, the financial services company asked two key research questions:

- *Which competencies drive revenue?*
- *Which competencies drive the retention of high-performing sales people?*

These questions reflect the two most important measures used to determine the amount of compensation the company's 120 field managers receive. For these field managers, their incentive compensation was being tied to the productivity of the salespeople they hired (measured by sales commission), as well as the retention rates of those salespeople.

The goal was to see if the management competency data collected on the field managers during their 360-degree feedback process could be linked to the productivity and retention of their salespeople. In order to establish this link, the company conducted three separate analyses.

First, the 360-degree feedback data was used to identify, and then rank in decreasing order of importance, the management competencies each manager used the most, and how well they performed each competency (based on feedback from their superiors, colleagues, direct reports and customers). These competencies were organized into three categories (Figure 1), to reflect the qualities that were rated as being the most important, culturally, in the 360-degree feedback analysis:

Figure 1

**Competencies: What People Think is Important**

| Business | Leadership | Personal |
|---|---|---|
| Drive for Results | Managing Vision and Purpose | Time Management |
| Decision Quality | Developing Direct Reports | Perseverance |
| Hiring and Staffing | Motivating Others | Integrity and Trust |
| | Building Effective Team | Ethics and Values |
| | Directing Others | |
| | Managing Diversity | |

Next, the competency ratings for individual executives were then correlated (using regression analysis) to the field manager's individual performance in generating first year commissions (FYC) and retaining high-performing sales people.

The company pored through first year commission and retention data to identify which competencies were highly related to generating revenue and holding on to top-performing salespeople (Figure 2, below).

**Figure 2**

**Competencies: Related to FYC and Retention**

| Business | Leadership | Personal |
|---|---|---|
| Drive for Results | Managing Vision and Purpose | Time Management |
| Decision Quality | Developing Direct Reports | Career Ambition |
| Hiring and Staffing | Command Skills | Innovation Management |
| Timely Decision Making | | |
| Priority Setting | | |
| Managing and Measuring Work | | |
| Organizing | | |

Finally, the company analyzed the similarities and differences among below-average, average and above-average-performing field managers based on two sets of management competencies:

1. Those competencies that all field managers believe are important
2. Those competencies that actually correlate to high sales commissions and retention rates

### Results: Clear Lines between the Best and Worst

Comparing these lists generated useful insights. First, only six management competencies appear on both lists; that is, only six management competencies are both held in high esteem from a corporate culture perspective and correlated with bottom-line performance.  As a result, the company learned that its field managers' success depends in large part on how well they perform these six competencies: Drive for Results, Decision Quality, Hiring and Staffing, Managing Vision and Purpose, Developing Direct Reports, and Time Management.

The company also learned that there are several management competencies that while held in high esteem from a corporate culture perspective, do not necessarily correlate with successful financial performance – and vice versa.

Certain leadership and personal competencies – including Motivating Others, Directing Others, Perseverance, Integrity and Trust, and Ethics and Values – essentially qualify more as "tickets to the game." These competencies are necessary to get hired and operate within the corporate culture, but they are not sufficient to sustain high performance. If executives are to also succeed in elevating the organization's financial performance, they must exercise additional business competencies (including Timely Decision-Making, Priority Setting and Managing and Measuring Work) as well as leadership (Command Skills) and Personal (Career Ambition and Innovation Management) competencies.

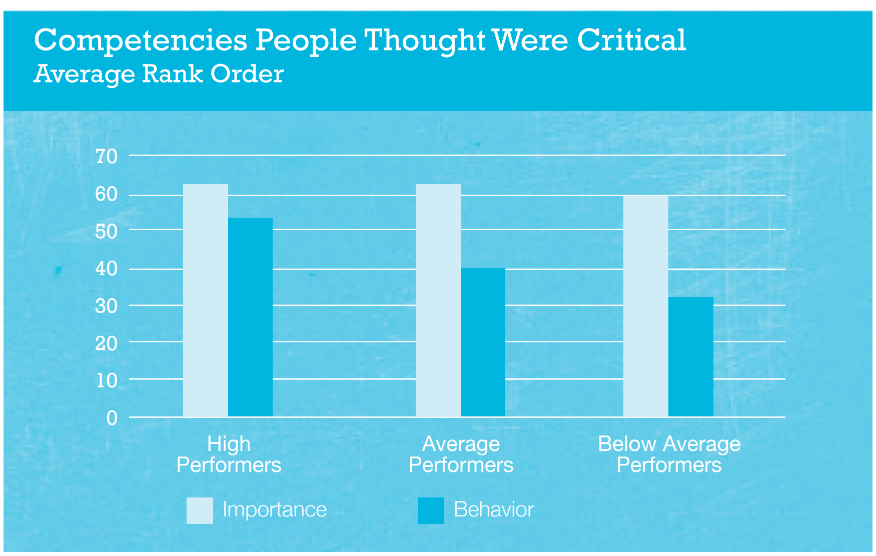
Those insights also hold clues to how the organization can better equip below-average and average-performing field managers to elevate their performance.

## Final Results: High Performers 'Get it'

The final analysis identified similarities and differences among below-average, average and high-performing executives. The company uses these insights to make more informed hiring, training and development, and promotion decisions.

The first comparison below shows the difference between the three groups (below average, average and high-performing) on the competencies that people think are critical (Figure 3). The chart highlights two points. First, all three groups agree – almost identically – on the importance of the 13 competencies that the entire population of field managers identified as most important. This suggests cohesion: field managers are on the same page in terms of understanding which management competencies the organization values. Second, and no surprise, high performers do a better job of exercising these important competencies than their average and below-average colleagues.

### Figure 3



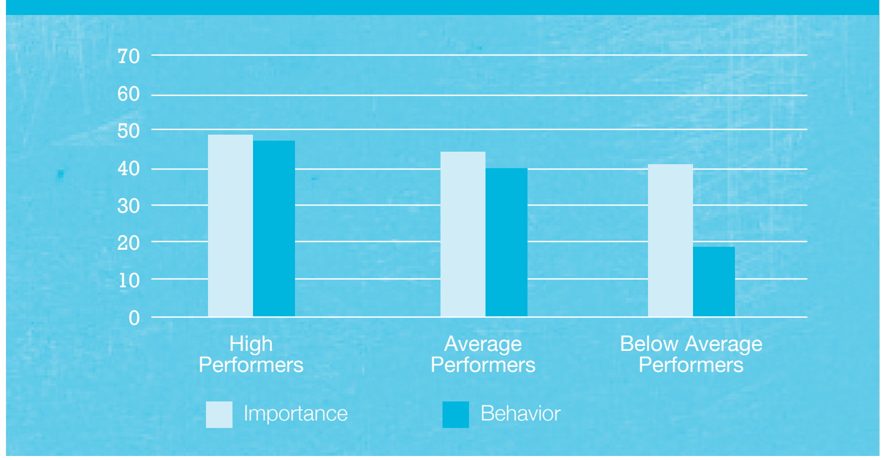

*(Note: Taller bars reflect higher ratings on Importance and Behavior.)*

The second comparison shows the difference between the three groups on the competencies that correlate to higher commission and retention rates (Figure 4). The comparison indicates that high and average-performing executives tend to value management competencies correlated with profit generation more than low-performing executives. That is, they tend to rate as important a higher number of the 13 competencies related to first-year sales commission and retention rates.

However, below-average performers differ from their better-performing counterparts in a crucial area: their behavior. Compared to the other two groups, below-average executives receive much lower behavior or performance ratings in the competencies that drive profit.

### Figure 4

**Competencies That Actually Drive Performance**
**Average Rank Order**

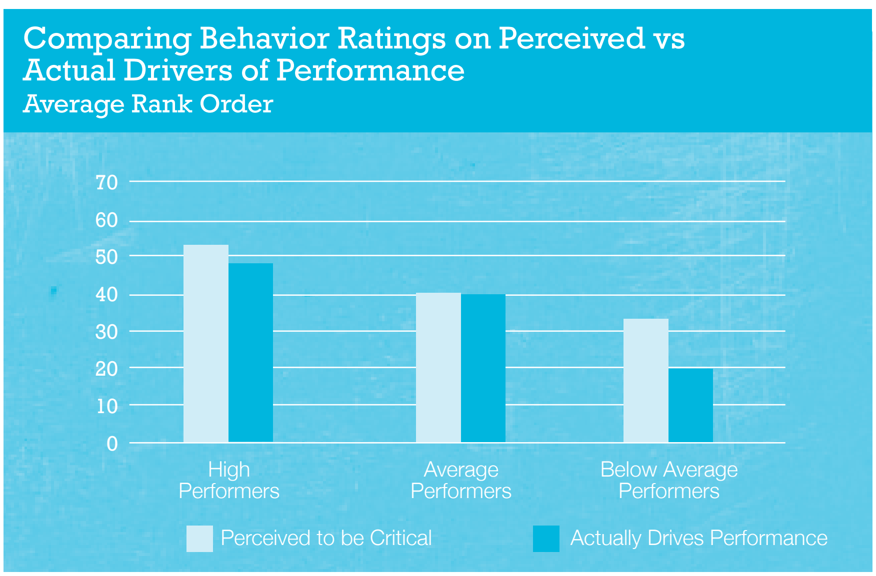



*(Note: Taller bars reflect higher ratings on Importance and Behavior.)*

The third comparison (Figure 5) examines the degree to which the different groups understand which competencies actually drive the company's bottom-line performance. This comparison indicates that high performers excel at the competencies that the organization values and at the competencies that actually drive revenue and reduce turnover costs.

While low performers perform fairly well in areas that the organization values, they fall short in performance areas that actually drive revenue and reduce turnover costs.

Figure 5




*(Note: The taller bars reflect higher ratings on Perceived and Actual Drivers of Performance.)*

A final analysis determined that executives who excelled in the competencies linked to retention and sales commission measures generated seven times more economic value (the combination of increased revenue and decreased turnover costs) than their counterparts who excelled only at the competencies deemed important (but not correlated to profit).

## Improvements of $1.05 Million per Executive

In addition to generating some eye-opening insights, the analyses also laid the groundwork for training and development plans that deliver real and significant economic value.

For example, the regression analysis indicated that the list of 13 key competencies explains 54 percent of the difference between superior performance and average/low performance on the first-year sales commission measure; the analysis also explained 30 percent of the difference between superior performance and average/low performance on the retention measure.

By training and developing each average or low-performing executive to become one standard deviation better on the key competencies that drive performance, the company can generate an additional $467,000 per executive in first-year commissions while reducing turnover costs by $580,000 per executive.

Combined, those two improvements generate slightly more than $1 million in economic value per executive.

The analyses and improvements translated to real money for the financial services company. Few companies have yet to pursue similar translations, yet they can. The personal development information that 360-degree instruments and similar tools generate represents only a portion of the potential value this data offers.

HR executives who harvest this data – which already exists in many organizations – can help maximize the value of these investments while directly improving their company's bottom line.

## LESSONS LEARNED

1. Management competencies matter. By linking management competencies to financial performance measures, a leading financial services company determined which competencies delivered greater value from the organization's bottom-line perspective.

2. Management competencies are misunderstood. The initiative shows that there is a clear difference between management competencies that are perceived as important ("tickets to the game") and management competencies that actually drive profit. The analysis also indicates that many executives, even high performers, do not understand the difference between these two categories of competencies.

3. Competency models require fresh thinking. Too much of the competency modeling conducted today simply models the company's culture – while neglecting the company's bottom line.

4. Competency data is valuable. The financial services company extracted valuable insight from information that already resided in its databases. As more companies seek to mine their own competency information for profitable insights, they should continue to collect as much data as possible on all of the competencies they evaluate.

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