

Human Capability Valuation and Performance for Organization Success

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A recent and exceptional [Summit on Workforce Valuation and Performance](#) conference at the Ross School at the University of Michigan brought together thought leaders from multiple disciplines (government regulators, attorneys, economists, statisticians, investors, academic researchers and consultants in strategy, information, and HR) to explore the topic:

“To get even basic information about the workforce to enable valuation and to guide investment decision-making. We need better information on the twenty-first century economy to inform capital allocation, policy, research, and management. That is the premise behind this gathering.” (Thank you to Jerry Davis as sponsor and host.)

To make progress on this important agenda of accessing information to assess and build organizations for the twenty-first century economy, three questions arise.

Question 1: What is organization?

Determining what information to collect starts with a clear definition of what constitutes an organization. This definition of what comprises an organization seems simple: “An organization is a setting where I work, play, learn, live, shop, and worship.” But underneath this definition are five assumptions or views that define “organization,” each with a model and framework so that information can be collected to improve how organizations operate (see figure 1). Figure 2 offers images, exemplar authors, and representative books for each of the five views.

Figure 1:
Five Definitions of an Organization

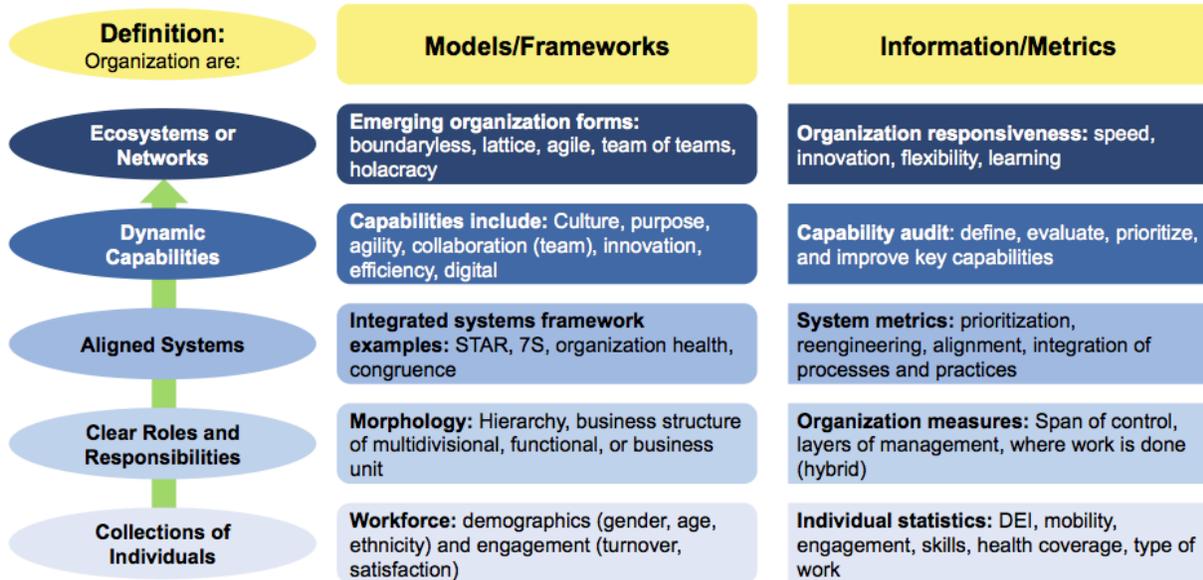
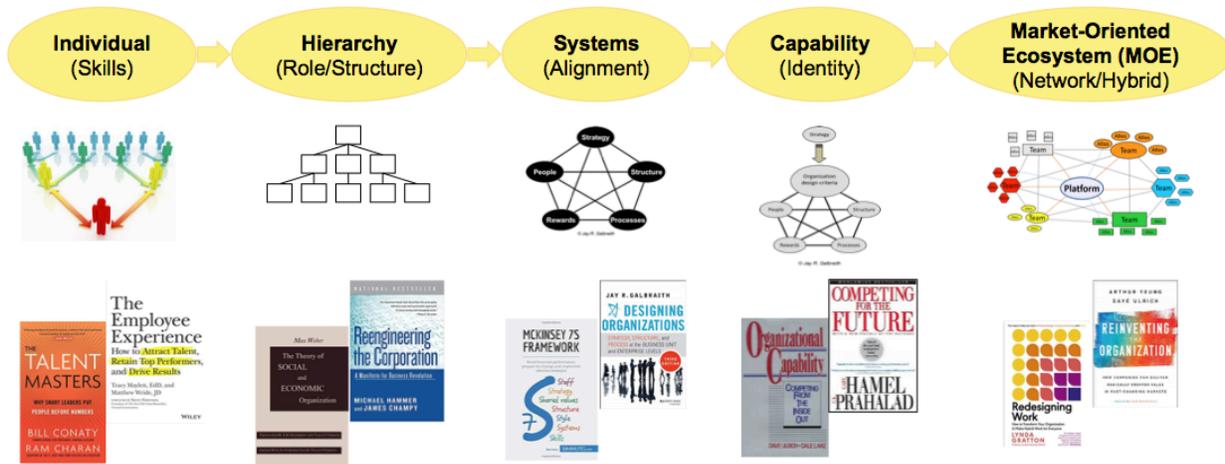


Figure 2:
Logic of Organization Form



Without a clear and accepted view of how to define an organization, different people will examine organizations and source information, like the [ancient Buddhist parable of blind people](#) touching an elephant and having different interpretations. For example, the statement framing this summit (“*information about **the workforce** . . . to inform capital allocation, policy, research, and management*”) is based on a definition of organization as collection of individuals rather than the other four views.

Each of the five organizational views is a legitimate way of defining and collecting information on organizations. However, creating and agreeing to a standard framework

and language of what makes up an organization has profound implications. A classification framework is the basis for scientific inquiry by organizing otherwise complex ideas into actionable categories (see figure 3 for examples in a number of settings).

Figure 3:
Value of a Classification Framework

Diet	Four food groups: fruits/vegetables, dairy, grain, meat/protein	Entire diet/nutrition industry
Financial Reporting	Financial reporting (GAAP): balance sheet, income statement, cash flow, shareholder equity	Accounting/auditing/financial services industry
Personality	"Big five" personality traits: openness, conscientiousness, extroversion, agreeableness, neuroticism	Entire personality assessment industry built on these five traits
Risk	Treadway commission (COSO): compliance, strategic, operational, financial	Risk management industry
Social Responsibility	ESG, UN Social Development Goals: seventeen areas to focus on	Rise of ESG / social responsibility industry
Human Capability	Piecemeal efforts focused on activities and metrics and not framework	Splintered industry

As noted in the last row of figure 3, we don't have a generally accepted classification typology for organizations that would:

- Focus attention on what information to collect to improve organization operations.
- Avoid piecemeal (single item) measures of organization.
- Organize innovative initiatives (e.g., skill-based organization, hybrid work, digital efficiencies) into accepted categories for evolving and cumulating insights.

We have proposed [a human capability framework](#) that cuts across the five views of organization and classifies a myriad of people and organization initiatives into four pathways:

- Talent: human capital, workforce, employee, labor, and individual competence or skill
- Leadership: individual leaders at all levels and collective leadership reputation
- Organization: capability, workplace, culture, teamwork, and system
- Human Resource: HR practices, department, analytics, and people

Within this human capability framework, new and innovative initiatives will inevitably emerge, while the four pathways can remain relatively stable (much like new diets will emerge but the four food groups remain stable). Figure 4 shows 38 initiatives in the four human capability pathways.

Figure 4:
Four Human Capability Pathways and 38 Initiatives



The human capability framework integrates the five views on organizations (see figure 5) and offers a robust definition of organization that can “enable valuation and to guide investment decision-making” as this summit proposes.

Figure 5:
Integration of Five Views of Organization into Human Capability Framework
(Four Xs allocated for each row.)

		Human Capability			
		Talent	Leadership	Organization	HR Function
Views of Organization	Ecosystem	X		XX	X
	Capability	X	X	XX	
	Systems	X	X	X	X
	Hierarchy		X	X	XX
	Individual	XX	XX		

Question 2: Why does “organization” matter? Who will use the information collected?

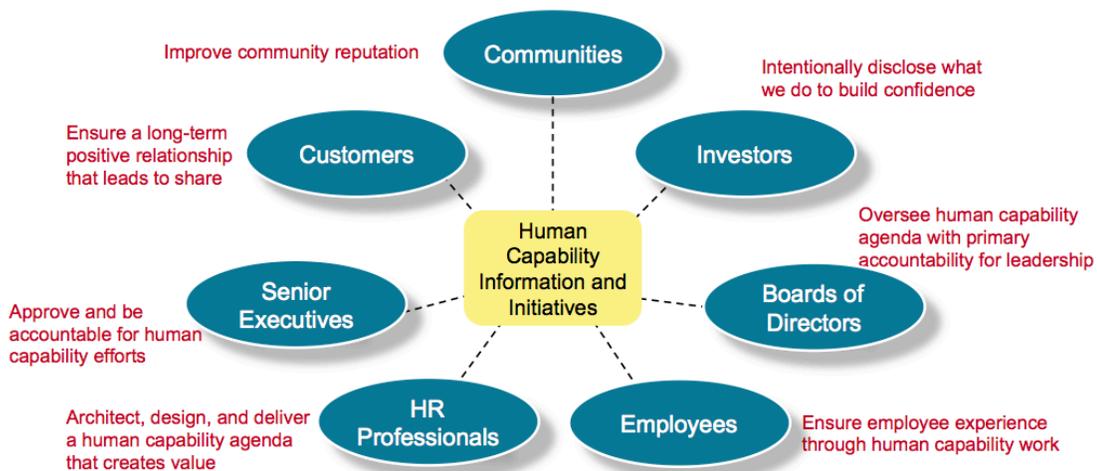
With a clear definition of “organization” (as human capability suggested in figure 4), information can be collected “to inform capital allocation, policy, research, and management.” Often, information is collected based on what is available rather than what has impact. An [old joke goes like this](#):

A policeman sees a drunk man searching for something under a streetlight; he asks the drunk what he has lost. He replies that he lost his keys, and they both look under the streetlight together. After a few minutes, the policeman asks if he is sure he lost them here, and the drunk replies, no, and that he lost them in the park. The policeman asks why he is searching here, and the drunk replies, “This is where the light is.”

Likewise, looking for information in existing databases is easy because they are relatively effortless to access. But this information may not help organization stakeholders make better decisions. This is like adding up and reporting uniform numbers for competing sports teams; the information is accurate and easy to access but not relevant to winning the game.

Relevance comes by identifying organization stakeholders who will use human capability information to make better decisions. Organizations interact with an array of stakeholders who each get unique value from their interaction with the organization. Information about human capability investments should be linked to the value created for each stakeholder (see figure 6).

Figure 6:
What Each Stakeholder Receives from Improved Human Capability



Question 3: How do we better access information on “organization”?

Defining what organization means and offering relevant insights to stakeholders shapes what information to collect and why it matters. How to access such information becomes the next challenge. Five different data collection tools come with pros and cons.

Figure 7:
Information Collection Methods for Human Capability

Collection Method	Primary Purpose/Outcome	Pro	Con
Existing data	Access current databases (discussed above)	Available and often reliable data	May not lead to relevant insights
Observation	Inductive: Explores options as case studies	Identify issues that others may not see	Not scalable across firms or time
Interviews	Idiographic: Deep dive into case study	Explore cause and effect	Limited to an individual experience
Surveys	Deductive: Predictive analytics that confirm and test patterns in data	Provides graphs and charts about what has happened or might happen	Limited to questions asked, sample, and analytics tools
AI/natural language processing	Validate what people/ organizations do (not say) at scale; scrape or score databases to determine what has been done	Scalable and reports content, context, and evidence without survey biases	Newer methodology not fully deployed; relies on accessing reliable data; some technology limitations

The bad news is that each of these information collection methods has limitations. The good news is that they can be combined to help business and HR leaders make more informed human capability decisions. We have worked with numerable clients through interviews and tailored advice to improve their specific human capability agenda. We have done extensive, large-scale surveys to offer norms and guidance for how human capability investments deliver stakeholder outcomes (called the Organization Guidance System: www.rbl.ai).

More recently, [working with AWS](#), we have utilized AI and NLP to scrape data from 7,000 firms reporting their human capital to the SEC in 2021 and 2022 (see figure 8 for high-level summary).

Figure 8:
SEC Human Capability Scores 2021 and 2022
(7,000 firms with 1 to 10 score for each cell)

	Total Score	Talent	Leadership	Organization	HR
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20	SEC Average	5.49	5.48	5.49	5.50	5.48
21	SEC Top 10%	8.36	8.14	8.57	8.33	8.42
20	SEC Average	5.49	5.48	5.49	5.50	5.48
22	SEC Top 10%	8.35	8.10	8.54	8.34	8.41

With this large database and AI methodology, we found that the total human capability score explains 44 percent of employee productivity, 26 percent of cash flow, and 25 percent of future investor confidence.

What does all this mean?

This article contains a lot of information around how to make progress on human capability valuation and performance. In this exceptional Summit and other settings, talented colleagues are exploring ways to provide “*information on the twenty-first century economy to inform capital allocation, policy, research, and management.*”

The three questions we raise at least partially answer and provides progress on this important effort.