

Linking Behaviour to Bottom Line Performance

Increasing Profits per Employee

Human Capital Benefits

- > Increase profits per employee
- > Link behaviour to the bottom line
- > Quantify the amount of friction in teams
- > Optimise the deployment of people
- > Raise the quality of working relationships

Please note, this document is intended to accompany the human capital demonstration of the Visual Team Builder. This can be found at the link below.

<http://www.fourgroups.com/capital>

While profits per employee are a good measure of human capital, the real challenge is knowing how to increase them.

Human capital

As organisations grow, retaining and improving financial performance becomes increasingly difficult. The need to develop efficient processes and to generate superior returns are just two examples of this.

The challenge of balancing size and financial performance is compounded by two other factors. The first is that capital is no longer a scare resource. While capital always seeks the best returns, its supply and availability has

increased such that it is unlikely

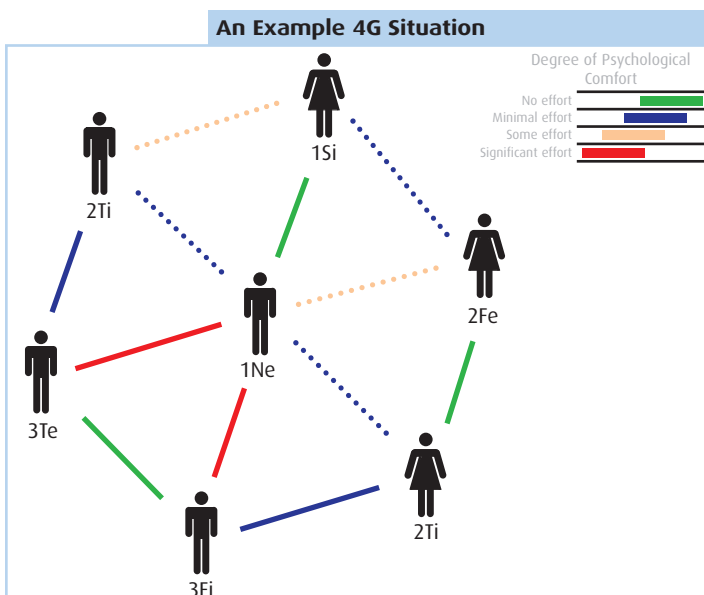
As an antidote, one might place greater emphasis on the role of intangibles and human capital as a focus for driving continued success.

In light of this, the importance of intangibles and their impact on financial performance only increases. When we speak about intangibles, we do so with the idea that brands, technology, innovation, knowledge and intellectual property all contribute significantly to the profits and competitive advantage of their respective owners. What is also apparent is that underpinning these intangibles are the people who make them a reality.

The second is the increasing speed of technological innovation and competition. The upshot of these factors suggests it is becoming tougher to maintain superior per-

If the superior management of people outlines one possible route to improved organisational performance, how can we measure and define this financially? Perhaps the simplest answer is to look at profits per employee. When measuring intangibles or human capital, profits per employee has a number of advantages.

- It can be compared over different periods and benchmarked against com-



Increasing Profits per Employee

petitors

- Comparing across different capital structures and accounting rules is possible
- It takes into account different sized organisations

While profit per employee is a good measure of human capital and the contribution it makes to financial performance, the real challenge is knowing how to maximise its impact.

Our solution

In order to raise profits per employee, Four Groups have created a formula linking people's behaviour and their relationships to measures of financial performance. Called Relationship Friction, the formula allows organisations to ask 'what if' questions about the best means of deploying their people. In answering the questions, the formula outlines a series of steps that generate an increase in profits and profits per employee.

What is the human capital application for Relationship Friction?

By linking Relationship Friction data to existing financial measures such as revenues or costs, it is possible to link the behaviour of individuals and groups to the bottom line. Having placed a financial value on a historically intangible

measure (you can't manage what you can't measure), two broad applications for human capital follow.

The first application looks at linking behaviours to indicators such as revenues or costs for example. The focus is on how people are best deployed and what tasks and roles provide the greatest financial return. The formula for Relationship Friction makes it possible to create more financially efficient circumstances for teams and individuals. In the case of teams, it is possible to manage team composition, reporting lines and overall organisational design against the backdrop of Relationship Friction and financial performance. From an individual perspective, lowering each individual's Relationship Friction contributes to an increase in their own and overall group performance.

While Relationship Friction lends itself very well to groups and teams whose performance has a direct link to a financial measure, showing a return on human capital when this isn't the case requires a different approach. In this instance, activity based costing and profits per employee provide a method to link the performance of these groups back to a financial measure. Activity based costing enables a more precise application of Relationship Friction. However, if this is not available, an

Who are we?

Four Groups work with a new approach to human capital. Our focus is on measuring and increasing the economic returns from intangibles such as behaviours, relationships and culture.

aggregate or segmented calculation of profits per employee can also be used.

Many organisations are likely to have a combination of groups, some of whose performance is directly linked to a financial measure and some whose performance isn't. However, the two groups can be combined, allowing an entire organisation to manage and increase their profits per employee. This is done regardless of how the organisation is structured and how its financial information is measured.

How does Relationship Friction work?

The formula for Relationship Friction is based on a new approach to behaviours, relationships and culture called 4G. Collecting the data pertaining to 4G is the starting point before one can calculate Relationship Friction.

Collecting the data for 4G is a very quick and simple process. People generally need an hour, split between a short briefing, an online personality questionnaire and a feedback session. When using 4G for Relationship

Increasing Profits per Employee

Friction, there is also a need to know the relevant individual's salaries. Once this data has been collected, it is possible to calculate and analyse Relationship Friction, making specific recommendations and changes as appropriate.

While the exact formula for Relationship Friction is proprietary to Four Groups, Four Groups are happy to make it available to interested clients, if requested.

What is 4G based on?

Building on the information for Relationship Friction, 4G is a proprietary approach to predicting relationships, behaviour and group cultures. Based in part on the work of Swiss psychiatrist Carl Jung, 4G incorporates measures of people's strengths, creativity, motivation and weaknesses. The model contains 16 definitions of individual's behavior, 14 different relationship types and 4 examples of group culture.

Four Groups Ltd
5 St. Johns Lane
London
EC1M 4BH, United Kingdom

Tel: +44 (0) 20 7250 4779
Email: contact@fourgroups.com
www.fourgroups.com