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Spotlight: In Conversation with Dr. Mark Huselid

Dr. Mark Huselid is an authority on return on investment (ROI) for HR practices since long before ROI became a rallying cry. He will be among the top educators leading the Queen's Industrial Relations Centre (IRC) High-Impact People Practices program this September. Dr. Huselid is Associate Professor of HR Strategy in the School of Management and Labour Relations at Rutgers University, and has for many years been doing original research in the linkages among HR management systems, organizational strategy, and firm performance. He is co-author of the bestseller *The HR Scorecard: Linking People, Strategy and Performance*.

Queen's IRC spoke with Dr. Huselid recently about measuring HR's impact – his topic for this fall's program – and about highlights of his latest research. His new book, *The Workforce Scorecard: Creating a Human Capital Scorecard for the CEO*, will be published next year by the Harvard Business School Press.

When you say HR measurement, what do you mean?

Before we can define the term, I think that we need to start

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with a shared understanding about what we mean when we say HR. In our field, unfortunately, this is not always clear. When we use the term 'HR,' for example, we might be referring to the function, to the people in the HR function, to the organization's workforce, or to the profession – but we use the same word.

When I say measuring HR, I'm thinking about measuring the contribution of the firm's workforce to business success. For me that's much broader than measuring the outcomes of the HR function. Historically, most businesses have focused on the latter. You hear questions from senior leaders who say, 'Well, you spent \$20 million on training last year – what are you delivering to the business?'

That's really a question probing the HR function, and for me, it's not really possible to answer it unless you really understand what the firm's business is, its strategy, and how people and their behaviour at different levels and in different categories throughout the business contribute to firm's success. Only at that point can you sensibly begin to answer the question of what HR delivers to the business.

How do you go about measuring the effectiveness of HR?

There are different roles in any organization, and the contribution of each role will likely be measured differently as well. For example, in a pharmaceutical company, value is created in one way in the R&D function, and in quite another way in the legal function, and in still another way in manufacturing. Each of those three elements is really crucial: if you don't design better compounds in new drugs, you've got nothing to sell; if you can't move them through the legal process, you'll never get them on the market; if you don't manufacture drugs of flawless quality, you are in deep trouble. The question is, What are the human

capabilities and competencies in each one of those three roles – and there certainly may well be others – that really drive firm success?

Once we know that, the hardest part is over. I tell people that coming up with the measures is the easy part of the process, and they always roll their eyes at me. Then once we go through it, it starts to dawn on them that coming up with specific measures once you know exactly what you are trying to measure is not the challenge. The challenge is to really understand what drives the organization's success, however the organization defines it, and then asking, 'How are we going to put markers along the road to help people understand where they are in the process?'

The answer to the question, 'How you go about measuring HR?' will be different depending on the organization. That's why I'm so critical of broad-brushed benchmarking efforts. They don't capture that richness.

Do HR practitioners like to think that everything they do supports strategy?

Yes, but in fact, a lot of behaviours might be counterproductive. The thing is that without measurement, you just don't know. Lots of organizations have found that things they have done, and thought historically they had to do, just make no difference. And conversely, many weren't doing things that really were important.

What progress have you seen in the field as a result of research such as yours that demonstrates the value of measuring HR?

I'd say there's increasing recognition that just measuring the HR function doesn't answer the key questions that are raised by business leaders. When you think about it, if you

are the CEO of a corporation, you don't care what it costs to hire an employee. You care about having competent, capable, committed employees who stay with the company and are happy and share values and vision, and if you have to pay more to get those folks, my guess is that you will be okay with that.

So if the HR leadership comes to you and says, 'Well, we've just reduced cost per hire,' your response is going to be, 'That may be terrific, but I need to know that you've maintained or increased quality.' That's the distinction: today there's really a greater focus on the workforce, and even more so on strategy execution, that really drives the business.

What skills and competencies do HR professionals need to implement strategy and to design and implement tools such as the HR Scorecard?

They need critical thinking skills, systems thinking skills, and the ability to understand causal relationships in organizations. I say that because the HR function is really unusual: it's different than any of the other functional areas in the business in that we're helping to hire, develop, select, and maintain the organization's leadership. In most businesses, the senior leadership team, primarily, was hired anywhere from five to 20 years ago, so the decisions that are made in conjunction with HR and line managers really have an enormously long shadow in the organization.

So what you really need to understand are the long-term implications of hiring for the position as opposed to hiring for the firm, for example, or hiring for a certain skill set we need today versus hiring for a skill set we might need sometime in the future. And you need to see how development and training procedures link with that process. There are all those types of questions, so looking over the

horizon and thinking about being able to meet challenges we haven't even identified yet is really one of the key issues here.

Are there other competencies HR practitioners need to develop?

One needs to have a basic understanding of statistics, and one certainly needs to have a broad understanding of the business and its processes. A lot of times I'll go into a workshop and ask the HR team, 'Tell me about your most profitable products, what kind of customers does your company want to keep and what kind it would rather transition to competitors,' – these are the kinds of business-related questions that folks really need to be able to answer, as they are central to the development of a world-class measurement system.

How can HR professionals develop the needed competencies?

I think that executive education is a huge lever here. Somehow, some way, we need to systematically develop these kinds of skills among the HR leadership. They don't just fall out of the sky. Historically, HR is unusual in that out of all the professions, it's one of those areas that doesn't necessarily have a functional or credentials specification before entry. For example, most firms wouldn't hire a leader in marketing without a degree in marketing, or finance or accounting, but HR has always had people coming from different areas. That's not bad – it can be great – but what it says to me is that we need to think more carefully about the capabilities we have, and the functions, given that that is the case. We can't simply assume that the key competencies are there.

Could you give us an example of a company that's

doing a great job in thinking strategically and measuring its HR?

Microsoft and IBM are doing some terrific things. So is SYSCO, a foodservice company that delivers food to grocery stores and restaurants that operates mainly in the States. You have to have in your mind's eye what this company is doing; they have people working in warehouses and in trucks delivering foods to grocery stores and restaurants. So for them, the face of the company is these drivers – not a corporate person, but Jane the driver who has been on this route for four years. What SYSCO has been able to do is really clearly articulate what they are trying to do in the business and to begin to estimate the magnitude of the relationships between the key variables in the process – how much is a great driver worth to us as opposed to an average one? And that knowledge has helped them to push and figure out where to spend their limited training and development dollars because they really know where it will pay off.

Some say it's a waste of time to try and measure the effectiveness of intangible HR activities. How would you respond?

What I would say is this: the market value of intangibles, R&D, brands, patents, and, primarily, HR, has increased dramatically over the last 15 years. An example of the most popular bellwether of intangible assets is the market-to-book ratio – this is the book value of assets divided into market value. Right now, for example, on average, for every dollar shareholders have invested in hard assets, the stock market says that investment is worth \$6 or \$6.5 (for the Standard and Poors 500). What that means in practical terms is that \$5.5 out of every \$6.5 isn't captured on organizational balance sheets. This figure is much larger in high tech companies.

What I take from this statistic is that conventional accounting systems, which were really designed over 100 years ago primarily to meet the needs of large industrial companies, are a miserable failure when we're interested in managing and valuing knowledge-intensive organizations. We've got many more Microsofts being created these days than U.S. steels, and in an economy that's dominated by intangible assets, we've got to develop accounting systems that reflect this new reality. To argue that the process is a waste of time is a bit like saying that the value of a university can be captured by the value of the bricks and the mortar. The real harm here is that conventional HR metrics can lead to a misallocation of people in organizations, which can lead managers to do things of that aren't in the long term interest of either people or shareholders. Widespread layoffs would come to mind, for example. There is a wealth of literature now that shows that knee-jerk layoffs diminish shareholder value over the long term. But we continue to see them.

It doesn't mean it's easy to fix the problem, I hasten to add, that but there's really an opportunity to make a difference.

What exciting developments do you see on the HR horizon?

I think there is a lot of interest in measurement. I see that people are trying to manage systemically as opposed to linearly. By that I mean that traditionally, compensation managers, benefit managers and recruitment managers in big companies all tended to go their own separate ways and optimize what was in front of them. But I think leaders now are starting to say, 'You know, we have to manage the bundle. Optimizing all of these separate pieces might leave us with a heap instead of a hole, and so we need to think about how the pieces fit together and whether they really do drive strategy.' And that's why people get interested in

measurement – because they don't know how they are doing.

Are you saying that strategic HR is the most significant development we are approaching?

Strategy and strategy execution provide a framework for people to begin to think about what they are doing, and that's new. Perhaps it shouldn't be new, but for all the different functional areas of the business, things have gotten so competitive that they have to do it. They aren't just doing this because they've always done it this way, they're doing it because – and then fill in the blank. Most firms are reasonably comfortable with the idea that knowledge is now what makes the difference. Think of the consulting firm versus a type of commodity business. In that kind of world, you really have to think over the horizon and make sure you really know what you are doing, because if you don't, somebody else will overtake you.

Your new book, *The Workforce Scorecard: Creating a Human Capital Scorecard for the CEO*, is coming out next year. How does it advance the model you introduced in your previous bestselling book, *The HR Scorecard: Linking People, Strategy and Performance*?

The basic difference is that *The Workforce Scorecard* is designed around senior line managers, and focuses on this idea of strategy execution through measurement and metrics. The *HR Scorecard* was focused more on senior HR leaders, but the new book is focused on the shared accountability for the workforce – shared accountability between HR and line managers. We have designed the book to ask, 'Ok, what kind of culture do we need, what kind of employee attributes do we need, how will we get them, what's the optimal investment in people – not the minimal one – and what types of capabilities and

behaviours do we need for A players' – excellent performers in what we call A jobs, or jobs are those that are really mission critical. We're really focused on making sure we have A performers in A roles – and on designing measurement systems for strategy execution.

Do you have other key findings from your new book you'd like to share?

Here's one of the interesting things that we found. If you think of a firm's strategy having a couple of pieces, one piece is, 'What business are we in?' That's the choice variable, and then the second part is, 'How do we execute? How do we get that done?' Firms can go wrong or right on either one of these. What we found is that generally, firms get the choice part right because there are not that many choices to make for most businesses. But the difference between firms lies in the extent to which they execute effectively. We found that strategy execution has six times the economic impact of choice.

If you think about it, the choice variable is, 'We're going to be an Internet service provider or we're going to be in paper products,' or whatever. Managers usually make those discrete choices, and then they execute them. So execution is a relentless part of the process, whereas choice is kind of discrete: you make it and go along and change or don't change. However, historically we have focused – both academically and as practitioners – on choice. So that's a very significant finding.

