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Stand Up for Human Resources

Investments in "human capital" add to the bottom line, says author/professor Mark Huselid.

Mark A. Huselid, co-author (with Brian Becker and Dave Ulrich) of the new book "The HR Scorecard: Linking People, Strategy, and Performance" from Harvard Business School Press, is associate professor of HR strategy at the School of Management and Labor Relations at Rutgers University and editor of the *Human Resources Management Journal.*

UBIQUITY: How are human resource groups typically perceived within organizations?

MARK A. HUSELID: While historically HR functions may have had a less than stellar reputation in many organizations, we've seen some significant improvements in recent years. But we're not where we need to be yet. The irony is that as intangible assets become more important, people are starting to come around to the notion that "human capital", that is, the firm's human resources, can be the primary source of competitive advantage. It is one of the important ways of differentiating an organization from its competitors. But the perception of the HR function in the broader organization hasn't necessarily caught up to new vision yet. There are many different reasons for that, but one of them is that they've often been treated as cost centers. Line and HR managers need to shift their focus from thinking of HR as a cost to be minimized and embrace the idea that investments in human capital can be a significant source of value creation for shareholders.

UBIQUITY: What is the problem?

HUSELID: Think of it this way. If the human capital objective of an organization is to have a committed and capable workforce that understands the firm's strategy and where it's going and buys into the vision and mission -- one of the key issues is to what extent the HR function is helping to grow that kind of workforce. But the responsibility for generating that kind of workforce is not the HR function's role in total. Creating that kind of workforce is a shared responsibility between line managers and HR managers. HR managers will often tell me that they've developed great performance management techniques or great employee compensation plans or wonderful measurement systems, and yet have a hard time getting line managers to buy in and to help implement those systems.

UBIQUITY: It sounds frustrating. Is HR a good career choice right now?

HUSELID: Absolutely. I teach at Rutgers and we have professional master's degree in HR strategy with about 250 students currently and there are many more jobs, even given the recent market slump, than our graduates can fill. The opportunities in the area of HR are terrific and the HR profession is on a substantial upturn.

UBIQUITY: At the beginning of your book you stress the importance of making sure there's alignment between the company's strategy and the human resource group's goals or performance. How does an HR group actually do that?

HUSELID: The key to alignment is to educate the individual employees throughout the entire company. If you're a senior HR manager your primary goal must be to create more of what we call employee strategic focus. You must help every employee in the organization to understand what her job is and how it contributes to firm's success. You can't do that by yourself -- you've got to partner with line managers to get the work done, and the task begins with being very clear about what those strategic objectives are and how people create value.

UBIQUITY: Give an example of a typical strategic issue?

HUSELID: Let's look at banking. Banks have changed quite a bit in the last 10 or 15 years. For one thing, they've moved a lot of transactions online. The result is that transactions that actually happen within banks tend to be more complicated and richer because if they're easy the customer handles them over the phone or with an ATM. That raises the bar about what teller staffs need to know. They have to do a better job of cross selling. They have to do a better job of customer interface. There's a lot more technical knowledge required compared to what was required 10 years ago. It's quite a challenge. Yet we often have an HR system that's captive to the old way. For example, we might have an HR system that tries to hire people at the lowest possible cost, whereas to implement strategy they need to hire the best people -- which can often cost more money and take more time. That's an example of a disconnect that alignment would help to cure.

UBIQUITY: Can you think of a company that's doing a wonderful job of getting it right?

HUSELID: There are several. Sears is probably one of the best examples. It's done an excellent job of being very clear about what that "customer moment of truth" is supposed to look like. It's developed a competency model around that with a performance management and training system and a measurement system that captures what value is, from the perspective of the customer. Verizon (the old GTE) has also done a terrific job in creating alignment through the use of people measurement and management systems.

UBIQUITY: Is there any technology company that does as well as Sears?

HUSELID: Historically, IBM has done a very good job, but I don't know where it is now since it's been a while since I've been part of that. I've heard Microsoft does a good job, but living in the East I tend to do more work with pharmaceuticals and banking and financial services.

UBIQUITY: Those are all large companies. Do you find that the larger the company is, the better it's able to put together a human resource department that works?

HUSELID: That's an interesting question. I'm not sure if it's an issue of size as much as that it is one of diversity. Sears has somewhere in the area of 330,000 employees. That is a huge organization, by any measure, but since the company is focused entirely on retail and is contained entirely within North America, it is therefore able to roll out a fairly cohesive and comprehensive way of managing people despite its huge size, not because of it.

UBIQUITY: And smaller companies?

HUSELID: I know of some small companies that are 10 to 20,000 employees -- much smaller than Sears -- whose lives are much more difficult because they're diversified across differing industries with different strategies. Once again, the operative word is "strategy."

UBIQUITY: You and your co-authors, Brian Becker and Dave Ulrich, offer a seven-step model for implementing HR's strategic role. Let's go through the model. We've already talked a little about step 1, which is about the importance of aligning human resources with the organization's business strategy. Is that a point that ever needs debating?

HUSELID: Actually, yes. The strategic alignment step sounds like a throwaway line in that absolutely everybody says you need to be clear about strategy, but saying and doing are two different things. What we found in our research is that when you put senior managers in a room and ask them to talk about their strategies and priorities and, more importantly, how they're going to measure the outcomes of their attempts to implement those strategies and priorities, there's a lot more variance than one would expect. Often senior managers think they agree on strategy but as soon as they start talking about performance measures they find that they don't.

UBIQUITY: What would be an example?

HUSELID: A good example would be the conventional dichotomy between lowering cost and creating value. Take an R&D function where some managers have a business model that throws caution to the winds, while other managers think that lowering cost is the high road to profits and therefore the high road to success. Both of those groups share the overall goal of increasing shareholder value, but they have different causal maps in their head about how that happens.

UBIQUITY: How do you resolve the differences?

HUSELID: You begin by flushing them out. When you get those discussions going, you can often get some of these things on the table and begin to see why managers behave in different ways because they have different priorities about how value is created. Obviously, that process has got to happen first before you can begin to nail down a valid measurement system to monitor how the organization is doing.

UBIQUITY: In your book, you say that the second step is to build a business case for HR as a strategic asset.

HUSELID: Right. The idea is that HR managers would probably like to think that everything they do is important, but that may not be the case in all instances because some organizations are simply much more human capital-intensive than others. In this step, we're asking people: Given that you know your strategy and your operational goals, how does the behavior of people create value? What's the business case for investing in those companies? We try to get people to be explicit about that.

UBIQUITY: In a confused and depressed (or let's just say repressed) economy, does the strategic value of HR tend to go up or down -- and also does the perception of its value then tend to go up or down?

HUSELID: It's been so long since we've been through a downside that it's hard to know the complete answer to this question. We do know quite a bit about the behavior of managers, and when you invest in human capital -- such as through a management program for senior executives -- you structure the deal in such a way that you spend money now in the hope and expectation that you're going to create value over the next several years. The way those expenditures are treated by the accountants is that the amount is expensed, in its entirety, up-front, so that we pay for it completely this year, as opposed to having it be depreciated over a period of time -- and we have to wait for the results.

UBIQUITY: So what happens?

HUSELID: What happens is that when times get tight people begin to cut back on expenses like training. When the business cycle turns down, so does investment in people -- even if that's not a good thing.

UBIQUITY: Your third step is to create a strategy map. How does a strategy map work?

HUSELID: A strategy map is just an engineering term for understanding what the causal chain of events is. For example, we hire people to create value, which creates revenue, which creates earnings. Of course, that's a quite generic level of analysis and any business would have a model like that. A strategy map is designed to go much, much deeper. Once you understand what business you're in and what your strategy is, then you begin to understand how people create value. We ask folks to break it down and say, "What causes what in that relationship?" Not just that more training is good, but how does training affect revenues and what are the specific steps?

UBIQUITY: Do the persons that articulate human resource perspectives usually get heard at the highest levels of management?

HUSELID: Increasingly, yes. HR managers have been saying for years that they want to have a seat at the table. What that means in HR speak is that they want to be there when senior managers talk about both strategy formulations and strategy implementation. What managers are increasingly finding, in my experience, is that as our world has become more and more competitive it has become much more difficult to create value through the traditional sources of revenue. As knowledge becomes a more important asset, then the management of people that create the knowledge becomes a key driver of success. That's where HR managers can help because that's our expertise.

UBIQUITY: Let's go to step four: Identify HR deliverables within the strategy map.

HUSELID: What we're saying is that you know a lot about your business at this point. What are the specific behaviors that drive the implementation of strategy? In an R&D function, it's having a stable, high-talent workforce of R&D scientists with the skills and tools they need. In a bank, it could be cross selling. Specifically, what does HR help deliver to the business?

UBIQUITY: Does the balanced scorecard approach tend to work better in more traditional companies? For example, think of the reputation of some of the smaller Silicon Valley firms with loose, unstructured, non-hierarchical environments. Would the balanced scorecard be just as applicable?

HUSELID: In my opinion, probably not -- although Kaplan and Norton might have a different view; it'd be interesting to ask them. One of the key things about a balanced scorecard framework, or this idea that we have around an HR scorecard, is that measurement systems are more important as teaching tools than they are as command-and-control tools. One of the things that we see over and over again is that managers often assume that everybody's on the same page and everybody knows what's important and everybody knows where they are in implementing strategy. But that's often not the case. If you have a small venture capital firm or IT consulting firm with 10 people, you probably don't need much infrastructure because there's a lot of teaming and communication already. But if you've got 5,000 or 10,000 employees in a rapidly changing business environment, you need a way of communicating with them how things are going and what they should be doing. In that context, we found this tool very useful.

UBIQUITY: Let's go to step five, which is aligning the HR architecture and the HR deliverables.

HUSELID: What that says is that now that you know what you're looking for, are you doing the right thing? Do you have the right policies and practices in place to drive those results? An example of misalignment would be if you were looking for employees who are promotable, but your recruiting system was focussing on lower cost per hire. Another example would be that you expect employees to work together collaboratively in teams, but you manage performance based on individual contribution. Those are two common examples of misalignment that are not willfully negligent but rather they happen because the policies and practices often develop over time, independently of one another. So this step gets people to ask the questions: Are we developing the right policies and practices? Are line managers implementing them in ways that we think are appropriate? Are they having their intended effects?

UBIQUITY: While we're still on this step, let me ask about how this works in practice when you go to consult with a company. Do you generally find resistance to your ideas or is the problem more likely to be that HR managers are given lip service and then ignored?

HUSELID: It probably is the latter. One of the things that we do when we're trying to diagnose this kind of step is begin with focus groups of employees and line managers. We ask some very general questions like: What business do you think you're in? What are your two or three top strategic objectives? We don't necessarily talk about the HR function. We ask how does the way people are managed either help or hurt to achieve those goals. Invariably, employees will give you an earful. They'll have a lot to say if you ask them: We could do better if . . . and then let them fill in the blank. It's the blank that you need to know about when you're in the diagnosis mode.

UBIQUITY: In the diagnosis mode, operating as a therapist, have you found that you're more likely to do more good in a very healthy company or in a dysfunctional company?

HUSELID: The obvious dichotomy is that healthy companies are easier to work with and move more quickly but there's less chance to make a huge difference. Whereas, in companies that are quote, unquote, "more ill," there's no problem coming up with a list of the major symptoms and compound fractures. The challenge is to get the patient through the treatment therapy. Generally, companies that are functioning well have a better prognosis.

UBIQUITY: Let's go onto six: Design the strategic HR measurement system.

HUSELID: My colleagues and I have written a lot of stuff about measurement over the years. Our story -- and we're sticking with it -- is that coming up with specific measures is not usually the hardest part in the process. The hardest parts of the process are the steps that we just talked through. Once you have gone through those things -- and they could take as short as two or three days to get through -- then you can have some thoughtful measures for the strategy map that you've created. We've seen that too many HR managers, or managers in general, want to go right to the measures and skip the understanding. Those kinds of situations are less than optimal.

UBIQUITY: Can the measures be described as clearly quantifiable or are some of them more likely to be quality measures?

HUSELID: Some are and some aren't. There is probably an inverse relationship between the ease of measuring something and its relative strategic importance. A measure of efficiency of the HR function might be something like cost per hire or days to fill an open position or benefits as a percent of revenue. Those things are fairly easy to measure but they're unlikely to be key drivers of business results. The key drivers of business results might be some of the things we talked about before; having a committed workforce that's competent and oriented to the firm's goals and shares the vision. Those things tend to be more important, but harder to measure.

UBIQUITY: Since that's the case, should those easy-to-measure things not be measured because they're distractions?

HUSELID: Put in the proper context, they're OK. You could take the position that we've had those metrics in HR -- and I would assume that there's probably a parallel for information systems -- for a long time, and they haven't driven a lot of business results so maybe we shouldn't measure them at all. But the practical reality is that most HR managers have a budget that they need to adhere to and they need to have a sense of whether or not they're on or off track. That's the sense behind a balanced scorecard or an HR scorecard that has multiple perspectives and tries to cast them in their relative lights. But if those efficiency measures went away forever, I wouldn't lose any sleep over it.

UBIQUITY: And finally, we have the step seven: Implement management by measurement. Implementation is always a problem. What's the nature of the problem, in this case?

HUSELID: The nature of the problem is general employee and managerial skepticism about new things and fear of measurement. People don't like to be measured. They'll avoid it if they can. And so, creating the vision, keeping the momentum going, and helping employees understand how this kind of approach can be a win-win situation are key elements. Many times you'll see people work very hard to create a scorecard and then say, "Well, this is great. We've done it. It's time to move on." But they're barely halfway there. Measurement systems are only useful if they help managers make better decisions. That's the goal of the implementation process.

UBIQUITY: Let's end with a general question about the book and its goals. Is the book addressed primarily to people in the HR business or do you see it primarily addressed to general management?

HUSELID: There are things in there that line managers will find useful but it is HR function-centric because much of the development work starts there. The ultimate goal is to measure and focus on the areas of shared responsibility between the HR function and line managers.

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