

The Rise *of* **HR**

**WISDOM FROM 73
THOUGHT LEADERS**

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WORKFORCE ANALYTICS FOR STRATEGY EXECUTION

Mark Huselid

Business leaders face substantial challenges and opportunities in the current global economic environment. Customer expectations for faster, better, and cheaper goods and services are increasing at an accelerating pace, in no small part due to the creation of global markets and distribution systems. And, more and better data and information have enabled precise segmentation and targeting of customers, suppliers, and even the workforce.

The rapid development of these trends has created what might be called a global “arbitrage” of talent, where employees are much more likely than ever to (1) work for multiple employers and (2) live in different cities or countries than their employers (including this author!). The upside of these trends is that leaders now have unfettered access to a global market for talent. The downside is that their competitors have these same opportunities. In a highly competitive market, one of the last sources of competitive advantages is talent, and by extension the way in which talent is managed.

What are the implications of these trends for workforce management? It’s an old saying in the field of organizational design that human resource management

practices should be “as common as possible—but as different as necessary.” But a segmented, differentiated, and highly competitive customer space means that a conventional, hierarchical approach to workforce management may no longer be effective. Indeed, many firms routinely spend 50 percent to 70 percent of their revenues on direct and indirect workforce costs, but often these investments are not well measured or managed.

Addressing these issues means that leaders (both HR and line) should be prepared to develop a comprehensive understanding of *how* the workforce contributes to their strategic success. This means that firms need to manage their workforce strategically, including (1) identifying the *strategic work* that is truly necessary to execute firm strategy; (2) investing in *differentiated management systems* that support that work; and (3) designing and implementing *targeted measurement systems* (HR function and workforce scorecards) designed to help to hold line managers accountable for the firm’s most expensive resource, the workforce. HR managers and HR activities in the future should be grounded in these three activities.

IDENTIFYING STRATEGIC WORK

In “The Differentiated Workforce,”¹ my co-authors and I made several key points about the importance of effectively managing a global workforce:

- There are many, many roles that can destroy wealth in organizations—but only a very few roles that can actually create great wealth. Identifying and managing these roles is a key component of strategic workforce leadership.
- In contrast to the conventional wisdom, you probably don’t need—and truly can’t afford—world-class talent in all positions.
- All (or at least most) jobs are *important*, but only a few jobs are truly *strategic*.
- “A” or *strategic positions* are those that impact strategy and exhibit high variability in employee performance. Simply put, these are the positions that provide the greatest potential upside for improved organizational performance. Improving the talent in these roles can have a significant impact on your strategic success.
- Strategic positions can appear at any level in the firm. In fact, because employees in lower-level positions have shorter job tenures and have generally experienced fewer developmental opportunities, they often represent the greatest ROI investment opportunities.

DIFFERENTIATING WORKFORCE MANAGEMENT SYSTEMS

Because some work—and some jobs—have relatively greater impact on strategy execution than others, it should follow that a strategic approach to workforce management should identify and help to improve the performance in these roles. In “The Differentiated Workforce” we also argued that:

- Great firms manage their workforce like a portfolio and leverage its return—investing disproportionately in the highest-return *strategic work* and *strategic positions*.
- But...most organizations continue to invest in talent by hierarchical level, not by strategic impact.
- As a result, over time firms tend to *underinvest* in strategic work and *over-invest* in nonstrategic work.

What this means is that leaders need to identify the work that they need to execute their strategy, and then to make sure that top talent holds the jobs that contain this work. Implementing these concepts in practice will require us to make strategic (and often tough) choices about how and where we are going to invest in the workforce.

DEVELOPING AND IMPLEMENTING WORKFORCE ANALYTICS

So where does this leave us? We believe that there is an “information failure” concerning talent in most firms, in that the most expensive asset with the greatest upside potential (talent) is the least well measured and managed. Solving this problem will require measures that are as differentiated as the talent and the HR practices they are intended to monitor and help to implement. Simply put, a differentiated approach to workforce management means that the analytics we employ need to be differentiated as well. But this approach is often at odds with conventional approaches to HR and workforce measurement.

FROM SCORECARDS TO ANALYTICS

Interest in the measurement of the workforce and the HR function has a long history in the social sciences—well over 100 years. For much of this time the focus has been on identifying and measuring benchmark data associated with the activities housed in the HR *function*. What is new and potentially important is the availability of significantly enhanced data and informatics, and a simultaneous shift in emphasis from the activities of the HR function to the productive outcomes of the workforce.

The critical element is to move from a focus on *levels* associated with a particular workforce attribute (e.g., What is our cost per hire?) to understanding the *impact* of the workforce on business-level outcomes (e.g., How might an increase in the quality of our project managers affect new product cycle time?). In short, the emphasis of the current focus on workforce analytics is no longer about justifying the existence of the HR function but about executing the firm's strategy through the workforce.

MEASURES ARE ANSWERS TO QUESTIONS!

The process of executing strategy through the workforce begins with the identification and quantification of the strategic capabilities—bundles of information, technology, and people—that drive strategic success. The next step in the process is to quantify the gaps in the requisite strategic capabilities and the work that is required to close those gaps. This work can then become the focus of managers' efforts at performance improvement, which begin with a series of questions that ask, in essence, "Where do we start?" For example, managers could begin by asking:

- What strategic capabilities are needed to win, and how do we measure the activities (strategic work) that help to create those capabilities?
- How well is our strategic work currently being performed? What work needs to be added or deleted?
- What are the key strategic positions in our firm and how should they be managed?
- What is our inventory of talent in our strategic positions?
- What do we need to do to close the gap between the talent that we have and the talent that we need?

The next step in the process of driving managerial accountability for the workforce is to clearly operationalize the "destination metrics" associated with workforce success. While necessary, metrics are not sufficient to drive a strategic approach to workforce management. Also required is a very clear understanding of "what causes what" in your workforce.

How do we develop such an understanding? The process begins with the development of a theory or model (based on the previous academic research as well as your unique understanding of your business) that shows *what causes what* in your organization. The next phase in the process is data collection and analysis.

But first determine *what to measure*—then collect reliable and valid data. Don't let data availability drive the questions that you ask. Instead of asking "How can we use the data we have to help the business?" ask instead "What questions must the business be able to answer, and where will we find the data?" Put differently, don't start by asking "What data do we have?" Start by asking "What data do we need?"

Finally, use analytical tools to estimate the impact of talent on the organizational outcomes you care about. Conventional approaches employ correlation and regression analyses. More recent advances and innovations (many facilitated by the availability of "big data") include network analyses, neural networks, and a variety of new machine learning techniques. Finally, data processing platforms such as Hadoop and a wide variety of data visualization tools have been developed that can help turn data into usable information for executives. Completing this work may mean that the HR team will need to develop or acquire new competencies in workforce analytics.

STRATEGIC HR PERFORMANCE MANAGEMENT: A NEW COMPETENCY

Many authors have written extensively about the importance of talent in executing strategy, and the competencies and behaviors needed from the HR managers charged with helping the organization making this happen. For example, Dave Ulrich and his colleagues have identified HR manager competencies associated with positioning the workforce (and workplace) for competitive advantage, becoming an activist for the workforce, building workforce capabilities, becoming a champion for change, and innovating HR practices and information technology.²

Going forward, how can we ensure that both HR and line managers effectively adopt workforce analytics? We believe that both groups of managers will need to develop skills in the design and use of workforce analytics. Some of these competencies will need to be resident in the firm's IT function, including data acquisition and management, data storage and auditing, data access for analytics team, data analysis, data visualization, and communication. But many new skills will be needed to help the leadership team capitalize on the opportunities afforded by workforce analytics.

In The "HR Scorecard,"³ we focused on the competencies needed in HR leaders to design and execute effective workforce analytics systems. We termed this

competency “strategic HR performance management,” which we subdivided into four dimensions:

1. ***Critical causal thinking*** – As its core, designing and implementing an effective workforce management system requires managers to think strategically about “what causes what” in their organizations. Because there is often a long lag between investments in talent and the reflection of these investments in firm performance, it is especially important to be able to show the causal path that reflects how improvement in talent and employee behavior affect important organizational outcomes. Many firms have successfully used strategy maps to describe this process, which can become effective teaching tools to help the workforce understand what is expected of them and where to focus their improvement efforts.
2. ***Understanding the principles of good measurement*** – A second capability has to do with the ability to clearly define what we mean by each dimension of “performance” and the subsequent ability to develop metrics for those constructs. Not all metrics are created equal, and there can be substantial differences in the reliability and validity of workforce measures. Good metrics will not only exhibit reliability but also provide an adequate representation of the underlying construct that they are intended to assess.
3. ***Estimating causal relationships*** – Once you have developed a series of hypotheses about “what causes what” in your firm and have developed reliable and valid measures of workforce success, you are ready to begin to connect your workforce measures (independent variables) to unit- or organizational-level outcomes (dependent measures). These measures can be either quantitative or qualitative, but in either case the statistical tools can help managers “connect the dots” between an investment in talent and subsequent job performance. In most organizations there are two broad levels of this competency: the ability to conduct the analyses (needed by relatively few employees); and the ability to understand and act on the implications of the results (needed by many more managers).
4. ***Communicating HR strategic performance results to senior line managers*** – Finally, we have argued that measures are answers to questions, and these questions should be focused on the processes through which talent helps to execute strategy. Measures need to be communicated and well understood to drive effective decision-making. Many new tools are available to HR executives

to facilitate this process, and the ability to leverage these tools is reflected in the final component of strategic HR performance management.

IN SUMMARY

The challenges and opportunities associated with managing a workforce and workplace strategically are greater than ever. A key component of this process is enhancing managerial accountability for talent. An important step is to design and implement systems of workforce metrics and analytics that help managers ask and answer the key questions about the workforce—and then act on these insights!

About Mark Huselid

Mark Huselid is a distinguished professor of workforce analytics and director of the Center for Workforce Analytics at the D'Amore-McKim School of Business at Northeastern University. Prior to joining Northeastern, Huselid was a distinguished professor of HR strategy in the School of Management and Labor Relations at Rutgers University. His current academic research and consulting activities focus on the linkages between HR management systems, corporate strategy, and firm performance. He also has an active research and consulting program focused on the development of balanced measurement systems to reflect the contribution of the workforce, workforce management systems, and the HR management function to business success. Huselid was editor of the *Human Resource Management Journal* from 2000 to 2004 and is a current or former member of numerous professional and academic boards. A frequent speaker and writer, he has delivered more than 500 presentations throughout the United States, Europe, Asia, and Africa and has written several books, including “The HR Scorecard: Linking People, Strategy, and Performance” (with Brian Becker and Dave Ulrich, Harvard Business Press, 2001), which was translated into 10 languages and was an international bestseller. His newest book, “Disrupting Workforce Competition: Executing Strategy Through Strategic Work, Workforce Differentiation, and Workforce Analytics,” is currently in development.