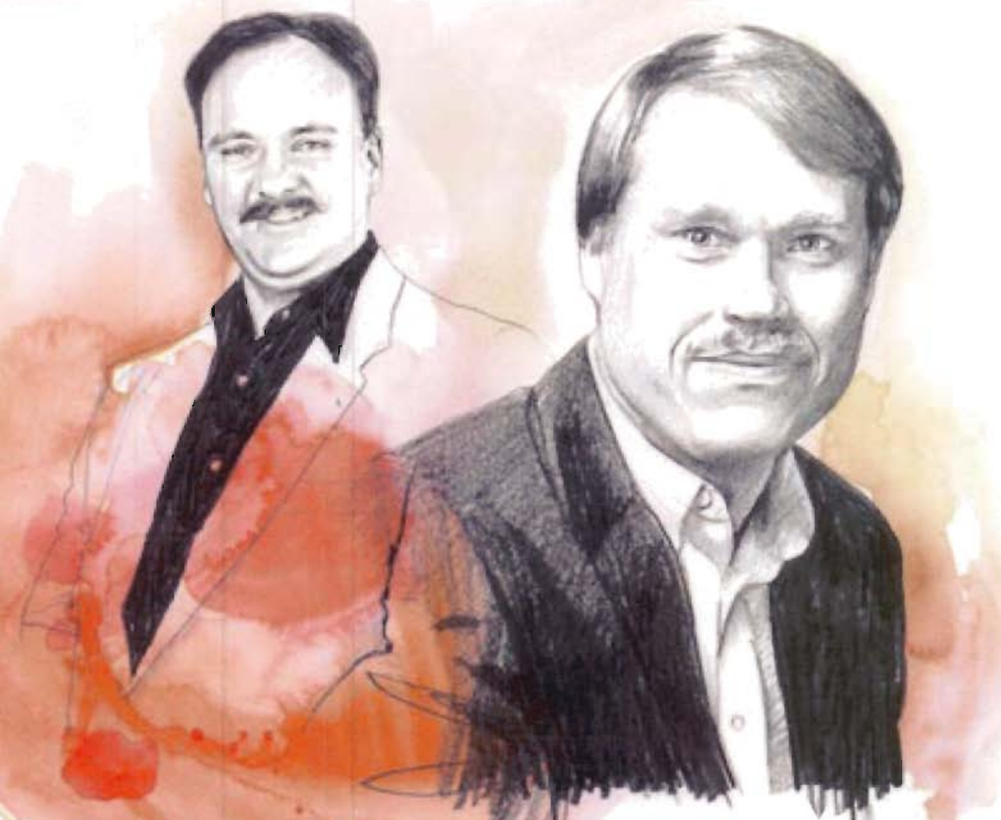

Front: Mark Huselid
Back: Stephen Moore

MEASURE FOR MEASURE

AHRI fellow Stephen Moore talks to academic, consultant and author Mark Huselid about the metrics of proving HR's value.

Stephen Moore: **On hearing your presentation at the SHRM annual conference in New Orleans, I was impressed by your enthusiasm for the whole area of score cards, metrics and reporting. What got you into this area of HR management and why do you think it's important?**

Mark Huselid: My interest in the role of the workforce as a source of competitive advantage really started about 25 years ago when I was managing a business. At that time it was absolutely clear to me that the only way that we could successfully create wealth over the long run was through the workforce, and that doing so required effective workforce investments, not just cutting costs. I began to research these ideas in graduate school, where most of my work focused on trying to understand the financial impact of HR management systems—what we came to call *high performance work systems*—on firm performance.

During the 1990s my colleagues and I collected data on the HR management systems of thousands of firms, and then matched these data with measures of employee turnover, productivity, and corporate financial performance. We found substantial differences in HR management "quality" across firms—much more than we were expecting—and we also found that these differences had a subsequent effect on firm performance. Over time, we found that more effective HR management systems had a statistically and economically significant link with firm performance.

But when we would work with managers on applying these results to their businesses, over and over again they would tell us that they understood that the workforce was the key to value creation. They were persuaded that, if they could do a better job of managing the workforce, their firms could be much more successful.

Their problem was that they didn't know what to do next. They didn't have a process or a model to turn their beliefs into action.

So, in 1997 or 1998 my colleagues and I began to get interested in developing a measurement system to help managers execute their strategies through the workforce. Our goal was to get folks to think about their business model and how to turn that model into a set of metrics that help guide the business. From our perspective, firms need a strategy for the business, a strategy for the workforce and a strategy for the HR function, and the measures we developed to help managers execute strategy should follow from the top down (from strategy to HR). The *HR Scorecard* and *Workforce Scorecard* books are intended to help them develop these strategies and measures.

What are the areas HR managers need to understand and think through before they get into metrics, score cards, numbers, data and reporting? Is there any point in going out and getting data if we don't know how we are going to use it or the purpose of it?
That's a great question, and potentially embedded in it is another question about benchmarking—should we be doing that? In my experience, the answer is no. I've seen benchmarking do a lot more harm than good in organisations, for a number of reasons.

First and most importantly, it moves managers to a lowest cost denominator approach. This is because the kinds of things that can be benchmarked—cost to hire, days to fill an open position—are measures of transactions associated with the HR function. The fallacy I see is that for most businesses (at least in North America), most large companies spend about one per cent of revenue in HR administration—one cent in the dollar. But they spend 60–70 per cent of their revenue, of their total spend, on the workforce.

Even if HR were to completely go away, which it never could, it would be unlikely to have a lot of impact on shareholder value. You end up with the ironic situation where the workforce is worth more and creates more value and is more a source of competitive advantage than ever before in a global economy. But the conventional metrics we use drive us to take costs out of HR when we know that the systems we use to select, attract, develop and maintain the workforce are really what drive us in the future.

ILLUSTRATION: SARA ANDERSON

MARK HUSELID

Dr Mark Huselid is professor of HR strategy in the School of Management and Labour Relations at Rutgers University, New Jersey. His research, teaching, and consulting focus on the development of balanced measurement systems to reflect the contribution of the workforce, workforce management systems and HR to strategy execution and business success.

Huselid edited the *Human Resource Management Journal* from 2000 to 2004. He is a current or former member of many academic and professional boards, and has received numerous awards for his research. A frequent speaker to professional and academic audiences, he has made more than 400 presentations throughout the US, Europe, Africa and Asia. Huselid has consulted on HR measurement and strategy with dozens of companies around the world.

His first book, *The HR Scorecard: Linking people, strategy and performance* (with Brian Becker and Dave Ulrich), has been translated into 10 languages and is an international bestseller. His latest book is *The Workforce Scorecard: Managing human capital to execute strategy* (2005; with Brian Becker and Dick Beatty). Harvard Business School Press published both books.

Huselid will speak at the 2006 AHRI National Convention in Melbourne on 24–25 May. Visit www.convention.ahri.com.au for details.

Managers and leaders, HR and otherwise, need to understand how the workforce creates value before they begin to measure anything.

Managers and leaders, HR and otherwise, need to understand how the workforce creates value before they begin to measure anything. In my experience, managers should spend the time and resources that they might devote to benchmarking the transactions of other companies to really trying to understand how the workforce creates value within their own firms.

People I train tell me it's hard to convince their CEO or executive that they need to get involved in scorecards, numbers and data. How do you get them to pay attention to that?
In my experience, the first issue is not to position measurement as an HR initiative, but to think about how we execute on the firm's business model, how do we win our future—what kinds of strategic capabilities do we need to win? If we're a pharmaceutical company or make tyres for cars, what's the bundle of resources we need to win in the eyes of our most profitable customers?

Then we begin to ask—given this bundle of logistics, distribution, people, whatever it is—what are the key or 'A' jobs, the strategically critical jobs? Maybe it's an R&D scientist, maybe it's a sales force manager.

Then ask, how does the behaviour of the people differ there? For example, in sales teams, an 80th or 90th percentile salesperson might sell 10 times as much as the average person. That would be a strategically critical job, with a lot of variance in performance. For management, that's a huge opportunity to drive the execution of strategy through the workforce.

In this case, managers should be asking; if there's a lot of variation in the sales force, why is that and how can we improve that?

My next question would be: how do we attract, select, develop, retain, coach and mentor those salespeople so we can move the 50th percentile people to the 75th percentile (or better)? That's a very different kind of story than 'let's measure HR', because its focus is on solving a very specific business problem that is directly linked to the performance of the business.

Downstream, it takes you into how to select, develop and retain, but it's a top-down strategy as opposed to bottom-up. In my experience, senior leaders will pay rapt attention to that kind of story because that's how they win.

What's your global perspective of HR professionals' willingness to embrace the commercial aspect of business; to willingly participate in commercial decisions and business reporting, and using that as the basis for their case? →

In the United States, for 25 years, there has been a lot of rhetoric around being a strategic partner. There's been a lot of discussion of the importance of that and people have competency models for HR leaders and business acumen.

That said, there's still a lot of variance in the background of HR leaders. This is not a critique of the field I love dearly, but it's important to note that, as a profession, I don't think we've done everything we could to be clear about the entry table stakes to be an HR leader.

For example, to be a financial analyst or accounting manager in the US, it would be very unusual not to have a degree in finance or accounting, respectively. It's the same for marketing, production operation and those kinds of areas. That's the starting point.

But in HR, managers with a bachelor's or master's degree in HR management are still in the minority. The simple fact is that there is a lot more variance in the background of HR managers than there is for the managers in many other functional areas. I don't think that HR managers are any less capable—the point is that they are less likely to have a professional degree in HR. One thing we need to do as a field is to continue to promulgate these ideas of the professional body of knowledge, of certification, of what we expect an HR leader to know.

It's not just the basics of job design, selection and training that we want HR managers to know and understand, but also accounting, marketing, remuneration and finance. Because we're making decisions that affect the long-term health of the business, we need to understand how the business operates.

My observation would be that 75–80 per cent of people entering HR come with a behavioural science background. A significant proportion of graduates and new entrants have a psychology/education background. Therefore, inside organisations the roles around culture change, transformation, mentoring, coaching and interpersonal skills are well practised and applied. But when you get into the areas of economics, performance or productivity, they struggle.

...I don't think we've done everything we could to be clear about the entry table stakes to be an HR leader.

That's not all bad, because we can do something about that—we can teach accounting, finance for non-financial managers, etc. In the way we train financial managers, we have the inverse problem. We have all of this energy put into teaching capital asset-pricing models, present value models, and esoteric models of finance and arbitrage, but not nearly as much on how to manage people and coach a team, which we know differentiates the performance of managers.

Somewhere in the middle is the answer.

You touched on realigning HR practices into an HR 'architecture'.

The architectural or portfolio metaphor is about designing the system for managing the workforce, so you have a culture and a workforce by design and not by accident.

My colleagues and I see some very articulate business plans and clear business strategies—differentiation by product, market and segment. And then we ask how they manage the workforce. How does your workforce philosophy and strategy map onto what you've just described about your business goals?

What we very often see are ornate business plans linked with an undifferentiated workforce plan, where they basically do the same thing for everybody. What ends up happening is under-investment in the most strategic roles and over-investment in the least strategic roles. With the expected outcome that we lose, disproportionately, a share of the most important people and jobs, and end up hanging on to roles that are creating less wealth.

We're trying to get firms to think about carefully matching the workforce strategy to the strategies of the business. That doesn't mean pouring money off the balcony, spending a lot on everybody. That's not an option for a lot of businesses. Rather, my colleagues and I are encouraging firms to make strategic investment choices that ensure you're growing talent at the speed of change.

We all know the external environment is changing very rapidly, becoming more global and interconnected, with product lifecycles shortening. But talent development systems, from what I see, are still fairly linear. We have this exponential change function for the outside world and a linear talent development function. As a result, the gap between where we need to be and where we are is getting bigger.

With globalisation and a shrinking labour pool, large organisations here are thinking about resourcing their organisation in the future and how to hang on to talent. What advice would you give about that?

I see a lot of wringing of hands, because we're going through the same issues in the US. We went through a time when the notion was to have an employer-of-choice strategy. We went through the war for talent strategy—and in a lot of firms it ended up being a war with talent.

A lot of firms had been sold on the idea that the firm with the most talent wins. They ended up spreading the resources they had available to invest in the workforce so thin that they were under-resourced in their most important and strategic roles.

Firms are now taking a hard look at coming up with a strategic human capital plan and saying, where do we need to be

STEPHEN MOORE

Before starting his own consulting practice, Optimum Performance, in 1995, Stephen Moore, CAHRI, worked in HR management and employee relations for more than 20 years. He has held strategic positions with companies including Coles Myer, Burswood Casino, Pacific Dunlop, Ford Motor Company, Qantas and Bowater-Deeko.

A regular visitor to the US, Moore established a best-practice study tour in 2004, with visits to leading organisations and conference attendance. In the past five years he has developed and presented an annual HR best-practice conference in association with the Graduate School of Management at La Trobe University. He has also presented HR workshops in collaboration with AHRI in recent years and designed one of four modules in the AHRI Professional Diploma program.

Moore is the author of *The HR Measurement Toolkit* (Thomson CPD).

very deep in talent? Where can we think about holding the status quo as opposed to trying to develop everybody? Because a lot of firms tried that and they couldn't keep up.

How can organisations better predict or plan where their shortages, skills gaps or competency issues will be and how to address them?

I think firms are much more sensitive now to figuring out where the talent gaps are. IBM, for example, has an on-demand business strategy where they're trying to build a worldwide labour arbitrage model. Especially in the consulting parts of their business—which is 70 per cent of their revenue now—they're able to source talent on a global basis built around the common competency model. They can figure out if they need someone who speaks French and is willing to go to South Africa for six weeks in the Spring of 2006 and, by the way, they need team skills, etc.

They co-developed the conceptual model that allows managers to understand how that stuff works as well as the data set that allows them to do that. In a sense, they're using a distribution and logistics approach—almost a just-in-time model—for workforce capabilities. Because they are large and global, with a lot of resources, they can do that.

Other, more local firms are doing it as well, but the big conceptual shift is moving away from a monolithic view of the workforce to a portfolio approach. But the important point is that the workforce strategy is based on a clear understanding of how the business operates.

And how do we develop an HR strategy that links back into the business objectives and outcomes?

Right. Because it used to be that, okay, I have an HR workforce strategy where everyone gets 40 hours of training and our strategy is to be at the 55th percentile in pay.

The new model has categories of jobs and categories of people in jobs that don't need much training at all, and other categories that need huge amounts of training. You have strategically critical jobs that you are paying at the 90th percentile and other jobs paying at the 40th.

The increased internal variance in the way we manage the workforce is beginning to mirror the external variance in firms. The world is changing very quickly, and firms are adapting by increasing the internal pace of change to keep up.

Is that a huge change in mindset for HR professionals, especially considering that, in the past, part of HR's role has been to ensure consistency of approach?

It is. I was doing a workshop with a major non-profit organisation having some challenges in fundraising. They were losing talent in important parts of the organisation, and it was affecting their ability to generate new resources. I asked if they'd consider thinking about what roles were critical to fundraising and then changing their workforce strategy to emphasise those roles.

Some people said that was the only way they could survive. Another group said the organisation always had strong values concerning equality and about treating everybody the same and that they didn't want to change that aspect of the organisation.

We then started a conversation about the differences between equality and equity. I asked the team of 12 senior managers—only one of whom was from HR—what is fairness? One said fairness was treating everyone the same; another said it was recognising the different contributions people made to the organisation and rewarding them on that basis, otherwise they'd leave.

> **...the gap between where we need to be and where we are is getting bigger.**

We then had a rich discussion about the philosophy around the employment contract, and for them the jury's still out.

For me, this experience highlights the importance of developing a clear and shared understanding of your firm's workforce philosophy as a first step in managing the change process. It is very difficult to manage the change process without these shared expectations.

Tracking back to your expertise in designing HR scorecards, how do HR people who are trying to add value, enhance workplace performance and develop commercial acumen create a scorecard that will demonstrate HR's impact on the business?

The first thing I would say is let's not try to boil the ocean. Let's begin by develop- →

ing an effective demonstration of product—a proof of concept—that starts with an understanding of your business and those key positions I was talking about.

Let's say it's an R&D scientist in a mid-sized pharmaceutical company. I'd begin by asking what is workforce success? It's a question we don't often ask. We can often define organisational success, but what is a successful workforce? In R&D it could be the number of new products, new ideas, new patents. It might be the number of new products that make it to phase one of clinical trials. Those are outcome measures, but managers don't manage outcomes, they don't manage profit. They manage the things that create profit.

So my next question would be, what are the kinds of behaviours that are likely to lead to those success measures? Things like teaming, sharing information, a collegial environment.

And the way you would get at this is to look at some successful and unsuccessful product development teams and try to figure out the things that differentiated those two buckets, and then design measures around the things that differ. We don't want to measure the things that don't vary—there's no information in such measures.

Then we can begin to ask, what kind of competencies do R&D scientists need? Then we can also ask, what kind of culture do we need, what kinds of mindsets? Are R&D scientists engaged with the strategy?

For me, measures around culture, competency, behaviour and success are the kinds of things that appear in a workforce scorecard because they are the joint responsibility of line and HR managers.

I think this is the decade for the workforce. It's a fantastic time to be in our area.

If I'm an HR leader, I can then work out what I need in my HR shop to help move the process forward. Do I have the right people? Are they designing the right practices? Are they doing it in a cost-effective manner?

It's a top-down process. We implement from the bottom up and we design from the top down.

A common question is how we can prove or link our contribution to workforce performance improvement to financial results. Could you share your key findings in this?

Sure. The field, known as HR strategy, is a broad academic subdiscipline in the field of HR management.

One of the central questions in this line of research is 'to what extent does the quality of workforce management affect firm performance?'. For me, the answer is pretty clear. There is a strong link. On a worldwide basis—we're working on a summary research paper now—we found about 250 studies and about 22 countries finding this kind of relationship.

That's good news for the profession, but it's important to note that part of the reason these effects are so large—and they are statistically and economically significant; there's big dollars there—is that there's a lot of variance in the quality with which firms manage people.

If everyone was doing a great job managing people, the effect would be significantly diminished. It's the equivalent of the beginning of the quality movement in the late-1970s, when the economic returns to quality were huge. If you think about cars, the American auto manufacturers were especially awful. Now quality has been taken out of the equation to a large extent and the economic return's upside potential is limited. If you fall down on quality, the downside potential is very significant.

It's similar to a position argument I made earlier—there's a lot of variance out there between good and potentially not so good HR. So the opportunity for improvement is there.

You mentioned my enthusiasm—I think this is the decade for the workforce. It's a fantastic time to be in our area. Managers are coming around to the conclusion that they can't outsource their way to greatness; they can't downsize their way to greatness; they can't invest in physical capital and create greatness. It's about the workforce and the infrastructure they design to manage that workforce.

Every time I run a training session on metrics, everyone asks me the appropriate ratio of HR to head count. Is there some process you prescribe in order to determine what an average ratio is?
It's a little like looking for the Loch Ness monster. I can characterise this as an historical part of workforce metrics. The 100:1 number was, at one time, an average. But it doesn't mean it was the right number.

The essence of the problem is that in today's global economy there's no way to say, a priori, here's what you need. If you think about what's happened to the structure of HR work over the last decade, we've outsourced a lot of it, we've moved a lot of HR transactions online, we've moved a lot of HR activities to line managers. But we've also become more global, which takes more resources. Building capabilities and coaching have become much more important, and those kinds of activities require resources. So those numbers need to be determined by the capabilities we're trying to drive and the strategy, and we build a resource plan off that.