Workforce Differentiation and Workforce Analytics

DI Global HR Masterclass
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About Mark Huselid

Dr. Mark Huselid is the Distinguished Professor of Workforce Analytics and the Director of the Center for Workforce Analytics at the D’Amore-Mckim School of Business at Northeastern University. He holds a Ph.D. in Human Resource Management, an M.B.A., an M.A. in Industrial and Organizational Psychology, and a B.A. in Psychology. Mark joined the D’Amore-Mckim faculty in 2014; he was on the faculty of Rutgers School of Management and Labor Relations from 1992 to 2014. At D’Amore-Mckim teaches courses in the design and implementation of workforce measurement systems, workforce analytics, and HR and workforce strategy.

Mark’s current academic research and consulting activities focus on the linkages between HR management systems, corporate strategy, and firm performance. In addition, he also has an active research and consulting program focused on the development of workforce analytics to reflect the contribution of the workforce, workforce management systems, and the HR management function to strategy execution and business success.

Mark is a frequent speaker to professional and academic audiences, having delivered more than 600 presentations throughout the U.S., Europe, Africa, and Asia. In addition, he has consulted on the topics of HR measurement and HR strategy with many Fortune 500 companies. Mark was the Editor of the Human Resource Management Journal from 2000-2004, and is a current or former member of many academic and professional boards. He is among the most frequently cited scholars in the social sciences.

Mark has been the recipient of numerous grants, awards and honors, and his 2001 international bestseller, The HR Scorecard: Linking People, Strategy & Performance (with Brian Becker and Dave Ulrich), has been translated into ten languages. The follow-up publication (also now in ten languages), The Workforce Scorecard: Managing Human Capital to Execute Strategy (with Brian Becker and Dick Beatty), was published to similar acclaim by the Harvard Business Press in 2005. His latest book (also with Brian Becker and Dick Beatty), The Differentiated Workforce: Translating Talent into Strategic Impact was published in early 2009 by the Harvard Business Press. Huselid’s new book Disrupting Workforce Competition is currently in development.
New Workforce Realities

- Old sources of competitive advantage no longer differentiate firms in the global marketplace.

- Effectively responding to globalization requires flexibility, speed and innovation...and talent.

- Market for talent becoming much more “efficient”.

- Intense focus within firms on workforce strategy, differentiation, and execution.

The Digital Disruption...Has Already Happened!

- The world’s largest taxi company owns no taxis (Uber)
- The largest accommodation provider owns no real estate (Airbnb)
- The largest phone companies own no telco infrastructure (Skype)
- The most valuable retailer has no inventory (Alibaba)
- The most popular media owner creates no content (Facebook)
- The fastest growing banks have no actual money (SocietyOne)
- The largest movie house owns no cinemas (Netflix)
- The largest software vendor doesn’t write its own apps (Apple)

### Challenged Industries – Strategic Shifts

<table>
<thead>
<tr>
<th>Issues/Innovations</th>
<th>Challenged Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Internet</td>
<td>Postal systems/US Postal System</td>
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<tr>
<td>• Cloud computing</td>
<td>Routers, servers/Cisco, Dell, HP</td>
</tr>
<tr>
<td>• IPADs, “Dumb” terminals</td>
<td>Personal computers/HP, Dell, Lenovo</td>
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<tr>
<td>• Ecommerce</td>
<td>Travel, retail/Wal-Mart, Tesco, Carrefour, Amex</td>
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<tr>
<td>• Electronic readers</td>
<td>Bookstores, publishers/Barnes &amp; Noble, Books-a-Million</td>
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<tr>
<td>• Working at home</td>
<td>Office furniture/Steelcase, Herman Miller</td>
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<tr>
<td>• Digitalization</td>
<td>Photographic film/Kodak, Fuji</td>
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<tr>
<td>• New material sciences</td>
<td>Steel, Metal Fabrication/US Steel, Alcoa</td>
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<tr>
<td>• Mobile phones</td>
<td>Credit cards, traditional telecoms/Nokia, Ericsson, Motorola</td>
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<tr>
<td>• Newsprint</td>
<td>Newspapers/Garnett, New York Times</td>
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<tr>
<td>• Funeral/Crematories</td>
<td>Caskets / Batesville, Astral, Mathews, Chinese, Wal-Mart, Costco</td>
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<tr>
<td>• Your firm?</td>
<td>What is the Magnitude of Shift in Your Industry?</td>
</tr>
</tbody>
</table>

### New Developments in Talent Management and Analytics

- **Segmentation** – Customer, supplier, workforce
- **Workforce Differentiation** – A players in A positions for A customers
- **Zero Based Work Budgeting** – Designing work from the customer back
- **Line Manager Accountability for Talent**
- **Big Data and Workforce Analytics**
A Focus on the Design, Implementation, and Measurement of Workforce Strategy

25 Companies in 36 Months: The Workforce Disruption Project
Disrupting Workforce Competition:

*How Strategic Work, Workforce Differentiation, and Big Data are Changing the Way that you Work – and Win*

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**The Three Disruptions of Workforce Strategy**

- **Strategic Work**
  - Identifying the *strategic work* that is truly necessary to execute your strategy (work not jobs)

- **Workforce Differentiation**
  - Investing in *differentiated management systems* that support that work (strategic focus not best practices)

- **Workforce Analytics**
  - Designing and implementing *targeted measurement systems* that help to hold line managers accountable for strategic talent
Workforce Management
Disruption 1: Strategic Work

The Quest for Competitive Advantage

Restructuring the Portfolio and Downsizing Headcount
Reengineering Processes and Continuous Improvement
Reinventing Industries and Regenerating Strategies

Smaller  Better  Different

Unfair Fights
What is Strategic Work?

THINKING ABOUT STRATEGIC POSITIONS AND WORK

Value Creation vs. Avoidance of Value Destruction
Strategic Positions Are Found Within Strategic Capabilities (VPC)

Wealth Creating Positions in the Airline Industry

Performance in Strategic Positions
### Airline Industry

<table>
<thead>
<tr>
<th>Positions</th>
<th>Primary Financial Impact</th>
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<tbody>
<tr>
<td></td>
<td>Revenue</td>
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<tr>
<td>Events Manager</td>
<td>✓</td>
</tr>
<tr>
<td>Corporate Client Manager</td>
<td>✓</td>
</tr>
<tr>
<td>Airline Pilot</td>
<td>□</td>
</tr>
<tr>
<td>Airline Fuel Hedge Fund Manager</td>
<td>□</td>
</tr>
<tr>
<td>Director Seat Capacity Management</td>
<td>✓</td>
</tr>
</tbody>
</table>

### Desired Performance Variability

- **Meets Standard**
  - **High**
    - Player Upgraded (or ?...)
      - (*B* Player in "A" Position)
  - **Low**
    - Position: Airline Pilot

- **Exceptional**
  - Position: Manager Airline Fuel Hedge Fund
  - Position Eliminated
    - (*A* Players in "C" Position)
Strategic Positions Should Pass VPC

Identifying Strategic Work

1. A bundle of information, technology and people uniquely arrayed to create a competitive advantage in a targeted market

2. Has a direct impact on the firm’s strategic success (impacts success with customers) and creates wealth for the firm.

3. Delivers the customer and economic success of the Firm’s business model — as intended!
### Strategic Position Impact Assessment

#### An Example

<table>
<thead>
<tr>
<th>Strategic Position</th>
<th>Impact to Customer's Perception of Value</th>
<th>Enables us to charge our desired price</th>
<th>Enables us to produce at our desired cost</th>
<th>Is this a Strategic Capability?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Government Expertise</strong></td>
<td>1. Governor Office(71)</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>2. Bid Manager (71)</td>
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<td>3. GAIRD lobbyist (71)</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>4. Sales Manager WBM</td>
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<td>5. Underwriting Specialist (71)</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>6. Legal Bidding Support</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>7. Bidding Leaders (Public and Legal)</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>☐ ☐ ☐ ☐ ☐</td>
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<td>8. Union’s Relations Director</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>☐ ☐ ☐ ☐ ☐</td>
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<td>9. Federal &amp; Permitted Director</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td><strong>2. Alliance Management</strong></td>
<td>1. Alliance Director – BS Development</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>☐ ☐ ☐ ☐ ☐</td>
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<td></td>
<td>2. Product Manager (Life, Med)</td>
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<td>3. Implementation Head</td>
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<td>4. Strategy Officer (includes M&amp;A)</td>
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<td>5. M&amp;A Officer</td>
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<td>6. New Business Development</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>2. Sales Manager (Insurance, AFORE)</td>
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<td>3. Process Owner</td>
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<td>4. CRM Analyst</td>
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<td>5. CEO</td>
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<td>6. Distribution Officer</td>
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<td>7. Strategy Officer</td>
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<td><strong>4. Business Process Excellence</strong></td>
<td>1. Issuing Manager</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>2. Claims Manager</td>
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<td>2.1 Claims Analyst Medical</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>3. M&amp;W Network Manager</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>4. Service Center Manager</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>☐ ☐ ☐ ☐ ☐</td>
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<td></td>
<td>5. Process Owner / OBQ Officer</td>
<td>☐ ☐ ☐ ☐ ☐</td>
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<td>6. ISSA</td>
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<td>7. IT Arch.</td>
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<td>☐ ☐ ☐ ☐ ☐</td>
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</table>
Understanding the Impact of Work Quality

- **High** Strategic Value
- **Low** Strategic Value

**FIX**

**KEEP**

**ELIMINATE!**

Zero-Based Work Budgeting

- **Present Work Quality**
  - Compliance / Regulatory Work
  - Continually Expanded VPC Work
- **Desired Work Quality**
  - Compliance / Regulatory Work

Impact on Customer and Economic Value Creation (VPC Work)
Performance Planning and Strategy Execution

**Work Quality**

<table>
<thead>
<tr>
<th>Strategic Value</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Value Work – Poorly Performed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Value Work – Well Performed</td>
<td>Keep Doing This Work</td>
<td></td>
</tr>
<tr>
<td>Low Value Work – Poorly Performed</td>
<td>Eliminate This Work</td>
<td></td>
</tr>
<tr>
<td>Low Value Work – Very Well Performed</td>
<td>What Work Can You Stop Doing?</td>
<td></td>
</tr>
</tbody>
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Strategic Workforce Planning: A Process Overview

**Business Strategy**

- How Grow?
  - Where play?
  - How win?

- Operational Excellence
- Product Leadership
- Customer Intimacy

**Strategic Capabilities**

- Value Creation
  - Customer
  - Economic

- At what must we be great?
  - “Bundles of technology, information, and people uniquely arrayed to create or extend a competitive advantage”

- How do we need to be? vs. How good are we?
  - V = Impacts customer’s perception of value
  - P = Enables charging our desired price
  - C = Enables producing at our desired cost

- What work must be done to achieve our strategic capability targets?
- What work is essential to close our capability gaps?
- What work has strategic value?
Workforce Management
Disruption 2:
Workforce Differentiation

Where Do We go From Here?:
The Growth Strategy Matrix

- **New product creation:**
  - Innovative
  - Capability examples:
    - R&D
    - M&A
    - Consumer insight
    - Speed
    - Joint ventures & acquisitions

- **New market creation:**
  - Disruptive
  - Capability examples:
    - R&D
    - Consumer insight
    - Marketing excellence
    - Alliances/joint ventures

- **Commoditization**
  - Capability examples:
    - Process improvement
    - Manufacturing excellence
    - Supply chain management
    - Purchasing

- **Geographic expansion**
  - Capability examples:
    - Real estate
    - Supply chain/distribution
    - Information systems
“The top software developers are more productive than average software developers not by a factor of 10X or 100X, or even 1,000X, but 10,000X.”

—Nathan Myhrvold, former Chief Scientist, Microsoft
Performance Variability Is Critical for a Position to Be Strategic

This company, highly regarded for its customer service, surveyed about 45,000 customers to gauge the impact of its 4,583 service reps. It discovered that the top 10% had a positive effect on customer attitudes with 71% of the customers they talked to; the top 7 reps created a positive effect with every customer. In sharp contrast, the bottom 10% had a net negative impact of 14% on customer attitude scores, while the bottom 3 employees alienated every customer they spoke with.

Impact on Customer Attitude Scores

<table>
<thead>
<tr>
<th>Quartile</th>
<th>Total 7 reps</th>
<th>Top 1%</th>
<th>Top 5%</th>
<th>Top 10%</th>
<th>Top Quartile</th>
<th>2nd Quartile</th>
<th>3rd Quartile</th>
<th>Lowest Quartile</th>
<th>Bottom 10%</th>
<th>Bottom 5%</th>
<th>Bottom 1%</th>
<th>Bottom 3 reps</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Best</td>
<td>+100%</td>
<td>+88%</td>
<td>+77%</td>
<td>+71%</td>
<td>+61%</td>
<td>+40%</td>
<td>+27%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Worst</td>
<td>-14%</td>
<td>-100%</td>
<td>-63%</td>
<td>-2%</td>
<td>-84%</td>
<td>-40%</td>
<td>-61%</td>
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</tbody>
</table>

Source: Gallup, Inc.

Company Wealth Creating People: Retailing

NORDSTROM

Customer Perception of Firm Attributes
- Best solution
- Fashion forward
- Professional expertise
- Personalized service

STRATEGIC CHOICE: CUSTOMER INTIMACY

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<tbody>
<tr>
<td>Sales Counselors</td>
<td>A. Category</td>
<td>A. Fashion Buyers</td>
<td>A. Logistics Engineers</td>
<td>A. VP-Marketing</td>
<td>A. CMO</td>
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<tr>
<td>Category Expansion</td>
<td>B. Category</td>
<td>B. Fashion Buyers</td>
<td>B. Logistics Engineers</td>
<td>B. VP-Marketing</td>
<td>B. CMO</td>
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<td>Logistics Engineers</td>
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<td>VP-Marketing</td>
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<td>CMO</td>
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COSTCO

Customer Perception of Firm Attributes
- Best value
- Convenient
- Variety
- Speed

STRATEGIC CHOICE: OPERATIONAL EXCELLENCE

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<tr>
<td>Site Location Analysts</td>
<td>A. Category</td>
<td>A. Puchasing</td>
<td>A. Logistics Analysts</td>
<td>A. Laydown</td>
<td>A. Membership</td>
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<td>Category Expansion</td>
<td>B. Category</td>
<td>B. Puchasing</td>
<td>B. Distribution &amp; Info.</td>
<td>B. Merchandising</td>
<td>Systems</td>
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<td>Logistics Engineers</td>
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<td>VP-Merchandising</td>
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<td>Store Managers</td>
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Possible HR Actions — A Few Ideas —

- Reward leaders who develop talent
- Hold leaders accountable for strategy talent turnover
- Interview 3 externals for every strategic position before filling the position
- Build a performance/compa-ratio grid
- Conduct a talent auction
- Others?

Workforce Governance/Rules

Workforce Management
Disruption 3: Workforce Analytics
New Developments in Big Data and Business Analytics

• Academic and practitioner interest is substantial:
  — Firms are spending billions on data and infrastructure across all functional areas
  — Hundreds of books and thousands of articles have been written on this topic, and the pace seems to be accelerating
• Big Data are everywhere!

But......Big Data Require Bigger Theory!

• Ironically, more data isn’t necessarily always a good thing.....

• Moving from data to actionable information requires that we understand behavioral science theory and ask the right questions about how the workforce contributes to your success.

• Data collection and infrastructure is not your biggest problem – knowing what to measure and how to measure it is!
**What Do We Mean by Workforce Analytics?**

1. Calculating the ROI of individual practices (e.g., training, selection, etc.)?

2. Reporting activity metrics within the HR function (e.g., cost per hire, days to fill)?

3. Developing an HR Scorecard or Workforce Scorecard as a tool to help implement strategy more quickly & effectively?

4. External reporting (to shareholders) of human capital investments?

5. Developing predictive talent analytics to help execute our strategy?

**Two Primary Uses of People Measurement Systems**

1. **Measuring Levels**: How can we identify and reliably track the performance of our key human capital indicators?, and

2. **Measuring Relationships**: How can we begin to understand how much an improvement in these human capital indicators will affect the bottom line?
How do we decide what we need to measure?

- Measures provide answers to questions!

How do we know what questions to ask?

- We need to let our strategy dictate the metrics we adopt
- We’ve got to focus on the data we need, not the data we have.

Measures Provide Answers to Questions!

- How do we identify and quantify the strategic capabilities – bundles of information, technology, and people – that drive our strategic success?

- What are the key strategic positions in our firm and how should they be managed?

- How do we identify and quantify the strategic work that has a major impact on value creation in our firm?
• How well is our strategic work currently being performed? What work needs to be added or deleted?

• How do we develop strategic talent inventories that help us identify 1) the talent we have, 2) the talent we need, and 3) what actions will close this gap?

• How do we design and implement measurement systems (HR and Workforce Scorecards) that ensure managerial accountability for firm’s most expensive resource, the workforce?

• How well does our current performance management system help us execute our business strategy? Our compensation system?

• How effective is our pipeline at producing “A” level strategic leadership talent?

• How can we equip both HR and Line managers to use data and analytics to improve the quality of decision-making?
Three Issues:

- Asking the Right Questions
- Conducting the Right Analyses
- Influencing the Right Decisions

*Workforce analytics as derived demand: If talent doesn’t matter, analytics won’t either*

Asking the Right Questions

- Too often the focus is on the technical issues associated with data, often at the expense of clearly operationalizing the questions that we are trying to answer

- Analytics doesn’t always just mean statistics – key emphasis should be on developing a cause-effect a conceptual understanding of what you are trying to measure, before you begin to think about data, measures, or inferential statistics

- Don’t start with the data: Start with the question

- Must begin with a review of prior research and the development of plausible hypotheses!
The Role of Theory

- "Nothing so practical as a good theory" Kurt Lewin
- "Every good regulator of that system must be a model of that system" (Conant & Ashby, 1970)
- "Every good solution must be a model of the problem that it solves." (Scholten, 2010)

Using Strategy Maps to Identify Strategic Workforce Metrics
An Example of a Strategy Map at Advertising Inc.

Goal: Be revered as the hothouse for world changing creative ideas that transform our clients’ businesses, brands and reputations

**Financial**
- Reduce Costs
- Double EPS
- Grow Revenues
- Build Advertising’s Brand Equity

**Client**
- Create PICS -- Permanently Infatuated Clients
- Financial Discipline (Eliminate Inefficiencies)
- Work Smarter Across the Network
- Excel at Account Management & Create Great Ads
- Focus Business Development (New clients & assignments)
- Identify and Implement Appropriate Communication Services
- Win Global Fame for Our Idea Leadership

**People & Culture**
- One Team: One Dream: create a rewarding, stimulating environment where nothing is impossible

---

Strategy Map – Competency Skill Attainment Focus

**Financial**
- Revenue from Current Customers
- Increase Shareholder Value

**Customer**
- Service
- Partnership

**Operations**
- Establish Ongoing Assessment of Targeted Employees
- Provide Target Training & Services

**Strategic**
- Understand Employee Skill Gaps
- Sales Competencies

---

Source: Kaplan & Norton
More Detail at Advertising, Inc.

Be revered as the hothouse for world changing creative ideas that transform our clients’ businesses, brands and reputations.

Financial
- Maximize Profit
- Grow Revenue
- Reduce Cost

Client
- Create PICS -- Permanently Infatuated Clients
- Financial Discipline
- Work Smarter Across the Network
- Identify Appropriate Communication Services

Product & Process
- Excel at Account Management & Create Great Ads
- Generate Ideas
- Sell Ideas

People & Culture
- Develop skills and competencies
- Drive Motivation
- Create stimulating work environment

One Team: One Dream: Create a Rewarding, Stimulating Environment Where Nothing is Impossible

Third-Order Strategy Map at Advertising, Inc.

Theme: “Excel at Account Management & Create Great Ads”
Objective: Big Fabulous Idea (BFI) Objective

Internal Perspective
- Generate Idea
- Challenge meeting brief process
- Get physical engagement of right people
- Organize marketing
- Leaders with a point of view
- Select type of account working on
- Generate interest
- Develop position accountability

Create Big Fabulous Ideas (BFI)
- Build Benefit Case
- Build relationship with client
- State Deliverable
- Success with Advertising, Inc.
- Knowledge of business (company, product, market, etc.)
- Anticipate client issues “Tell clients what they have not thought of yet”
### What Do You Want to Know About Your Workforce?

<table>
<thead>
<tr>
<th>Focus</th>
<th>Old Focus</th>
<th>New Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Question Asked</td>
<td>Question Asked</td>
</tr>
<tr>
<td>Communication</td>
<td>Is our workforce satisfied / happy?</td>
<td>Is our top talent in strategic positions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>thrilled with our firm?</td>
</tr>
<tr>
<td>Work Design</td>
<td>How do we do our work?</td>
<td>Are we focusing on value creation in every</td>
</tr>
<tr>
<td></td>
<td></td>
<td>job?</td>
</tr>
<tr>
<td>Selection</td>
<td>Are we “fair” in our selection process?</td>
<td>How well does our top talent in strategic</td>
</tr>
<tr>
<td></td>
<td></td>
<td>roles compare to the labor supply?</td>
</tr>
<tr>
<td>Training/Development</td>
<td>How did our participants feel about our</td>
<td>How can we accelerate the skills of our</td>
</tr>
<tr>
<td></td>
<td>training?</td>
<td>emerging talent in strategic roles?</td>
</tr>
<tr>
<td>Performance Management</td>
<td>Are performance appraisals completed and on</td>
<td>Is our performance management system a tool</td>
</tr>
<tr>
<td></td>
<td>time?</td>
<td>to help execute our business strategy?</td>
</tr>
<tr>
<td>Rewards</td>
<td>Is our program fair?</td>
<td>Are we adequately rewarding our value</td>
</tr>
<tr>
<td></td>
<td></td>
<td>creators for their success?</td>
</tr>
</tbody>
</table>

### Basic HR / Workforce Metrics Questions

<table>
<thead>
<tr>
<th>Focus</th>
<th>Workforce Focus</th>
<th>Workforce Practitioner</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Workforce</td>
<td>HR Function</td>
</tr>
<tr>
<td>Organization Wide</td>
<td>• What do we want our workforce to understand about</td>
<td>• How effective are our HR practices in delivering the</td>
</tr>
<tr>
<td></td>
<td>our company?</td>
<td>workforce to win in the markets we choose to compete in?</td>
</tr>
<tr>
<td>Individual</td>
<td>• What is our level of top talent in strategic</td>
<td>• How effective are our leaders in delivering HR policies</td>
</tr>
<tr>
<td></td>
<td>positions?</td>
<td>and practices in managing their workforces to leverage our</td>
</tr>
<tr>
<td></td>
<td></td>
<td>firm’s competitive advantage?</td>
</tr>
</tbody>
</table>
Toxic HR Measures: Calculations and Consequences for Common HR Metrics

Why are Conventional HR Metrics Such a Problem?

Common HR Metrics

1. Cost per Hire / Days to Fill
2. HR Expense Factor
3. Revenue Factor
4. Training Investment Factor
5. Turnover Rate (Annual)
Key Questions:

- How are these metrics calculated?
- How should they be interpreted?
- Are they linked with firm performance? What does the research literature say?
- What is the potential for unintended consequences as a result of their use?
- What is our overall evaluation of each of these metrics?
- Should we collect and benchmark these data?
- Are better metrics available?

1. Cost Per Hire

- Research Literature: All else equal, the correlation between cost per hire (as well as time to fill an open position) and firm performance is positive (more profitable firms spend more and take longer to fill positions). This is exactly opposite of how this measure is most often interpreted.

- Unintended Consequences: Holding recruiters accountable for time to fill can cause them to be less selective in recruiting and selecting candidates. In the long run, this can increase direct workforce costs (and more importantly opportunity costs) exponentially.

- Overall Evaluation: Don’t use it!

- A Better Alternative: Time to promotion (and/or retention rates) for A players in A positions.
2. HR Expense Factor

- Research Literature: More profitable firms actually spend more money on HR administration than do low profit firms.
- Unintended Consequences: Efforts to HR administrative costs (e.g., from 100:1 to 200:1) – as would be expected based on the use of this measure - can shift cost savings in the HR function to operational and strategic losses throughout the workforce.
- Overall Evaluation: Don’t use it!
- A Better Alternative: Focus on common sense. Begin by asking: What are our strategic objectives for the workforce? Then: How do we need to structure the HR function to deliver these outcomes? Finally, develop a budget and strategic plan for HR that ensures we place A players in A positions for A customers. Efforts to develop a benchmark for such a highly idiosyncratic measure are unlikely to be successful.

3. Revenue Factor

- Research Literature: Revenue per employee is a highly firm specific measure, exhibiting large cross-industry differences. Is also highly influenced by the definition of an “employee,” (e.g, FT permanent vs. FT temps).
- Unintended Consequences: Can encourage managers to shift the composition of the workforce from permanent full time to temps and consultants (which are often more expensive).
- Unintended Consequences: Same as Human Capital Value Added.
- Overall Evaluation: Don’t use it!
- A Better Alternative: Develop a clear understanding of the differences in economic returns for strategic vs. non-strategic positions, and then invest disproportionately in the strategic roles. Measurement should then help us understand our progress on these goals.
4. Training Investment Factor

- Research Literature: While there is a modest link between training dollars and firm performance, most studies do not have quality data on the type or quality of training that is employed.
- Unintended Consequences: Encourages managers to focus on the overall training budget, not the type and quality of capabilities being developed.
- Overall Evaluation: Don’t use it!
- A Better Alternative: Training effort and outcomes for high performing employees in strategic positions vs. low performing employees in non-strategic roles (maximize the former; minimize the latter).

5. Turnover Rate

- Research Literature: While there is a modest link between overall turnover and firm performance, most studies do not have data on the type or quality turnover that is needed for effective managerial intervention.
- Unintended Consequences: There is no such thing as “overall” turnover (see next slide). Managing as if there is can cause managers to focus their retention efforts on low performing employees.
- Overall Evaluation: Don’t use it!
Types of turnover:

- Undesirable, controllable
- Undesirable, uncontrollable
- Desirable, controllable
- Desirable, uncontrollable
The Perils of Benchmarking:

Alternate Name: Losing your winners and winning your losers

A Better Way to Calculate the Impact of Employee Turnover
Imagine that you are considering the development and implementation of a new integrated performance management and incentive compensation program. The total development costs for this program will be $250,000. You estimate that this program will increase annual cash flow from operations a total of $270,000 each year for the next five years. However, because the program involves incentive pay, wages will increase a total of $130,000 per year for the five-year period. Assuming the firm's marginal cost of capital is 14 percent, should your firm roll out the new program? An NPV analysis of this situation would look as follows (note: The present value “factors” shown in the example below are taken from an Introduction to Financial Analysis textbook. Alternatively, these values can be calculated via a spreadsheet or financial calculator).

### Calculating Benefits Less Costs (An Example)

<table>
<thead>
<tr>
<th>Year</th>
<th>Explanation</th>
<th>Amount</th>
<th>X</th>
<th>Factor = Present value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Program Development Cost</td>
<td>-$250,000</td>
<td>1</td>
<td>-$250,000</td>
</tr>
<tr>
<td>1-5</td>
<td>Increased wages</td>
<td>-$130,000</td>
<td>3.433</td>
<td>-$446,290</td>
</tr>
<tr>
<td>1-5</td>
<td>Increase in annual cash flow from operations</td>
<td>+$270,000</td>
<td>3.433</td>
<td>$926,910</td>
</tr>
</tbody>
</table>

**Net present value:** $280,620

Based on these analyses, the program should be developed and implemented.
### Cost Estimate of Replacing 120 High-Potential Managers

<table>
<thead>
<tr>
<th>Year #1 (hire 120 new managers)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Separation costs</td>
<td>$60,000</td>
</tr>
<tr>
<td>Recruiting costs</td>
<td>$900,000</td>
</tr>
<tr>
<td>Selection costs</td>
<td>$900,000</td>
</tr>
<tr>
<td>Training and acculturation costs</td>
<td>$600,000</td>
</tr>
<tr>
<td>Lower productivity – acculturation</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Lower productivity – long run</td>
<td>$3,000,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$6,660,000</strong></td>
</tr>
</tbody>
</table>

### Cost Estimate of Reducing Turnover from 30 Percent to 15 Percent

<table>
<thead>
<tr>
<th>Year #1 (400 Employees)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased variable pay for high performers</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Enhanced promotional opportunities</td>
<td>$360,000</td>
</tr>
<tr>
<td>Additional training (competency development)</td>
<td>$600,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year #2 (400 Employees)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased variable pay for high performers</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Enhanced promotional opportunities</td>
<td>$360,000</td>
</tr>
<tr>
<td>Additional training (competency development)</td>
<td>$600,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year #3 (400 Employees)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased variable pay for high performers</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Enhanced promotional opportunities</td>
<td>$360,000</td>
</tr>
<tr>
<td>Additional training (competency development)</td>
<td>$600,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Present Value of Costs (3 years @ 10%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$5,858,381</strong></td>
<td></td>
</tr>
</tbody>
</table>
## Benefits Estimate of Reducing Turnover from 30 Percent to 15 Percent

<table>
<thead>
<tr>
<th>Year #1 (60 Employees)</th>
<th>$3,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced productivity</td>
<td></td>
</tr>
<tr>
<td>Year #2 (120 Employees)</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Enhanced productivity (current and prior years' retained employees)</td>
<td></td>
</tr>
<tr>
<td>Year #3 (180 Employees)</td>
<td>$9,000,000</td>
</tr>
<tr>
<td>Enhanced productivity (current and prior years' retained employees)</td>
<td></td>
</tr>
<tr>
<td>Present Value of Benefits (3 yrs @ 10%)</td>
<td>$13,320,929</td>
</tr>
</tbody>
</table>

## Net Present Value of Reducing Turnover from 30 Percent to 15 Percent

<table>
<thead>
<tr>
<th>PV of Benefits</th>
<th>$13,320,929</th>
</tr>
</thead>
<tbody>
<tr>
<td>PV of Costs</td>
<td>-$5,858,381</td>
</tr>
<tr>
<td>PV of Benefits Less PV of Costs</td>
<td>$7,462,548</td>
</tr>
</tbody>
</table>
Metrics with Impact

1. The percent of “A” players in “A” positions
2. The percent of “B” players with “A” potential in “A” positions
3. The percent of “C” players in “A” positions.
4. The percent of overpaid “A” players in “C” positions
5. The level of strategic understanding of the firm by its workforce
6. The percent of wealth-creating positions (direct revenue or cost impact on the firm’s business model) identified
7. The number of unsuccessfully performing individuals in wealth-creating positions removed from the organization
8. The percentile of individuals in customer service roles that have performed successfully as assessed by customers
9. The time-to-fill rate for high performers in strategic/wealth-creating “A” positions
10. The time-to-exit of “C” players in “A” positions

An Example Workforce Scorecard for Big Pharma
Managing Human Capital To Execute Strategy

HR SYSTEMS
- Align
- Differentiate
- Integrate

HR PRACTICES
- Work design
- Staffing
- Development
- Rewards
- Communication
- Performance management

HR WORKFORCE COMPETENCIES
- Strategic Partner
- Administrative Expert
- Change Agent
- Employee Advocate

WORKFORCE MINDSET AND CULTURE
Does the workforce understand our strategy and embrace it, and do we have the culture we need to support strategy execution?

WORKFORCE COMPETENCIES
Does the workforce, especially in the key or “A” positions, have the skills it needs to execute our strategy?

WORKFORCE SUCCESS
Has the workforce accomplished the key strategic objectives for the business?

LEADERSHIP AND WORKFORCE BEHAVIORS
Are the leadership team and workforce consistently behaving in ways that will lead to achieving our strategic objectives?

Operational Success
What specific internal operational processes must be optimized?

Customer Success
What specific customer desires and expectations must be satisfied?

Financial Success
What specific financial commitments must be met?

HR Scorecard
Balanced Scorecard

Overall Strategy Map at Pharma, Inc.

Revenue Growth Strategy
- Shareholder Value
  - Increase New Product Revenue
  - Improve Customer Profitability

Productivity Strategy
- ROCE
  - Reduce Cost per Unit
  - Improve Asset Utilization

Customer Value Proposition
- Price
- Quality
- Time
- Function
- Service
- Relations
- Brand

"Build the Franchise" (Innovation Processes)
"Increase Customer Value" (Customer Management Process)
"Operational Excellence" (Operations & Logistics Process)
"Good Neighbor" (Regulatory & Environmental Processes)

A Motivated and Prepared Workforce
- Strategic Competencies
- Climate for Action
- Strategic Technologies
- Skills
- Knowledge Sharing
- Awareness
- Alignment
- Incentives
- Infrastructure Applications

Source: Kaplan & Norton
Strategic Capabilities at Big Pharma

| World Class | 5 |
| Elite | 4 |
| Highly Competitive | 3 |
| Competent | 2 |
| Abysmal | 1 |

R&D Licensing/ Acquisitions | Sales/ Marketing | Government Relations | Quality | Leadership

Current Desired

Workforce Scorecard for R&D at Big Pharma

| Workforce Success | # of new compounds generated that progress to Phase I |
| Workforce Behaviors | Breadth and depth of therapeutic area knowledge |
| | Introduction of new discovery and development technologies |
| | Cycle-time from discovery to Phase I |

| Workforce Behaviors | Knowledge-sharing index |
| | Team performance index |
| | Leadership Profile Index |
| | Retention % of “A” players and exit % of “C” players |

| Workforce Competencies | Total % “A” players |
| | % B players with A potential |
| | % T&D for A players |
| | % pay at risk and % options and % bonus to for A Players |
| | Bench strength rating on 360 |

| Workforce Mindset/ Culture | % of workforce with a clear understanding of firm strategy |
| | % of workforce that is committing to executing this strategy |
| | % of the workforce that has the skills needed to execute strategy |
| | % of the workforce feeling that culture supports strategy execution |
### WF Scorecard for Big Pharma

#### R&D

- **"A" Position**
  - **R&D Scientist** (n=785)
    - # of new compounds generated that progress to Phase I
    - Breadth and depth of therapeutic area knowledge
    - Introduction of new discovery and development technologies
    - Cycle-time from discovery to Phase I

- **Workforce Success**
  - Knowledge-sharing index
  - Team performance index
  - Leadership Profile Index
  - Retention % of "A" players
  - Exit % of "C" players

- **Workforce Behaviors**
  - Knowledge-sharing index
  - Team performance index
  - Leadership Profile Index
  - Retention % of "A" players
  - Exit % of "C" players

#### Manufacturing

- **Mfg. Supervisor** (n=652)
  - Quality index
  - Order fulfillment rate
  - Standard cost performance
  - Working capital ratios
  - Lost-time injuries
  - Work stoppages
  - Productivity

#### Marketing & Sales

- **Sales Rep.** (n=900)
  - Market share of therapeutic area or drug class
  - New Rx vs Total Rx vs quota
  - Product and competitor knowledge
  - Sales calls > 5 mins with Doc
  - Sample productivity

- **All Others** (n=27,000)
  - Knowledge-sharing index
  - Team performance index
  - Leadership Profile Index
  - Retention % of "A" players
  - Exit % of "C" players

#### Workforce Competencies

- **R&D Scientist** (n=785)
  - Total % "A" players
  - % B players with A potential
  - % T&D for A players
  - % pay at risk for A Players
  - % options to A players
  - % bonus for A players
  - Skills checkout
  - Bench strength rating on 360

- **Mfg. Supervisor** (n=652)
  - Total % "A" players
  - % B players with A potential
  - % T&D for A players
  - % pay at risk for A Players
  - % options to A players
  - % bonus for A players
  - Skills checkout
  - Bench strength rating on 360

- **Sales Rep.** (n=900)
  - Total % "A" players
  - % B players with A potential
  - % T&D for A players
  - % pay at risk for A Players
  - % options to A players
  - % bonus for A players
  - Skills checkout
  - Bench strength rating on 360

#### Workforce Mindset/ Culture

- **R&D Scientist** (n=785)
  - % understand strategy
  - % committing to strategy
  - % have skills to execute strategy
  - % feeling culture supports strategy execution

- **Mfg. Supervisor** (n=652)
  - % understand strategy
  - % committing to strategy
  - % have skills to execute strategy
  - % feeling culture supports strategy execution

- **Sales Rep.** (n=900)
  - % understand strategy
  - % committing to strategy
  - % have skills to execute strategy
  - % feeling culture supports strategy execution

#### Workforce Financials

- **R&D Scientist** (n=785)
  - Total employment
  - Total T&D budget
  - Total bonus payouts
  - Total options granted

- **Mfg. Supervisor** (n=652)
  - Total employment
  - Total T&D budget
  - Total bonus payouts
  - Total options granted

- **Sales Rep.** (n=900)
  - Total employment
  - Total T&D budget
  - Total bonus payouts
  - Total options granted

- **All Others** (n=27,000)
  - Total employment
  - Total T&D budget
  - Total bonus payouts
  - Total options granted
From Metrics to Action – Using Analytics to Drive Strategy Execution

**Workforce Strategy: Process Flow for HR Practices**

<table>
<thead>
<tr>
<th>Current State</th>
<th>HR Practice Changes</th>
<th>Strategic Differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Same process for all positions</td>
<td>Staffing</td>
<td>• Constant recruiting for key positions</td>
</tr>
<tr>
<td>• Recruit on demand</td>
<td></td>
<td>• Line Ownership</td>
</tr>
<tr>
<td>• HR Driven</td>
<td></td>
<td>• Competency-based</td>
</tr>
<tr>
<td>• Once a year</td>
<td>Performance Management</td>
<td>• Ongoing/proactive for key positions</td>
</tr>
<tr>
<td>• Leaders not skilled with development planning &amp; feedback</td>
<td></td>
<td>• Leaders well trained and accountable</td>
</tr>
<tr>
<td>• Resistance to address issues</td>
<td>Development</td>
<td>• Performance issues managed</td>
</tr>
<tr>
<td>• Most development offered to all employees</td>
<td></td>
<td>• Greater differentiation of investment to build strategic capabilities</td>
</tr>
<tr>
<td>• Some differentiation for “Key talent”</td>
<td>Development</td>
<td>• More career guidance for key areas/positions</td>
</tr>
<tr>
<td>• “Random” approach to career pathing</td>
<td>Talent Management</td>
<td>• Competency approach</td>
</tr>
<tr>
<td>• No assessment or process for key positions</td>
<td></td>
<td>• Leadership development programs &amp; assessments well defined</td>
</tr>
<tr>
<td>• Success factors not well defined</td>
<td></td>
<td>• Supporting factors well-defined for key positions</td>
</tr>
<tr>
<td>• “Tough” calls are sometimes avoided</td>
<td>Talent Management</td>
<td>• Process ensuring that key talent occupies key positions</td>
</tr>
<tr>
<td>• Pay at market</td>
<td>Compensation</td>
<td>• Increase pay for key positions</td>
</tr>
<tr>
<td>• Pay for Performance</td>
<td></td>
<td>• Pay for performance - greater at risk pay for key positions</td>
</tr>
<tr>
<td>• Universal Retention Strategy</td>
<td></td>
<td>• Targeted Retention Plans</td>
</tr>
<tr>
<td>• Messaging for HR &amp; Leadership is unclear</td>
<td>Communications</td>
<td>• Processes are well-defined and communicated to HR &amp; Leadership</td>
</tr>
</tbody>
</table>
**Current HR Practices**

- **Staffing**
- **Performance Management**
- **Development**
- **Talent Management**
- **Compensation**
- **Communications**

**HR Practices for Support Roles**

**HR Practices for Strategic Positions**

---

**HCP Strategic Talent Responsibility Matrix**

<table>
<thead>
<tr>
<th>Initiatives Required</th>
<th>Line Manager</th>
<th>HR Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Leadership.</td>
<td>The President of this division must assume responsibility for the development of &quot;top talent&quot; for executive leadership positions. Tracking of the development of these individuals' progress through rotations, external programs and mentoring is essential. Two &quot;ready now&quot; executive caliber leaders are expected within 18 months.</td>
<td>Corporate HR must be involved in developmental efforts and explore potential executive &quot;top talent&quot; available for this division. CHR must also assess and suggest external programs to develop the available talent. CHR must be involved in the hiring of at least one external &quot;top talent&quot; executive this year.</td>
</tr>
<tr>
<td>Manufacturing Excellence.</td>
<td>The President of this division and the VP of Mfg. must devise a plan to significantly enhance manufacturing talent and track the results. At least a dozen &quot;top talent&quot; hires from the best schools or best practice firms must be accomplished in the next year. The hires must be familiar with the latest manufacturing tools (e.g., Six Sigma, etc.). The President and VP Mfg. are responsible for significant progress in the next two years. At least one-half of the 47 must be addressed. This will be a significant part of their performance evaluation.</td>
<td>Corporate HR must begin both a college recruiting program (6 hires) for manufacturing positions and develop a Manufacturing Leadership Program (MLP) for the new hires. They must also identify, recruit and be involved in the selection of external manufacturing talent with &quot;cutting edge&quot; skills. CHR must also develop a manufacturing skills training program to update all manufacturing supervisors. Significant overall competency enhancement is expected in manufacturing in the very near future, and HR must be up to this challenge!</td>
</tr>
</tbody>
</table>
### HCP Strategic Talent Responsibility Matrix

#### Initiatives Required

**Sales/Marketing.**
- We must exit our “move” individuals and significantly upgrade our brand management talent from our consumer insight talent. We should also develop better merchandising talent. Fifty percent of these positions are staffed with CL or move incumbents.

**R&D/New Product Development.**
- There are way too many career level individuals in this group and not enough top talent. We need at least four new design engineers who can develop new products and improve old products, especially our “hardy perennial” in-service problems.

#### Line Manager

**VP Sales & Marketing** is to initiate the hiring of two marketing directors and provide developmental plans for brand management and consumer insight specialists targeted on marketing director positions. The leadership of sales and marketing is accountable for measurable progress in workforce development in the next two years.

**VP Marketing and VP Manufacturing** must be honest in the assessment of talent in this group and devise a plan to achieve “top talent” status to not only better market new products, but also to reduce the cost of production through design.

#### HR Function

**CHR** must develop career growth models for the brand manager and consumer insight series to accelerate the development of “top talent” in these positions. **CHR**, in conjunction with **VP Marketing**, must acquire/develop at least one new brand manager and exit all “move” individuals.

### Aligning HR Practices to Deliver Strategic Talent at FridgeCo

#### Selection

| A Positions | Target: Attracting and growing candidates/employees from the top 15% of the available labor market for strategic positions.
| B Positions | Target: Attracting and growing candidates/employees from the middle of the labor market for positions which support the success of the strategic workforce.
| C Positions | Target: Attracting candidates from below the midpoint of the labor market for necessary positions which are neither strategic nor support strategic positions.

- Talent is constantly identified
- Never wait for a vacancy to recruit
- Ensure constant in the market for top candidates
- Seek referrals from very top performers
- Use a highly selective and specific hiring guide to screen employees using specific, high-expectation criteria

#### Performance Management

**“Success” is defined as meeting a market standard for performance.**
- Outstanding performance is slightly above what is considered the market standard
- Occasional feedback provided for standard and above-standard employees
- Employees performing very poorly are removed

#### Rewards

**Base compensation is set with the midpoint at the lowest quartile or the market for the position.**
- Base compensation is well above the third quintile in the market; may even have internal midpoint as high as the ninetieth percentile
- Significant “at risk” variable pay is used as an incentive with top performing employees, often doubling or tripling their base compensation (or even higher in many instances)
- Incentive pay does not become a part of base pay

**Incentive pay is provided based on the range of market movement for the position (e.g., 3-4%) with top performers getting twice the maximum increase if they are below market.**
- Gainsharing/galoshing is encouraged
- Incentive pay does not become a part of base pay
Strategic Talent at FridgeCo (Con’t)

**Development Communications Work Design**

<table>
<thead>
<tr>
<th>A Positions</th>
<th>HR Leader Strategic Talent Recap</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target: Attracting and growing candidates/employees from the top 10% of the available labor market for strategic positions.</strong></td>
<td>• Exit moves and “careens.”</td>
</tr>
<tr>
<td>• Significant developmental resources are set aside for investing in individuals in these positions.</td>
<td>• Hire developing talent.</td>
</tr>
<tr>
<td>• Each employee in these positions has a mentor (or external coach), is considered for rotational assignments and provided internal and external training opportunities.</td>
<td>• Hire and move “top talent” into 38 career level/move positions.</td>
</tr>
<tr>
<td>• Best practices are encouraged and efforts devoted to the development, identification and sharing of best practice examples.</td>
<td></td>
</tr>
<tr>
<td>• Funds are readily available for attending professional conferences and best practice audits.</td>
<td></td>
</tr>
<tr>
<td>• Attendance at a special orientation designed for strategic positions is mandatory.</td>
<td></td>
</tr>
<tr>
<td><strong>Messages acknowledge employees’ value to the firm and that their roles make the firm’s business strategy become a reality.</strong></td>
<td></td>
</tr>
<tr>
<td>• They are often in contact with “stretch” customers to learn new ways of enhancing the value of their efforts in meeting customer requirements.</td>
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</tr>
<tr>
<td>• Messages from top management make them intimately familiar with the firm’s business strategy.</td>
<td></td>
</tr>
<tr>
<td>• Supervisors consistently assure top performers in these positions their value to the firm now and in the future.</td>
<td></td>
</tr>
<tr>
<td>• New and improved ways of adding strategic value are incentivized and rewarded.</td>
<td></td>
</tr>
<tr>
<td><strong>STRATEGIC CAPABILITY: Manufacturing Excellence</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Work Design Selection Development Performance Mgt. Rewards Communication</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>STRATEGIC POSITIONS:</strong></td>
<td></td>
</tr>
<tr>
<td>Plant Managers</td>
<td></td>
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<tr>
<td>Area Supervisors</td>
<td></td>
</tr>
<tr>
<td><strong>ACTION PLANS:</strong></td>
<td></td>
</tr>
<tr>
<td>• Exit moves and “careens.”</td>
<td></td>
</tr>
<tr>
<td>• Hire developing talent.</td>
<td></td>
</tr>
<tr>
<td>• Hire and move “top talent” into 38 career level/move positions.</td>
<td></td>
</tr>
</tbody>
</table>

FridgeCo Workforce Plan

**STRATEGIC CAPABILITY: Manufacturing Excellence**

**STRATEGIC POSITIONS:**
- Plant Managers
- Area Supervisors
- Supervisors

**ACTION PLANS:**
- Exit moves and “careens.”
- Hire developing talent.
- Hire and move “top talent” into 38 career level/move positions.
## FridgeCo Workforce Plan

### STRATEGIC CAPABILITY:
Sales/Marketing

### STRATEGIC POSITIONS:
- Marketing Director
- Brand Managers
- Consumer Insight Specialists
- Merchandising Managers

### ACTION PLANS:
- Exit "moves" and initiate campus recruiting and career development plans to strengthen marketing talent at all levels.
- Conduct a best practice study outside our industry on offshoring and growing consumer insight talent. Visit at least 3 "qualified" best practice firms and develop consumer insight career growth model.
- Exit "moves" and initiate campus recruiting and career development plans to strengthen marketing talent at all levels.
- Exit careerists (14 of 20 in this category). We need at least 4 new design engineers who can develop new products and improve old products, especially our hardy perennial in-service problem products.
- Exit careerists (14 of 20 in this category). We must honestly assess talent in this group.

### HR PRACTICE ACTIONS

<table>
<thead>
<tr>
<th>Work Design</th>
<th>Selection</th>
<th>Development</th>
<th>Performance Mgt.</th>
<th>Rewards</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Exit &quot;moves&quot; and initiate campus recruiting and career development plans to strengthen marketing talent at all levels. Reduce number of Career Level's (CL) and &quot;moves&quot; (12) to provide opportunities for talent we intend to hire.</td>
<td>• Develop career growth models for brand manager/consumer insight series. Work with Corporate HR to develop a career development profile that details the specific responsibilities, competencies, and metrics indicative of competency acquisition in each position within the series.</td>
<td>• Exit careerists (14 of 20 in this category). We must honestly assess talent in this group.</td>
<td>• Hire 2 marketing directors in next 12 months.</td>
<td>• Exit careerists – so we have 14 of 20 in this category.</td>
<td>• Exit careerists (14 of 20 in this category). We need at least 4 new design engineers who can develop new products and improve old products, especially our hardy perennial in-service problem products.</td>
</tr>
<tr>
<td>• Upgrade our brand-management and consumer insight talent. Acknowledge that 50% of these positions are staffed with CL or move incumbents.</td>
<td>• Provide development plans for all brand manager and consumer insight positions.</td>
<td>• Design competency growth reward system.</td>
<td>• Devise a plan to achieve top-talent status to reduce the cost of production.</td>
<td>• Begin to reward competency growth and provide progressions in addition to promotion incentives as individuals check out on competency acquisitions.</td>
<td>• HR and line management must communicate to top-talent how much they are valued and our developmental plans for them.</td>
</tr>
<tr>
<td>• Hire 2 marketing directors in next 12 months.</td>
<td>• Exit careerists (14 of 20 in this category). We must honestly assess talent in this group.</td>
<td>• Devise a plan to achieve top-talent status to reduce the cost of production.</td>
<td>• Design a new product/idea business proposal process to jump start new product/idea/creativity process.</td>
<td>• Work with marketing executives to assure that they have communicated with all emerging marketing talent on their future value to the firm and the developments we have for them.</td>
<td>• Exit careerists (14 of 20 in this category). We need at least 4 new design engineers who can develop new products and improve old products, especially our hardy perennial in-service problem products.</td>
</tr>
</tbody>
</table>

## FridgeCo Workforce Plan

### STRATEGIC CAPABILITY:
R&D/New Product Development

### STRATEGIC POSITIONS:
- Design Engineers
- Cooling Specialists
- Laundry Specialists

### ACTION PLANS:
- Initiate external hiring programs for "top talent" at all levels.
- Begin to exit careerists – so we have 14 of 20 in this category.

### HR PRACTICE ACTIONS

<table>
<thead>
<tr>
<th>Work Design</th>
<th>Selection</th>
<th>Development</th>
<th>Performance Mgt.</th>
<th>Rewards</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Assign our best facilitators (change agent from CHR) to work with the new product design team and manufacturing to significantly enhance new product design process and better assure product quality.</td>
<td>• Initiate external hiring program for top talent at all levels of R&amp;D/NPD.</td>
<td>• Devise a plan to achieve top-talent status to reduce the cost of production.</td>
<td>• Executive leadership must honestly assess talent in this group.</td>
<td>• Work with marketing executives to assure that they have communicated with all emerging marketing talent on their future value to the firm and the developments we have for them.</td>
<td>• Exit careerists (14 of 20 in this category). We need at least 4 new design engineers who can develop new products and improve old products, especially our hardy perennial in-service problem products.</td>
</tr>
<tr>
<td>• Design selection process for new design engineers.</td>
<td>• Exit careerists (14 of 20 in this category). We must honestly assess talent in this group.</td>
<td>• Devise a plan to achieve top-talent status to reduce the cost of production.</td>
<td>• Design a new product/idea business proposal process to jump start new product/idea/creativity process.</td>
<td>• Exit careerists (14 of 20 in this category). We need at least 4 new design engineers who can develop new products and improve old products, especially our hardy perennial in-service problem products.</td>
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</tr>
<tr>
<td>• Develop a referral network with external recruiting sources for design engineers.</td>
<td>• Exit careerists (14 of 20 in this category). We must honestly assess talent in this group.</td>
<td>• Devise a plan to achieve top-talent status to reduce the cost of production.</td>
<td>• Design a new product/idea business proposal process to jump start new product/idea/creativity process.</td>
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</tr>
</tbody>
</table>
**FridgeCo Workforce Plan**

**OTHER HR ACTIONS**
- To access markets in China, India and perhaps Russia we need to establish facilities there to enable us to have inroads and manufacture for those markets, with basic supply coming from North America. These issues need to be explored within the next 6 months and possible site locations determined.
- Assign significant staff to help staff our offshore manufacturing efforts.
- Play a significant role in site selection, workforce analysis, and staffing.
- Automate more of customer service to enhance accuracy and efficiency, with more complex and detailed inquiries handled by employees. Voice imaging/automation has advanced to the extent that we believe we can improve our customer interface through automation.
- Serve on team to automate at least 75% of customer service call center by year-end.
- Design the roles necessary to serve this role and with corporate recruiting hire the staff to maintain this effort.

**HR DELIVERABLES**
- Effectiveness: Reduce HR cost as a percent of payroll by 3%.
- Efficiency: Reduce HR cost as a percent of payroll by 3%.

**STRAIGHT TALENT TARGET METRICS**
- **EFFICIENCY:** Reduce HR cost as a percent of payroll by 3%.
- **STRATEGIC TALENT METRICS**

---

**HR Leader Strategic Talent Recap**

**OTHER HR ACTIONS**
- Assure that all employee benefit information requests are referred to our vendor.
- Reduce efforts with employees on HR self-services as we end our transition to our vendor.

**HR DELIVERABLES**
- Effectiveness: Reduce all strategic position targets in Workforce Plan are met by year-end.
- Efficiency: Reduce HR cost as a percent of payroll by 3%.

**STRAIGHT TALENT TARGET METRICS**
- **EFFICIENCY:** Reduce HR cost as a percent of payroll by 3%.
- **STRATEGIC TALENT METRICS**

---

**Centers of Excellence**
- Unique recruiting efforts focusing on “A” positions
- Design and programs for “C” player transition
- Redesign survey instruments to shorten and focus on strategic understanding and firm/LOB product knowledge
- Redesign corporate leadership development program

**Service Centers**
- Redeploy investments to “A” positions
- Improve efficiency of all HR transaction process
- Being major outsourcing of all HR transaction processing
- Screen automation candidates for customer service delivery system

---

**Transitioning HR Practices**

**Strategic Talent as a Sustainable Source of Competitive Advantage: Alignment for Value Creation**

<table>
<thead>
<tr>
<th>Old Focus</th>
<th>New Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Question</strong></td>
<td><strong>Data Needed</strong></td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>Is our workforce aligned / happy?</td>
</tr>
<tr>
<td><strong>Work Design</strong></td>
<td>How do we do our work?</td>
</tr>
<tr>
<td><strong>Selection</strong></td>
<td>Are we fair in our selection process?</td>
</tr>
<tr>
<td><strong>Training/ Development</strong></td>
<td>How did our participants feel about our training?</td>
</tr>
<tr>
<td><strong>Performance Management</strong></td>
<td>Are performance appraisals completed and on time?</td>
</tr>
<tr>
<td><strong>Rewards</strong></td>
<td>Is our program fair?</td>
</tr>
</tbody>
</table>

---

45
## Strategic Questions for Every HR Practice: A quick audit of how strategic your HR function is and what to do about it!

### To what extent is your HR function doing the following?

<table>
<thead>
<tr>
<th>Strategic Questions(s)</th>
<th>Communication</th>
<th>Work Design</th>
<th>Performance Management</th>
<th>Selection</th>
<th>Development</th>
<th>Rewards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To What Extent...?</strong></td>
<td>Low 1 2 3 4 5 Hgp</td>
<td>Low 1 2 3 4 5 Hgp</td>
<td>Low 1 2 3 4 5 Hgp</td>
<td>Low 1 2 3 4 5 Hgp</td>
<td>Low 1 2 3 4 5 Hgp</td>
<td>Low 1 2 3 4 5 Hgp</td>
</tr>
<tr>
<td><strong>Action Needed</strong></td>
<td><strong>Success Metric</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Communicate business strategy and the firm’s status, especially relative to competitors</td>
<td>Survey to measure the extent our workforce knows your firm’s strategy and how successful you are in achieving your strategic objectives</td>
<td></td>
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</tr>
<tr>
<td>Focus on eliminating all non-value added work and engaging only in work our customers are willing to pay for</td>
<td>Measure financial savings of work eliminated</td>
<td></td>
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</tr>
<tr>
<td>Use zero-based work budgeting to get jobs—never use job descriptions or standard performance management formats for performance planning</td>
<td>Measure the revenue impact of customer valued work added</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Select from the top 10-15% of the available labor market for all strategic positions. Build an inventory of strategic talent outside your firm to minimize time to fill vacancies in strategic roles</td>
<td>Measure performance variability across incumbents. Objective: high variability</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Build career development models to accelerate growth in all strategic roles with a substantial number of incumbents</td>
<td>Assess leaders on their efforts to manage the performance of</td>
<td></td>
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</tr>
<tr>
<td>Reward top performers well above the market and non-strategic roles at and near Q1. Reward career development achievements by strategic players immorally</td>
<td>Reward top performers well above the market and non-strategic roles at and near Q1. Reward career development achievements by strategic players immorally</td>
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</tr>
</tbody>
</table>

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### Line Management’s Workforce Responsibility: The Manager’s HR Roles

**PERFORMANCE MANAGEMENT: How well does my manager...**

1. detail what is expected of me in my job? 1 2 3 4 5
2. provide feedback on how well I am performing throughout the year? 1 2 3 4 5
3. provide equitable rewards and recognition based on my performance? 1 2 3 4 5
4. demonstrate interest in my professional development and provide me with stretch experiences? 1 2 3 4 5

**SELECTION: How well does this manager...**

1. detail performance and competency expectations in preparing to make staffing/selection decisions? 1 2 3 4 5
2. interview candidates and provide detailed feedback to HR? 1 2 3 4 5
3. ask HR for a list of internal candidates? 1 2 3 4 5
4. review internal candidates and provide feedback on each? 1 2 3 4 5

**DEVELOPMENT: How well does this manager...**

1. hold individual one-on-one development sessions separate from performance appraisals? 1 2 3 4 5
2. discuss career opportunities and offer developmental assignments to enhance eligibility? 1 2 3 4 5
3. contacts their manager to aid in employees’ career growth? 1 2 3 4 5
4. provide candid feedback about reality of career advancement? 1 2 3 4 5

**WORK DESIGN/REDESIGN: How well does this manager...**

1. continually redesign work to add greater strategic value? 1 2 3 4 5
2. eliminate work no longer adds value? 1 2 3 4 5

**COMMUNICATIONS: How well does this manager...**

1. continually remind us of the metrics indicative of our success and where we stand? 1 2 3 4 5
2. remind us of our obstacles and what we need to do to remove them? 1 2 3 4 5
3. provide strategic direction for our group? 1 2 3 4 5
4. communicate the value of our team incentive and why we receive it? 1 2 3 4 5
STRATEGIC HR Planning:
How well does my manager...

1. Identify strategic wealth-creating positions? 1 2 3 4 5
2. Identify strategic positions which have a significant impact on customers? 1 2 3 4 5
3. Assure that we have “top talent” in these strategic positions? 1 2 3 4 5
4. Remove “C” and “B” players from these strategic roles? 1 2 3 4 5
5. Identify emerging strategic talent and enable their rapid growth into “top talent”? 1 2 3 4 5
6. Assure that “career level” talent in strategic positions are outstanding performers? 1 2 3 4 5

Assessed by HR or the Firm’s “Chief Talent Officer”

Six Month Target

XYZ Corp. Human Capital Plan
Strategic Talent HCP
Business Leader Recap Position Scorecard
Line of Business: Retail Appliance Division
Business Strategy: Low cost producer and major provider to “Big Box” retailers for highly price sensitive retail customers

STRATEGIC CAPABILITIES:

<table>
<thead>
<tr>
<th>Capability</th>
<th>STATUS</th>
<th>Potential (5)</th>
<th>Performance (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Leadership</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing Excellence</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales/Marketing</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D/New Product Development</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

STRATEGIC POSITIONS:

<table>
<thead>
<tr>
<th>Position</th>
<th>Number (25)</th>
<th>Top Talent (1)</th>
<th>Emerging Talent (1)</th>
<th>Career Level Move (2)</th>
<th>Action Plan (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Leadership</td>
<td>-</td>
<td></td>
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<tr>
<td>- VP Marketing</td>
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<td>- VP Mfg.</td>
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<td>- CFO</td>
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<tr>
<td>Manufacturing</td>
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<tr>
<td>- Plant Managers</td>
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<tr>
<td>- Area Supervisors</td>
<td>48</td>
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<td>7</td>
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</tr>
<tr>
<td>Sales/Marketing</td>
<td>-</td>
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<td></td>
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</tr>
<tr>
<td>- Marketing Directors</td>
<td>6</td>
<td></td>
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</tr>
<tr>
<td>- Brand Managers</td>
<td>5</td>
<td></td>
<td>1</td>
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<td></td>
</tr>
<tr>
<td>- Consumer Insight Specialists</td>
<td>7</td>
<td></td>
<td>0</td>
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<tr>
<td>R&amp;D/New Product Development</td>
<td>-</td>
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<tr>
<td>- Design Engineers</td>
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<tr>
<td>- Testing Operations</td>
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<tr>
<td>- Laboratory Operations</td>
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</tr>
</tbody>
</table>

Mentors needed: 103

Key:
Today = Black. 12 month target = Red
## XYZ Corp. Human Capital Plan

### Strategic Talent HCP

**Business Leader Recap Position Scorecard**

<table>
<thead>
<tr>
<th>Line of Business:</th>
<th>Retail Appliance Division</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Strategy:</strong></td>
<td>Low cost producer and major provider to &quot;Big Box&quot; retailers for highly price sensitive retail customers</td>
</tr>
</tbody>
</table>

### Status

<table>
<thead>
<tr>
<th>Strategic Capabilities:</th>
<th>Abysmal (1)</th>
<th>Less Competitive (2)</th>
<th>Competitive (3)</th>
<th>Very Competitive (4)</th>
<th>World Class (5)</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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<td>Manufacturing</td>
<td>4</td>
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<td>Sales/Marketing</td>
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<td>R&amp;D/New Product</td>
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### Strategic Positions

<table>
<thead>
<tr>
<th>Strategic Positions</th>
<th>Number</th>
<th>Top Talent</th>
<th>Emerging Talent</th>
<th>Current Level</th>
<th>Action Plans</th>
</tr>
</thead>
</table>

**Executive Leadership**

- **VP Marketing**
  - Top Talent: 1
  - Emerging Talent: 1
  - Current Level: 1
  - Action Plans: Develop more talent from sales and marketing

- **VP Mfg.**
  - Top Talent: 1
  - Emerging Talent: 1
  - Current Level: 1

- **CFO**
  - Top Talent: 1
  - Emerging Talent: 1
  - Current Level: 1

**Manufacturing**

- **Plant Managers**
  - Number: 15
  - Top Talent: 9
  - Emerging Talent: 5
  - Current Level: 5

- **Area Supervisors**
  - Number: 36
  - Top Talent: 15
  - Emerging Talent: 15
  - Current Level: 36
  - Action Plans: Exit moves and move "top talent" into the 38 career level/move positions

**Sales/Marketing**

- **Marketing Directors**
  - Number: 4
  - Top Talent: 4
  - Emerging Talent: 0
  - Current Level: 4
  - Action Plans: Exit moves and initiate campus recruiting and career development plans to strengthen marketing talent at all levels

- **Brand Managers**
  - Number: 7
  - Top Talent: 2
  - Emerging Talent: 1
  - Current Level: 7
  - Action Plans: Exit moves and initiate campus recruiting and career development plans to strengthen marketing talent at all levels

- **Consumer Insight Specialists**
  - Number: 7
  - Top Talent: 5
  - Emerging Talent: 2
  - Current Level: 7
  - Action Plans: Exit moves and initiate campus recruiting and career development plans to strengthen marketing talent at all levels

- **Merchandising Managers**
  - Number: 6
  - Top Talent: 3
  - Emerging Talent: 3
  - Current Level: 6
  - Action Plans: Exit moves and initiate campus recruiting and career development plans to strengthen marketing talent at all levels

**R&D/New Product Development**

- **Design Engineers**
  - Number: 9
  - Top Talent: 7
  - Emerging Talent: 2
  - Current Level: 9
  - Action Plans: Exit moves and initiate external hiring program for "top talent" at all levels. Begin to exit careerists – we have 14 of 20 in this category.

- **Cooling Specialists**
  - Number: 3
  - Top Talent: 3
  - Emerging Talent: 0
  - Current Level: 3
  - Action Plans: Exit moves and initiate external hiring program for "top talent" at all levels. Begin to exit careerists – we have 14 of 20 in this category.

- **Laundry Specialists**
  - Number: 6
  - Top Talent: 4
  - Emerging Talent: 1
  - Current Level: 6
  - Action Plans: Exit moves and initiate external hiring program for "top talent" at all levels. Begin to exit careerists – we have 14 of 20 in this category.

**Total**

- Number: 111
- Top Talent: 92
- Emerging Talent: 19
- Current Level: 111
- Action Plans: Total talent needs are 376. Need 64 mentors.

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### What Have We Learned?

- RXM: 12 month target = Red

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### Key

- Today = Black
- 12 month target = Red

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**School of Business**

D’Amore-McKim

Northeastern University
Key Conclusions and Takeaways

- First and foremost: *do no harm*. The most commonly used measures of HR function performance are often *negatively* related to firm performance. Seemingly innocuous measures can in fact be hazardous to your firm’s success.

- Generic HR measures are unlikely to ever be strategic.

- Some of the most common measures (time to fill, cost per hire) are so highly correlated that they represent essentially the same information.

- The problem with this list is as much what *is* here as much as what *isn’t*. The factors which differentiate firm success are talent and ability to execute strategy, not HR transactions.

- Measuring the 1% vs. the 67% - focus on measuring the *workforce*, not the *HR function*.

Conclusions

- There are many, many roles that can destroy wealth in organizations. But only a very few roles that can actually create great wealth.

- 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*. 
Conclusions (Con’t)

• “A” or strategic positions are those which impact strategy and exhibit high variability in employee performance.

• Strategic capabilities provide the context for improvement: Variability in employee performance provides the opportunity for improvement.

• Strategic positions can appear at any level in the firm.

Conclusions (Con’t)

• Great firms manage their workforces like a portfolio and leverage its return – investing disproportionately in the highest return strategic work and strategic positions.

• But…..Most organizations 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.
Conclusions (Con’t)

• What does this mean? The greatest potential opportunity to impact firm performance is likely to be located in (some, very specific) strategic positions.

• But we’ll never know unless we build an analytical framework and collect the data we need to help us understand how talent makes a difference.

• And then act on these insights!

Key Steps in Successful Analytics Initiatives

• Read the research and build a theory or model that shows what causes what in your organization

• First determine what to measure – then collect reliable and valid data

• Use analytical tools to estimate the impact of talent on the organizational outcomes you care about:
  – Regression
  – Network analysis
  – Swarm analysis

• Focus on data for decision-making, and hold managers accountable for enacting evidenced-based management
Influencing the Right Decisions

- Critical causal thinking
- Principles of good measurement
- Estimating causal relationships
- Communicating HR strategic performance results to senior line managers
Questions and Comments?