Growing the HR Value Proposition

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CEO, Metrus Group

SCNetwork Subscriber Group
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Metrus Research and Cases

- We have learned a lot about HR effectiveness from:
- Based on:
  - 75 recent human capital thought leader interviews
  - ASQ study of over 2000 organizations
  - Quality Progress study of over 800 organizations
  - Ongoing audience surveys
  - Custom corporate & non-profit surveys of HR
  - Many more....
Reinventing Talent is an outstanding blend of research and practice. It reports compelling research on the value of investing in talent and offers specific recommendations on how to develop people equity through alignment, capabilities, and engagement. The book confirms what good people managers do and offers specific guidelines for those wanting to upgrade their people management skills.

Dave Ulrich
Professor, Ross School of Business
University of Michigan
Partner, The RBL Group

Key Trends

1. Unprecedented **uncertainty**
2. A **glut of suppliers** locally & globally
3. Increasing **diversity**
4. **Automation and Asia**
5. **Human capital and knowledge** an increasing component of customer and financial value
6. **Speed**
Key Implications

1. **Businesses must create value faster**
   a. Customers have a choice
   b. More sophisticated; expect more
   c. Differentiation a challenge

2. **Human capital stakes are high**
   a. Alignment means productivity
   b. Customers expect Capabilities
   c. Engagement can tip the scale

3. **Expectations of HR increasing rapidly**

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Key Implications (cont’d)

4. **Value** driving decisions more than ever before
   a. Strategies sound? Aligned?
   b. *Right* Information?
   c. Business acumen?
   d. One size fits all?
   e. Resource efficiency?
   f. Adaptability and flexibility?
   g. Accountability?
Value Equals...

**Quality of Relationship/Service**

**Cost of Relationship**

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HR Internal Service ratings Improved, but still ranked lower than most functions

![Bar chart showing HR Internal Service ratings for different functions from 1993 to 2007.](chart.png)

Why?
The Keys

- A Great Value Proposition
- High People Equity
- The Right Measures
- Resource Leverage
- Assess Impact!

Research on HR Leaders vs. Followers

- HR Leaders operationally defined as:
  - Influence with C-Suite
  - Ample budget
  - Rated highly by (internal) stakeholders
The Path to HR Success: Have a Strategy that Defines Value

- Org. has a clear people strategy
- HR Strategy tied to org. strategy
- Employees know the business strategy

Our organization has a clearly defined people strategy.

- Employee Retention
- Financial Performance
- Productivity
- Customer Satisfaction

Percent of Companies where HR has defined people strategy
HR has clear strategy that is tied to the strategy of the organization.

![Graph showing percent of companies where HR has strategy tied to organization's strategy](image)

Employees at every level can describe the key elements of the business strategy.

![Graph showing percent of companies where employees understand the business strategy](image)
Elements of an Effective Strategy

Mission
- Purpose for existing from the customer's view
- Our value to society

Vision
- What success will look like
- Celebration headlines for future employee meetings
- Our strategic goals

Drivers
- Areas where we must excel if we are to achieve our strategic goals

Founding Assumptions
- What we believe about the future, our markets, our own organization and the competition

Mission & Vision

Strategic Goal #1
- M

Strategic Goal #2
- M

Strategic Goal #3
- M

Drivers
- Driver #1
- Driver #2
- Driver #3
- Driver #4
- Driver #5
- Driver #6
- Driver #7

Founding Assumptions
- Assumption #1
- Assumption #2
- Assumption #3

Value Map

Environment

People

Product/Service Value Creation

Customer Equity

Shareholder Equity

Suppliers
Strategic Business Map—Value Proposition

Management Excellence
- Vision
- Coaching
- Modeling

Core Values

Alignment
- Service goals
- Sufficient talent pipeline
- Rewards for Loyalty

Capabilities
- Communications
- Customer Knowledge
- Teamwork

Engagement
- Enjoy Service
- Fast Paced
- Up under pressure

Price
Customer Retention
Market Share

Service Benchmarks
Productivity
Inventory Turnover

Customer Loyalty

Net Income

Gross Sales

Customer Retention

Capabilities
- Communications
- Customer Knowledge
- Teamwork

Engagement
- Enjoy Service
- Fast Paced
- Up under pressure

Product availability

Sample HR Map—Value Proposition

HR DRIVERS
Talent Acquisition -Branding -Onboarding
HR Business Acumen
“A” Retention Programs

PEOPLE ENABLERS
Management Excellence
Your Core Values

PEOPLE DRIVERS
Alignment: Goals - Rewards - Pipeline
Unique Capabilities
Engagement

PEOPLE OUTCOMES
Key Role Talent Retention
Productivity

BUSINESS DRIVERS
Customer Value

BUSINESS OUTCOMES
Cost
Net Income

Map Key:
HR Drivers
People
Operations
Customer
Financial

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What Are Your Unique Strategy Drivers?

1. Unique elements of your business strategy that differentiate you?

2. What would you expect your people to observe and do differently?

3. What is HR’s explicit connection to your people and business strategy?

Key Message #1: Uniqueness of Value

Value is created when behaviors, activities and investments are aligned with the business strategy
The Keys

- A Great **Value Proposition**
- High **People Equity**
- The **Right Measures**
- Resource Leverage
- Assess **Impact!**

Conference Board Research

“While senior management is fond of saying that employees are the firm’s most precious asset... evidence suggests quite the contrary.”

L. Schein
Manager’s Guide to Corporate Culture
Conference Board Report 926
People Equity is Key Driver of Shareholder Equity

Shareholder Equity

Customer Equity
- Relationship Value
- Brand Equity
- Product/Service Value

People Equity
- Alignment
- Capabilities
- Engagement

People Drivers

HR Drivers

People Investments, Initiatives

Industry Leaders

<table>
<thead>
<tr>
<th>Quality Performance</th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>High People Equity</td>
<td>Low People Equity</td>
</tr>
<tr>
<td>71%</td>
<td>65%</td>
</tr>
<tr>
<td>18%</td>
<td>37%</td>
</tr>
</tbody>
</table>
Turnover – Overall

- Top Quartile PE: 7.7%
- Bottom Quartile PE: 16.7%

People Equity

Alignment
- Are we going in the same direction?

Capabilities
- Do we have what we need to succeed?

Engagement
- Are we advocates?
Building Alignment

- Communicating the unique goals of the organization
- Clear priorities
- Roles aligned with goals
- Performance management
- Clear measures
- Rewards for performance

Do Your People Have the Capabilities They Need?

INFORMATION

RESOURCES & TOOLS

TALENT
Engagement as Advocacy

Willingness to:
- Put in extra effort (time, energy, thinking)?
- Go beyond the minimal job description to solve organizational problems and help it achieve higher performance?
- Encourage people they value—friends and family perhaps—to:
  • Consider working for this organization?
  • Support this organization’s products or services?
  • Invest in this organization (publicly traded)?

The Engagement Hierarchy

Advocacy
Commitment
Satisfiers
On the Road to HR Success

Alignment Measured
- HR Follower
- HR Leader

Capabilities measured

Engagement measured

Mismanaged People Equity Leads To . . .

<table>
<thead>
<tr>
<th>ALIGNMENT</th>
<th>CAPABILITIES</th>
<th>ENGAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Overstaffing</td>
<td>• Dissatisfied customers</td>
<td>• Low productivity, growth and margins</td>
</tr>
<tr>
<td>• Missed goals</td>
<td>• Work product</td>
<td>• Talent Loss</td>
</tr>
<tr>
<td>• Burnout-working hard, but not smart</td>
<td>• Relationship mgmt</td>
<td>• Payroll drag: employees retired in place</td>
</tr>
<tr>
<td>• Sub optimized performance</td>
<td>• Employee frustration; turnover</td>
<td>• Lackluster performance</td>
</tr>
<tr>
<td></td>
<td>• Overstaffing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Supervisory burnout</td>
<td></td>
</tr>
</tbody>
</table>
Which Profile Do You Manage?

<table>
<thead>
<tr>
<th>Alignment</th>
<th>Capabilities</th>
<th>Engagement</th>
<th>Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Superior Performance</td>
</tr>
<tr>
<td>↓</td>
<td>↓</td>
<td>↑</td>
<td>Cheerleader</td>
</tr>
<tr>
<td>↑</td>
<td>↓</td>
<td>↑</td>
<td>Under Equipped</td>
</tr>
<tr>
<td>↓</td>
<td>↑</td>
<td>↑</td>
<td>Strategic Disconnect</td>
</tr>
<tr>
<td>↑</td>
<td>↑</td>
<td>↓</td>
<td>Under Achiever</td>
</tr>
<tr>
<td>↑</td>
<td>↓</td>
<td>↑</td>
<td>Frustrated / Cynical</td>
</tr>
<tr>
<td>↓</td>
<td>↓</td>
<td>↓</td>
<td>Wasted Talent</td>
</tr>
<tr>
<td>↓</td>
<td></td>
<td></td>
<td>Retired In Place</td>
</tr>
</tbody>
</table>

Different Strategies, Different Measures

<table>
<thead>
<tr>
<th>POSSIBLE MEASURES</th>
<th>Common Across Strategies</th>
<th>Cost Leadership</th>
<th>Innovation</th>
<th>Customer Intimacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEOPLE: Alignment</td>
<td>• Goals alignment</td>
<td>• Goals/Values:</td>
<td>• Goals/Values:</td>
<td>• Goals/Values:</td>
</tr>
<tr>
<td></td>
<td>• Customer alignment</td>
<td>• Efficiency</td>
<td>• SOA applications</td>
<td>• Customer focus</td>
</tr>
<tr>
<td></td>
<td>• Values alignment</td>
<td>• Spartan</td>
<td>• Autonomy</td>
<td>• Empowerment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Revenue per</td>
<td>• Innovation awards</td>
<td>• Tenure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>employee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capabilities</td>
<td>• Talent match</td>
<td>• Efficiency</td>
<td>• Idea generation</td>
<td>• Service skills</td>
</tr>
<tr>
<td></td>
<td>• Resource match</td>
<td>• analysis</td>
<td>• Creativity</td>
<td>• Customer</td>
</tr>
<tr>
<td></td>
<td>• Information match</td>
<td>• Cost awareness</td>
<td></td>
<td>knowledge</td>
</tr>
<tr>
<td>Engagement</td>
<td>• Satisfiers</td>
<td>• Task fulfillment</td>
<td>• Diversity</td>
<td>• Service recovery</td>
</tr>
<tr>
<td></td>
<td>• Commitment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Advocacy</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>
People Outcomes and Drivers

1. What are the most important outcomes of people in your organization?

2. What are the factors that drive those outcomes?

3. How will we uniquely manage and grow People Equity?

Key Message #2: People Equity

Human Capital impact is the result of alignment, capabilities, and engagement in your strategic context!
The Keys

- A Great **Value Proposition**
- High **People Equity**
- The **Right Measures**
- **Resource Leverage**
- Assess **Impact!**

The Path to HR Success: Measure Against the Strategy

- Measures in place for people strategy
- HR Scorecard used to drive & evaluate success

Graph shows comparison between HR Followers and HR Leaders.
The organization has a set of strategic measures to evaluate progress in implementing the people strategy.

![Graph showing percent of companies where HR has strategic measures on performance measures.]

### Traditional People Metrics

- Positions Filled
- Turnover
- Satisfaction
- Leadership
- Courses
- Headcount
- Diversity Balance
- Training Hours
- Appraisals Completed
...HR Metrics Often Fall Short In:

- Creating Executive Buy-In
- Driving Resource Allocation
- Demonstrating Value

Why?

Types of Metrics

Impact
  Talent Meets Customer Needs

Effectiveness
  Recruit Talent that Stays

Efficiency
  Number of Requisitions Filled
Using People Equity to Illustrate Examples

- Self audits can be a start
  - Quick, but can be highly biased

- Objective audits
  - More exact, but more costly
  - Can work out more complex formulas for measuring units, teams, individuals

- Surveys often provide 80/20 estimate
  - People are the stakeholder
  - Behaviors are connected to perceptions

People Equity Scorecard

A - Alignment  C - Capabilities  E - Engagement
Red = Trouble  Yellow = OK  Green = Strength
Drivers & Enablers of People Equity

**People Equity**

**FACTORS**
- Alignment
- Capabilities
- Engagement

**DRIVERS**
- HR Systems
- Innovation
- **Unique Strategy Elements**
- Structure
- Technology Systems

**ENABLERS**
- Values/Operating Style
- Leadership
- Direction/Strategy

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Some Potential Strategic HR Metrics

- **Key People Outcomes**: High Performer Retention
- **Alignment, Capabilities, and Engagement**—**People Equity**—Predicts:
  - High Performer Retention
  - Customer Satisfaction
  - Productivity, Quality & Financial Performance
- **Key Drivers** of PE for Your Organization: Core Values, Leadership, HR Systems, Strategy, Information
- **Measures that Differentiate** You from Your Competition (e.g., Service vs. Efficiency)
1. What does your People Equity profile look like?
2. Are there systemic gaps that can be closed?
3. How much variance is there in your organization?
4. Are we selectively and differentially applying solutions to different units?
5. Are we using strategic information (e.g., PE) in leadership development and succession planning?

Key Message #3: Measures that Matter

Create and deploy measures that matter! Make sure your metrics help you make decisions
The Keys

- A Great **Value Proposition**
- High **People Equity**
- The **Right Measures**
- **Resource Leverage**
- **Assess Impact!**

Who Are Your Stakeholders?

- Funders?
- Influencers?
- Customers/Users?
- Partners/Interested Parties?
- Are all of your stakeholders equal?

**Perceptions drive resources, decisions, behaviors!**
An extensive analysis of over 30,000 employees in 76 healthcare facilities throughout the United States showed higher levels of *People Equity* to reliably predict hospital loyalty among Physicians and Patients. *People Equity* was also linked directly to financial performance. A meta-analysis showed higher levels of *People Equity* to be a highly reliable predictor of employee’s desire to remain employed with their current hospital.
Funder Example

Remember, Stakeholders Judge Value on Three Dimensions
HR Strengths and Weaknesses

<table>
<thead>
<tr>
<th>Category</th>
<th>Favorable</th>
<th>Neutral</th>
<th>Unfavorable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responds in a supportive and helpful manner</td>
<td>57</td>
<td>30</td>
<td>13</td>
</tr>
<tr>
<td>Possesses required knowledge and skills</td>
<td>56</td>
<td>34</td>
<td>10</td>
</tr>
<tr>
<td>Responds to requests in a timely manner</td>
<td>50</td>
<td>35</td>
<td>15</td>
</tr>
<tr>
<td><strong>Top 3</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communicates required info accurately and clearly</td>
<td>44</td>
<td>36</td>
<td>20</td>
</tr>
<tr>
<td>Understands your business needs</td>
<td>38</td>
<td>41</td>
<td>22</td>
</tr>
<tr>
<td>Is proactive: anticipates your needs and requirements</td>
<td>26</td>
<td>37</td>
<td>38</td>
</tr>
</tbody>
</table>

Internal Service Ratings Across Functions – Technology Firm

- **Understanding my business issues.**
  - IT: 95%
  - Finance: 63%
  - Law: 46%
  - HR: 34%

- **Resolving problems satisfactorily.**
  - IT: 75%
  - Finance: 64%
  - Law: 47%
  - HR: 31%

- **Timely response to requests.**
  - IT: 85%
  - Finance: 69%
  - Law: 40%
  - HR: 34%
### Variance Across Users

<table>
<thead>
<tr>
<th>Question</th>
<th>Group</th>
<th>N Size</th>
<th>Percentage of People Responding</th>
<th>Trend</th>
<th>% Fav</th>
<th>Diff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources - a.</td>
<td>Co. Total</td>
<td>1260</td>
<td>65%</td>
<td></td>
<td>27%</td>
<td>18%</td>
</tr>
<tr>
<td>Responding to requests in a timely manner</td>
<td>Region 1</td>
<td>50</td>
<td>60%</td>
<td>57</td>
<td>-37</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Region 2</td>
<td>80</td>
<td>50%</td>
<td>43</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Region 3</td>
<td>100</td>
<td>43%</td>
<td>40</td>
<td>-10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td>310</td>
<td>26%</td>
<td>14</td>
<td>44</td>
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<tr>
<td></td>
<td>Sales &amp; Mkbg</td>
<td>220</td>
<td>41%</td>
<td>46</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Legal</td>
<td>60</td>
<td>17%</td>
<td>40</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fin &amp; Bus Serv</td>
<td>100</td>
<td>19%</td>
<td>60</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Admin</td>
<td>80</td>
<td>20%</td>
<td>50</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IT</td>
<td>130</td>
<td>23%</td>
<td>26</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td></td>
<td>R&amp;D</td>
<td>90</td>
<td>33%</td>
<td>27</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Metrus Norm</td>
<td></td>
<td>50%</td>
<td></td>
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</tbody>
</table>

### Key Message #5: Measure and Manage Impact

Measure and Communicate Impact!
So what are you going to do differently tomorrow?

A Call To Action Checklist

- Is our People Strategy aligned with the unique business Value Proposition & Strategy?
- Do we have a people value map?
- Does our plan address key job & performance groups (knowledge workers)?
- Do we have a high People Equity (Alignment, Capabilities, Engagement)? Key job groups?
- Do we have the Right Measures in place?
- Have we allocated our Resources strategically?
- Have we demonstrated Impact?
Great Sources for Additional Information

- **The Workforce Scorecard: Managing Human Capital to Execute Strategy**
  

- **People Equity: The Hidden Driver of Quality**
  
  Kostman and Schiemann, *Quality Progress*, May 2005

- **Bullseye: Hitting Your Strategic Targets**
  
  Schiemann & Lingle, Free Press, 1999

- **Internal Customer Service: Has It Improved?**
  

- **The HR Value Proposition**
  
  Ulrich and Brockbank, Harvard Business School Press, 2005

- **People Equity: The New Paradigm for Measuring and Managing Human Capital**
  
  Schiemann, *HR Planning*, April 2006, Volume 29.1

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About Metrus

Metrus Group is an industry leader in strategic performance measurement, assessment, and organizational change. For nearly twenty years we have partnered with the most successful – and challenging – organizations in the world to help them achieve superior, sustainable business results through the development of their People Equity and the creation of a high performance, measurement-managed culture.

Our Services Include:

- HR Strategy, Value and Performance Metrics
- People Equity Assessment & Solutions
- Balanced Scorecard/Dashboard Design and Assessment
- Development of Quantifiable Performance Metrics
- Employee Surveys and Linkage Research
- Leadership Development and Training
- Corporate Ethics, Alignment, and Accountability Audits
- Measurement-Driven Organizational Change

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Thank You!

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