A Focus on the Design, Implementation, and Measurement of HR and Workforce Strategies
Challenged Industries: Strategic Shifts

<table>
<thead>
<tr>
<th>Competitive Issues</th>
<th>Challenged Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>Postal systems/US Postal System</td>
</tr>
<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>
</tr>
<tr>
<td>Ecommerce</td>
<td>Travel, retail/Wal-Mart, Tesco, Carrefour, Amex</td>
</tr>
<tr>
<td>Electronic readers</td>
<td>Bookstores, publishers/Barnes &amp; Noble, Books-a-Million</td>
</tr>
<tr>
<td>Working at home</td>
<td>Office furniture/Steelcase, Herman Miller</td>
</tr>
<tr>
<td>Digitalization</td>
<td>Photographic film/Polaroid, Kodak, Fuji</td>
</tr>
<tr>
<td>New material sciences</td>
<td>Steel, Metal Fabrication/US Steel, Alcoa</td>
</tr>
<tr>
<td>Mobile phones</td>
<td>Credit cards, traditional telecoms/Nokia, Ericsson, Motorola</td>
</tr>
<tr>
<td>Movie rentals</td>
<td>West Coast, Blockbuster, Netflix, P2P</td>
</tr>
<tr>
<td>Funerals</td>
<td></td>
</tr>
</tbody>
</table>

Global Business Challenges: Now and the Future
— The Context —
Marketplace Volatility → Workforce Agility

Volatility Challenges
- Commodity price fluctuation
- Fast changing regulations
- Changing customer sentiment
  - Going green
  - Anti-conspicuous consumption
- Terrorism
- Pandemics
- Others?

Strategic Responses

Workforce Agility
### Global Business Challenges: Now and the Future

**Marketplace Volatility ➔ Workforce Agility**

#### Volatility Challenges
- Commodity price fluctuation
- Fast changing regulations
- Changing customer sentiment
  - Going green
  - Anti-conspicuous consumption
- Terrorism
- Pandemics
- Others?

#### Strategic Responses
- Affordability
- Risk management
- Brand equity
- Speed
- Others?

#### Workforce Agility
- "Own" strategic talent
- Scale up and down rapidly
- Reduce large customer dependency (5%)
- Outsourcing
- Offshoring
- Cross training
- Constant upgrading and "testing" employees

Successful responses require strategic clarity, consistency and focusing on capital intensity and fixed costs.

---

### Global Business Challenges: Now and the Future

**Marketplace Volatility ➔ Workforce Agility**

#### Volatility Challenges
- Commodity price fluctuation
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- Pandemics
- Others?

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- Speed
- Others?

Successful responses require strategic clarity, consistency and focusing on capital intensity and fixed costs.

---

The "Velcro" Organization
### Strategic Workforce Planning

#### A Process Overview

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>Strategic Capabilities</th>
<th>Strategic Capability Gaps</th>
<th>Strategic Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>How Grow?</td>
<td>At what must we be great?</td>
<td>How good do we need to be vs. How good are we?</td>
<td>What work must be done to achieve our strategic capability targets?</td>
</tr>
<tr>
<td>• Where play?</td>
<td>• How win?</td>
<td></td>
<td>What work is essential to close our capability gaps?</td>
</tr>
<tr>
<td>• Operational Excellence</td>
<td>“Bundles of technology, information, and people uniquely arrayed to create or extend a competitive advantage”</td>
<td>V = Impacts customer’s perception of value</td>
<td>What work has strategic value?</td>
</tr>
<tr>
<td>• Product Leadership</td>
<td>P = Enables charging our desired price</td>
<td>Present</td>
<td>Work Quality</td>
</tr>
<tr>
<td>• Customer Intimacy</td>
<td>C = Enables producing at our desired cost</td>
<td>Destination Target</td>
<td>Present</td>
</tr>
<tr>
<td>Value Creation</td>
<td></td>
<td>Progress Metric</td>
<td></td>
</tr>
<tr>
<td>• Customer</td>
<td></td>
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<tr>
<td>• Economic</td>
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</tr>
</tbody>
</table>

**Value Creation**
- Customer
- Economic

**Strategic Workforce Planning (continued)**

#### A Process Overview

<table>
<thead>
<tr>
<th>Strategic Workforce</th>
<th>Actions to Deliver the Strategic Workforce</th>
<th>Strategic Workforce Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>How, where and who creates strategic value?</td>
<td>What differentiating workforce practices are necessary to create the Strategic Workforce? Necessary to close our strategic capability gaps?</td>
<td>How should we measure progress in delivering the workforce necessary to achieve our expected level of strategic success?</td>
</tr>
<tr>
<td>What does our strategic talent inventory look like? What should it look like?</td>
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<tr>
<td></td>
<td></td>
<td>What Measure? Accountability</td>
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<td></td>
<td>□ Workforce mindset</td>
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<td></td>
<td></td>
<td>□ Strategic talent</td>
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<tr>
<td></td>
<td></td>
<td>□ Workforce practices</td>
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<tr>
<td></td>
<td></td>
<td>□ Line managers?</td>
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<tr>
<td></td>
<td></td>
<td>□ Human Resources?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>□ Workforce practice effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>□ Workforce practice surveys</td>
</tr>
</tbody>
</table>

**What metrics should we use?**
- Mindset
- Strategic Talent
- Workforce practices
- Surveys
- Talent targets
- Workforce practice effectiveness
- Workforce practice surveys

**Strategic Workforce Metrics**
- □ Line managers?
- □ Human Resources?
- □ Workforce practice effectiveness
- □ Workforce practice surveys
Evolutionary vs. Revolutionary Change

Growth
- Financial
- Customer

Talent/Infrastructure

2003 2004 2005 2006 2007 2008 2009 2011
Evolutionary vs. Revolutionary Change

Growth/Change Expectations

Talent

Infrastructure

Growth

2003 2004 2005 2006 2007 2008 2009 2011

Evolutionary vs. Revolutionary Change

Growth/Change Expectations

Talent

Infrastructure

Growth

• Financial
• Customer
Managing Human Capital To Execute Strategy

Four Key Drivers of Strategic Success

I. Business Strategy
II. Strategic Capabilities
III. Strategic Positions
IV. Strategic Talent
## Strategic Workforce Planning Process — An Overview — Questions Which Need to be Answered!

<table>
<thead>
<tr>
<th>I. Business Strategy</th>
<th>II. Strategic Capabilities</th>
<th>III. Strategic Positions</th>
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<td>How win?</td>
<td>How good are we?</td>
<td>What roles have a major impact on value creation?</td>
<td>What does our strategic talent inventory tell us?</td>
</tr>
<tr>
<td></td>
<td>What creates customer value?</td>
<td>What roles pass VPC?</td>
<td>What actions will close our gaps?</td>
</tr>
<tr>
<td></td>
<td>What creates economic value?</td>
<td></td>
<td>Where do we go from here?</td>
</tr>
<tr>
<td></td>
<td>Does each strategic capability pass VPC?</td>
<td></td>
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- **How do we create value?**
- **Where do we create value?**
- **What roles have a major impact on value creation?**
- **What roles pass VPC?**
- **What strategic talent do we have?**
- **What strategic talent do we need?**
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- **Where do we go from here?**
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I. Business Strategy:
• How Do We Grow?
• Where Do We Play?
• How Do We Win?

Three Strategies Needed For Business Success

A

Business Strategy
How grow?

B

Workforce Strategy
What culture/capabilities?

C

HR Strategy
What should HR do?

Outside
DIFFERENTIATION
Inside
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

Our Vision

“We will be a leader of our industry in the future, committed to delivering excellent quality and service to our customers, increasing returns to our stakeholders, showing responsibility to the environment, and building a highly motivated and empowered workforce…”
Mission Statement

Creating an enterprise strategy and knowledge development resource to support decision-making of functional and operational organizations attempting to achieve enterprise objectives.

General Motors, 2002

“IT’S YOUR JOB not to screw this up or make any mistakes or drop the ball or blow the game. Get it there faster and quicker and more reliably and more efficiently. Do it right, first-rate, top-notch, without a hitch and absolutely flawlessly. Botch this one and you are out of here, history, finished, terminated, toast, lunch, gonzo, dead, kaput. And one more thing. Do it for LESS MONEY than you’ve done it before!”

FedEx
Federal Express
II. Strategic Capabilities:

- What Must We Be Great At?
- How Good Do We Need to Be, Everywhere Else?
- How Good Are We?

Examples of Primary Strategic Capabilities in Selected Firms

1. Wal-Mart: supply chain
2. BMW: vehicle design
3. McDonalds: real estate
4. Honda: small engines
5. Zara: "cheap chic" fashion design
6. J&J: brand management
7. Apple: new product development
8. Four Seasons: unparalleled service
9. GE: mergers and acquisitions, leadership
III. Strategic Positions:

• How Do We Create Value?

• When Do We Create Value?

• What Roles Have A Major Impact on Value Creation?
What is a Strategic Position?

1. Within a firm’s strategic capability.
2. Directly impacts the firm’s strategic success and creates wealth for a firm.
3. Significantly more “top talent” could impact the firm’s business model.
4. Usually in short supply in the external labor market.
5. Requires professional expertise and extensive knowledge of the firm to be successful.
6. Usually less than 15% of an firm’s positions.
7. Not determined by hierarchy.

Did We Say “Talent Matters”?

“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

Maximizing Employee Performance

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.

Source: Gallup, Inc.

Impact on Customer Attitude Scores

<table>
<thead>
<tr>
<th></th>
<th>The Best</th>
<th>The Worst</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total 7 reps</td>
<td>+100%</td>
<td>-31%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>+88%</td>
<td>-100%</td>
</tr>
<tr>
<td>Top 5%</td>
<td>+77%</td>
<td>-63%</td>
</tr>
<tr>
<td>Top 10%</td>
<td>+71%</td>
<td>-2%</td>
</tr>
<tr>
<td>Top Quartile</td>
<td>+67%</td>
<td>-14%</td>
</tr>
<tr>
<td>2nd Quartile</td>
<td>+40%</td>
<td>-3%</td>
</tr>
<tr>
<td>3rd Quartile</td>
<td>+27%</td>
<td>-1%</td>
</tr>
<tr>
<td>Lowest Quartile</td>
<td>-2%</td>
<td>-100%</td>
</tr>
</tbody>
</table>

There are Substantial Differences in Economic Returns Across Jobs

There are substantial differences in economic returns across jobs. The graph illustrates the performance of different job categories against firm performance:

- "A" Jobs
- "B" Jobs
- "C" Jobs
### Company Wealth Creating People: Retailing

#### NORDSTROM

**Strategic Choices:**
- Customer Intimacy

**Strategic Capabilities:**
- Customer Perception of Firm Attributes
  - Best solution
  - Fashion forward
  - Professional expertise
  - Personalized service

<table>
<thead>
<tr>
<th>Customer Perception</th>
<th>Strategic Capabilities</th>
<th>Real Estate</th>
<th>Purchasing</th>
<th>Logistics, Distribution &amp; Info.</th>
<th>Merchandising</th>
<th>Marketing</th>
<th>Customer Intimacy</th>
</tr>
</thead>
<tbody>
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#### COSTCO

**Strategic Choices:**
- Operational Excellence

**Strategic Capabilities:**
- Customer Perception of Firm Attributes
  - Best value
  - Convenient
  - Variety
  - Speed

<table>
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</tbody>
</table>

### IV. Strategic Talent:

- What Strategic Talent Do We Have?
- What Strategic Talent Do We Need?
- What Actions Will Close the Gap?
- Where Do We Go From Here?
Strategic Workforce Planning:

What is our inventory of top talent in strategic positions?

XYZ Corp. Workforce Plan Business Leader Recap

Strategic Position Scorecard

<table>
<thead>
<tr>
<th>STRATEGIC CAPABILITIES:</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Leadership</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td>Line of Business</td>
<td>Retail Appliance Division</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRATEGIC POSITIONS:</th>
<th>Number</th>
<th>Top Talent</th>
<th>Emerging Talent</th>
<th>Career Level</th>
<th>Move</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Leadership</td>
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<tr>
<td>VP Marketing</td>
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<tr>
<td>CEO</td>
<td></td>
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<tr>
<td>CFO</td>
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<tr>
<td>Manufacturing</td>
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<tr>
<td>Area Supervisors</td>
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<tr>
<td>Production Managers</td>
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<td>Sales/Marketing</td>
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<tr>
<td>Marketing Directors</td>
<td></td>
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<tr>
<td>Consumer Insight Specialists</td>
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<tr>
<td>Merchandising Managers</td>
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<tr>
<td>R&amp;D/New Product Development</td>
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<td>Design Engineers</td>
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<tr>
<td>Cooling Specialists</td>
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<tr>
<td>Laundry Specialists</td>
<td></td>
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</tbody>
</table>

Line of Business: Retail Appliance Division
Business Strategy: Low cost producer and major provider to "Big Box" retailers for highly price sensitive retail customers

© 2012 Mark A. Huselid Rutgers University SMLR 94 Rockafeller Rd. Piscataway, NJ 08854-8554 Tel: 609-693-6484 e-mail: mark@markhuselid.com
Relative Impact of Different HR Practices

Workforce Strategy: Process Flow for HR Practices

Current State | HR Practice Changes | Strategic Differentiation
--- | --- | ---
• Same process for all positions
• Recruit on demand
• HR Driven | Staffing | • Constant recruiting for key positions
• Line Ownership
• Competency-based

• Once a year
• Leaders not skilled with development planning & feedback
• Resistance to address issues | Performance Management | • Ongoing/proactive for key positions
• Leaders well trained and accountable
• Performance issues managed

• Most development offered to all employees
• Some differentiation for “Key talent”
• "Random" approach to career pathing | Development | • Greater differentiation of investment to build strategic capabilities
• More career guidance for key areas/positions
• Competency approach

• No assessment or process for key positions
• Success factors not well defined
• “Tough” calls are sometimes avoided | Talent Management | • Leadership development programs & assessments well defined
• Success factors well-defined for key positions
• Process ensures that key talent occupies key positions

• Pay at market
• Pay for Performance
• Universal Retention Strategy | Compensation | • Increase pay for key positions
• Pay for performance - greater at risk pay for key positions
• Targeted Retention Plans

• Messaging for HR & Leadership is unclear | Communications | • Processes are well-defined and communicated to HR & Leadership
Key Steps in Creating a Differentiated Workforce

- Identify strategic capabilities
- Identify strategic positions
- Develop a workforce philosophy
- Perform a talent assessment to identify top talent within strategic positions
- Determine the talent actions necessary to close gaps
- Determine the line manager’s HR responsibilities – and the HR manager’s business responsibilities

A Review…
And a reminder of what HR is really about

Building Great, Sustainable Organizations!
HUMAN RESOURCES IS A COMPANY'S MOST IMPORTANT STRATEGIC ASSET.

THAT MEANS IT'S YOUR FAULT WE'RE LOSING MARKET SHARE. MAYBE YOU SHOULD FIRE YOURSELF.

STRATEGIC ASSETS DON'T LIKE ACCOUNTABILITY.