



## Retooling HR

Using Proven Business Tools to Make Better Decisions About Talent

by John W. Boudreau

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### Take-Aways

- Adapt business metrics to talent management to create a better “mental model” of the people your firm has and those it needs.
- Human resources (HR) can use business measurement tools to gather relevant data about your firm’s talent inventory, turnover and return on investment in top people.
- Data collected with these tools can clarify your decision making.
- “Risk-value analysis” can detect important performance variables.
- “Talent hedging” draws upon “scenario analysis” to optimize your future talent risk.
- “Conjoint analysis” assesses which benefits staffers prefer and which ones deliver the most value.
- Use “financial portfolio management” as a model to build talent for an uncertain future.
- Just as with inventory, the cost of retaining certain staffers can be higher than the cost of hiring new ones.
- Business metrics reveal “inflection points” that can shape HR decisions, from the value of employee benefits to the size of the talent pool you will need in the future.
- Managing people requires facing many risks and trade-offs. Retooled metrics can help.

### Rating (10 is best)

Overall	Applicability	Innovation	Style
8	9	9	7

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## Relevance

### What You Will Learn

In this Abstract, you will learn: 1) How to use business tools from outside human resources to make personnel decisions, 2) How to use scenario planning to strategize future talent needs, and 3) How to manage your talent inventory and “talent life cycles.”

### Recommendation

Professor John W. Boudreau wants you to rethink the contribution your human resources unit makes to the way your company recruits, develops and retains crucial “talent,” that is, people. Dodging most, but not all, jargon, Boudreau advocates using metrics from the business side of your organization to evaluate how talent contributes to your firm and how your talent needs will vary under changing business conditions. He asks you to examine how you will muster enough people with crucial skills, now and in the future, and suggests strategically rethinking your workforce and considering how to develop it as the demand for pivotal skills spikes or shrinks. Boudreau makes his points with sharp intelligence in this clearly written, well thought-out book. It covers some very specific subject areas pertinent to HR professionals, but it is not a difficult read, partly due to its lively examples. While HR professionals who want to play a more strategic role will receive it most readily, *getAbstract* finds that this book will also help talent-focused C-level and middle managers who want more from HR and their employees. Boudreau makes a solid case for the merit of good metrics, but he’s aware that HR is measuring people, not widgets, so risks and trade-offs abound.

## Abstract

*“When decisions about human capital are recast in the language and logic of proven business frameworks, leaders outside of HR can...be held accountable [for] their human capital decisions.”*

*“The work that leaders do when it comes to talent decisions and processes is valuable, so why is HR still struggling with its identity after over 50 years of progress?”*

### Identify and Retain Your Best Talent

Just as the 2008 financial crisis was setting in, Jack Welch, former CEO of General Electric, advised companies to set aside a “bucket of money” to retain their best performers. He explained that increased competition during hard times makes top talent even more important. If your best employees become disillusioned, they will be more likely to take offers from your competitors or to seek new opportunities. Few executives listening to Welch had a retention fund. They were not even sure what metrics to use to determine which staffers were the most crucial to retain. No company would be that casual about its products, its logistics or its finances.

Human resources (HR) needs a stronger “mental model” of how talent is distributed in a firm and what value each person adds. To begin, HR can “retool” the way it measures and communicates employees’ contributions in real terms. Then it can use the results to help non-HR managers understand and communicate about staffing issues. Since HR systems aren’t usually geared for cross-silo partnering, retooling HR in this way helps you rethink and re-engineer your HR and business metrics to garner relevant data about your talent inventory, turnover and return on your personnel investment.

Some employees provide a bigger bang for the company’s buck than others. Using proven logic from engineering, HR can assess how each person and position contributes to corporate results. It can study how much return the firm would gain from reducing process variations or improving results in specific positions. These indicators capture “inflection points” at which “performance value levels off or accelerates.” Calculating

*"A central premise of this book is the need to confront uncertainty by applying the logic of well-developed frameworks to talent dilemmas."*

*"Another advantage of seeking out allies in other functions is that those experts can help HR leaders be smarter about the proven business models that support those functions."*

*"Retooling invites HR leaders and stakeholders to embrace the underlying logic of other disciplines and apply it to vital decisions about human capital."*

*"The optimization choices suggested by retooled HR departments will always be tempered by the reactions and responses of the real people they affect."*

"return on improved performance" (ROIP) gives HR a basis for understanding that trade-off and making decisions about personnel.

### How Boeing Used Analytical Tools

Boeing's development of its new 787 Dreamliner aircraft required overcoming massive technical, supply chain and talent resource problems. Its engineers' role was critical. The Boeing case shows how three frameworks used in engineering can reveal opportunities in talent management:

1. **"Kano analysis"** – This tool charts how improved performance creates value. At Boeing, improving engineers' performance with suppliers added more value than improving their technical engineering performance.
2. **"Risk-value analysis"** – This tool identifies where performance risk is most significant. For Boeing, it showed that avoiding the risk of poor designs was key, but that taking a risk on better supplier management was also key.
3. **"Constraint or bottleneck analysis"** – This tool from operations reveals that while engineering is important, the strategic bottleneck for Boeing was in its supply chain talent.

These tools have long helped engineers determine where to invest in improved performance, and they can do the same for HR leaders investing in improved employee performance. These tools can reveal when it is dangerous to copy "best practices," and where you must compete differently. These metrics can indicate which employees you need and what training to give them. McDonald's found that it could use a call center to relay drive-up orders electronically, because drivers often ask for menu items by number ("number three with a Coke") and don't interact with staffers. In contrast, Starbucks needs well-trained baristas because their chats with customers are intrinsic to its coffee shops' ambience. McDonald's "counter associates" also need to learn to work with patrons, but the engineering logic of performance-risk and Kano analysis shows that Starbucks should take more risks than McDonald's.

Adapting business metrics allows HR to "invest in performance management, work analysis and competency systems"; monitor systems' effectiveness; improve performance management to handle risk and return; and analyze the risk of shoddy work. HR should use the 80-20 rule and pay attention to "the 20% of performance that makes 80% of the difference."

### Mitigating Organizational Risk with "Talent Hedging"

Every business faces hazards, but firms can master and exploit certain risks. When Michael Jackson became CEO of AutoNation in 2001, he assessed its range of risks, analyzing how it could thrive under various scenarios. What if North American auto sales dropped from 17 million cars sold per year to 10 million? What if a credit crunch occurred? The firm's leaders considered many scenarios and made choices focused on the highest expected returns. "Talent risks" parallel financial risks, like the ones AutoNation faced, and the same tools can help organizations build talent portfolios that optimize risk in uncertain situations. Consider your talent needs now and under different scenarios. Just as with a financial portfolio, inflection points across future scenarios define "when to invest in talent to prepare for one future, multiple futures" or a "generic" future. Your purpose is not to predict the future, but to consider its possibilities and risks. Then define "your best investment in people." Once you see how your talent needs could change and what various scenarios could demand, conduct a "gap analysis" to see what

*“Strategic workforce planning can tap great value as a tool for considering multiple futures and designing the optimum talent mix to meet them.”*

*“Invest in targeted research to precisely understand the preferences and behaviors of key talent segments.”*

*“Data on turnover patterns has untapped potential to help leaders improve some of their most important workforce decisions if the data is embedded in the right framework.”*

*“Risk and uncertainty about human capital are facts of organizational life.”*

skills are available, and where you are over- or under-supplied. Use risk-analysis tools to determine where to reduce the gaps. The right decision may be to use portfolio theory to build talent for several different future situations. Build flexibility in. As Ron Parker, Pepsi’s executive vice president for HR, explains, “You cannot stay in a steady state in a competitive global environment.” Instead, he says, ask, “How and what do I need to change to keep up with the future?”

Talent hedging – creating a talent portfolio optimized for a range of possible future conditions – gives you the same advantages that a well-crafted financial portfolio provides investors. This includes “diversifying” talent in the way that investors diversify their stocks. You will face a talent inflection point where “employee shortages or surpluses become strategically valuable.” Merely extrapolating the future from the past or present may seem safe, but the future is often surprising. Low-probability events do occur, and likely events often don’t happen. To prepare, link your “talent supply planning” with your “strategic scenarios,” diversify your staff, hedge your investment in personnel and collect the right data to monitor your progress.

### **Which Benefits and Perks Provide the Biggest Return?**

The tools your organization uses to understand how customer segments and preferences drive business value can also be applied to understand how employee segments and preferences drive business value. Some companies create an employment brand to draw desired recruits. Others provide a range of offerings and let workers select the choices that interest them most. HR systems often already contain useful data, such as the way staffers choose and use their benefits. The challenge is to know when to customize your offering and when not to, just as with your products. Retooling your employment brand strategy using marketing tools helps you track these patterns according to demographics and geography. Do some benefits work better in certain locations? What do younger or older employees want? Do preferences shift among personnel at various sites, and can you accommodate such regional trends? Are you achieving lower turnover, particularly among the critical people you must retain to remain competitive?

Marketing departments use “conjoint analysis” to study customers, define audience clusters and determine clients’ preferences. Apply this tool to “talent segmentation” to identify the traits of sets of workers, learn each group’s potential “impact” on earnings, achieve good communication with each group, assess its responsiveness and ask if your steps to meet each segment’s needs are effective and align with your firm’s goals. Using conjoint analysis enables HR to find the correct mix of offerings to suit different workers. Conjoint analysis goes beyond just asking staffers what they want; it reveals whether they prefer some combination of customized benefit packages. Your goal is to create an efficient menu of perks – to borrow a tool from marketing – that yields the biggest return on your expenditures in recruiting, keeping and developing talent.

### **Managing Your “Talent Inventory” for Optimal Return**

Companies keep enough raw materials on hand for smooth production, but not so much that they tie up funds in inventory that sits in a warehouse. However, all inventory items are not equal. Some parts are so critical that a shortage would devastate production. Some require long acquisition lead times, while other parts – or substitutes for them – are readily available. This logic can help you retool how you optimize your workforce. Some talent is difficult to acquire, so develop people who can step into hard-to-fill roles or build up leads so you can recruit pre-qualified candidates. If a skill is critical, you may want to have more people on hand with that talent than you immediately need.

*“Consider not only ‘how do we minimize or reduce risk in our human capital’ but ‘how do we more deeply learn to understand human capital risk...and reward organization leaders for taking the right risks and managing the uncertainties well’.”*

*“Unlike your inanimate inventories, the people who make up your workforce inventory make their own decisions about where they stay, when they move, and what they demand or require.”*

*“People...are not simply cogs in a wheel, units of inventory, investment vehicles or logistics variables.”*

Use “turnover analysis” to determine which departures are not a problem, and which are. You can often “parse turnover rates” to reveal departing employees’ departments, “tenure,” “performance” and “demographics.” Sometimes, the cost of retaining certain staffers is higher than the cost of hiring new ones. In other cases, the exit of crucial people means losing valuable knowledge and expertise. Identify pivotal personnel and, as Welch said, set aside funding to keep them. Be aware of how your workforce needs are changing as your company changes. Adapt your talent pool to what your organization is becoming, rather than reacting to change after the fact. Train supervisors so you can hold them accountable for their personnel decisions and for managing talent to avoid unwanted turnover and personnel shortages or surpluses. As with inventory, you can move beyond just filling requisitions and truly optimize your talent supply chain.

### **“Optimized HR”**

As you pull all these concerns together, consider your employees’ life cycle through “attraction, joining, developing, moving, engaging, performing and separating” from your company. Just as manufacturing is a system that uses interacting processes to create value, your whole workforce is a network of interacting talent. Staffing, training and other HR systems work a lot like materials acquisition, manufacturing and shipping. IBM recast its global workforce system using the same tools it used for its supply chain, allowing it to better optimize its workforce risks, cost and returns.

Apply the model of “supply chain analysis” to employees’ processes and performance to avoid underusing talent due to choke points and constraints. Direct your talent flow to support your strategy. Track how your teams work together and which instances of cross-department coordination create value. Sometimes improving an individual’s performance can help your entire “talent pipeline,” but other times you may need to rethink the pipeline itself to free up your staffers’ real abilities. Don’t let managers hoard talent they don’t use. Give them incentives and accountability for developing the people they supervise and reward them for supplying talent to other areas. Help them see the impact of their talent-related actions. To boost workers’ satisfaction and, probably, lower your recruitment and hiring costs, create more ways for employees to develop themselves.

Companies need to retool HR over time to use more productive metrics and fresh managerial approaches that address the risk in talent supply. When HR uses business tools that are familiar to non-HR managers, its insights and recommendations are more convincing, utilitarian and understandable, and its interdepartmental dealings become more cooperative and collaborative. In today’s business environment, talent decisions are capital decisions that determine if your company has the capacity to perform well. Given this perspective, HR has a lot to contribute to the bottom line, from work analysis to talent scenarios, supply strategies and life cycle management. Retooling HR also shows how you can value people for more than just the talents they use today and help them appreciate their own abilities. By demonstrating that you understand individuals’ contributions, you will help them build their careers. When you invest in your employees, they feel more respected and appreciated, and that is the right basis for creating a culture of human value – the best reason to retool human resources.

## **About the Author**

**John W. Boudreau**, professor and research director at the University of Southern California Business School, has published widely on human capital in competitive advantage.