



Transformative **HR**

How Great Companies Use Evidence-Based Change
to Create Sustainable Advantage

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Today's agenda

- The case for evidence-based change
- The five principles of evidence-based change
- The principles in action: Case study highlights
- Discussion and Q&A

Introduction and background

- The thinking behind evidence-based change:
 - Inspired by the evidence-based medicine movement
 - Calls for the application of mental models, rigor and logic when making HR decisions
- Five key principles of evidence-based change that leading-edge HR organizations are using to help achieve sustainable advantage
- **Transformative HR** showcases the principles in action
 - Profiled companies include:
 - Coca Cola, PNC Bank, IBM, Royal Bank of Scotland, Shanda, Ameriprise, Royal Bank of Canada, Khazanah Nasional, Deutsche Telekom and CME Group

Five principles of evidence-based change

Logic-driven analytics

- **Do you have information overload or persuasive analytics?** Does HR data just “sit there” or is it sought out by the business?

Segmentation

- **Where are your pivotal talent segments?** What investments will attract and engage them? What aspects of performance provide the highest return?

Risk leverage

- **Is R-I-S-K a four-letter word?** Does your HR department have processes to assess risk and the confidence to distinguish between “good” and “bad” risks?

Integration and synergy

- **Is your HR Portfolio less than the sum of its parts?** Create integration rather than adding new programs or enhancing existing ones

Optimization

- **Spreading “peanut butter” or optimizing investments?** Does HR have the courage and analytical rigor to optimize investments in the workforce?

Logic-driven analytics

- Use a comprehensive data set to change the way decisions are made
 - Do more than solve for data quality/availability
 - Employ hypothesis-driven inquiry
 - Connect analytics with logical frameworks to engage decision makers and improve decisions
- Consistently use analytics to:
 - Generate insights
 - Test alternatives and options
 - Monitor progress
 - Measure outcomes and their business impact

Identify the most pivotal organizational issues, use robust analytics to describe the issues and the likely outcomes from addressing them

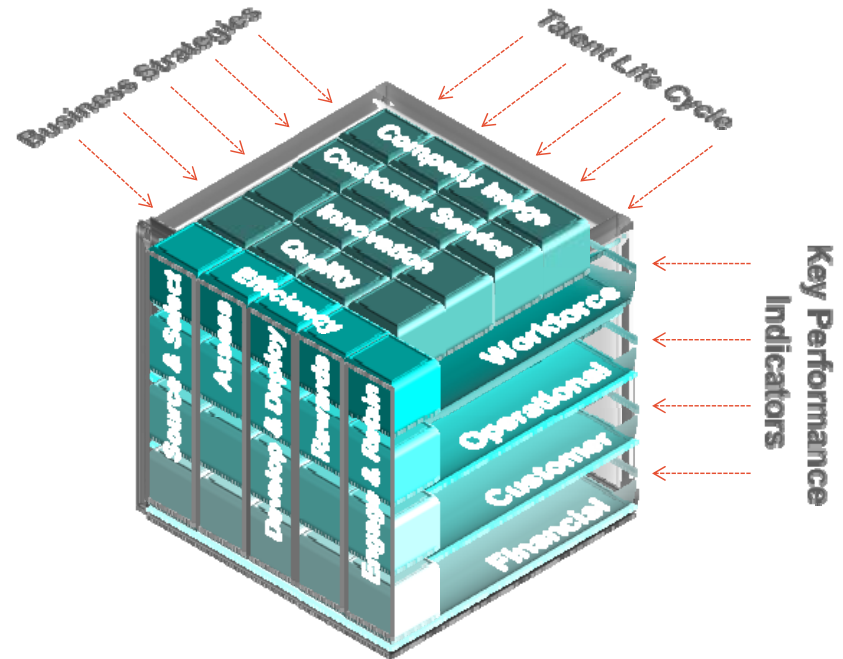
Logic-driven analytics

Ensure common frameworks and mental models for analyzing issues and defining success

Are you measuring the impact of your HC programs relative to business objectives and results?

Do you measure in single dimension or focus on the few critical linkage points?

Do you measure program success through workforce analytics or the desired business outcome?



Getting the numbers right is just the beginning. The “magic” happens when measures and analysis are combined with the logic of knowing where to look for the important connections and the savvy of knowing when a story is better than a number.

Logic-driven analytics at Deutsche Telekom

- **The case:** Deutsche Telekom (DT) is one of the largest global telecommunications and technology providers in the world
 - A diverse portfolio of businesses employing 260,000 employees in over 50 countries
- **Key issue:** Managing the supply of and demand for talent
- **Principle in action:** DT applied the logic of the supply chain to the analytics of leadership development
 - Involving leaders at various levels, DT identified and deepened overall understanding of the unique needs of each of its businesses
- **Outcome:** Systematic attention to creating common logic frameworks, then using them to direct data analysis and presentation, led naturally to more positive outcomes for HR systems

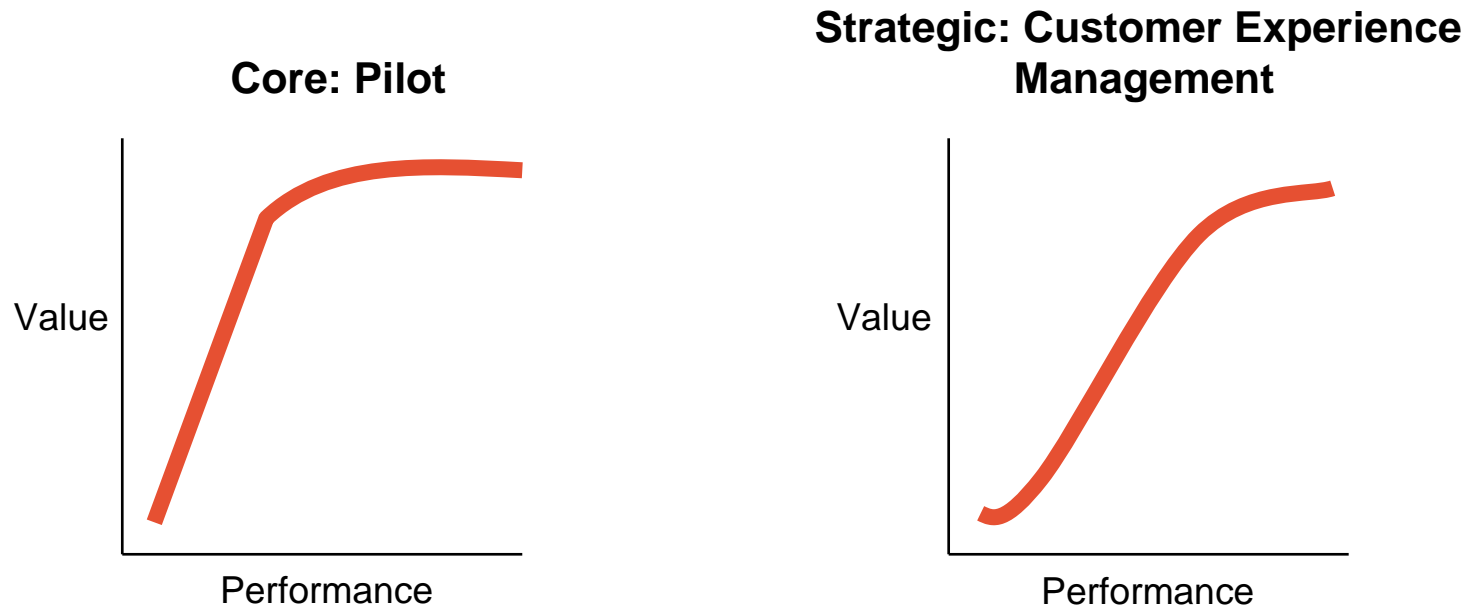
Segmentation

- There is a supply side and a demand side to workforce segmentation
 - Supply side segmentation - driven by a variety of employee factors such as generational differences, cultural distinctions or work-life challenges
 - Demand side segmentation - understanding the differences in how and how much variations in performance matter
- Segmentation enables unique “deals” that can unlock hidden sources of value

Segmentation is about discovering the strategic categories of employees and potential employees, by understanding the most vital differences between them

Segmentation

- Analyzing the nature of the relationship between the performance and the value contributed to the organization



Everyone is different, and those differences can reveal how to strike the right compromise between mass customization and rigid standardization

Segmentation at CME Group

- **The case:** CME Group is the largest, most successful financial exchange in the world
 - Stock price rises from \$70 to over \$700 based on its market-leading technology
 - Sustaining a competitive advantage depends on developing products and markets in which to leverage its technology
- **Key issue:** Strategic direction and business objectives required a very different set of workforce capabilities to attract new talent, retain pivotal talent and develop employment deals accordingly
- **Principle in action:** Instead of roles according to traditional levels and functions, two key segments (new growth and core strength) were created, followed by differentiated sourcing and reward strategies
- **Outcome:** CME involved leadership and communicated the change in its talent strategy from largely egalitarian to one more nuanced and segmented

Integration and synergy

- Integration and synergy are about ensuring $1+1 = 3$
- They involve recognizing that siloed excellence may not add up to synergistic effectiveness
- Synergy can occur at multiple levels
 - Programmatic
 - Functional
 - Organizational

Integration and synergy mean understanding how different HR solutions mesh with each other and other organization processes to deliver a unique and compelling proposition to the organization and the workforce

Integration and synergy

- A globally consistent job leveling system provides a framework for alignment and integration of talent management programs

Percentage of organizations reporting their talent management programs are very effective

Program	Have globally consistent broad-based job leveling*	Do not have globally consistent broad-based job leveling	Difference
Leadership assessment	34%	15%	19%
Leadership development	31%	18%	13%
Competency models/architecture	23%	9%	14%
Employee learning and development	36%	21%	15%
Workforce planning	20%	11%	9%
Talent movement/rotations	18%	10%	8%
Critical role identification	30%	16%	14%
Performance management	37%	25%	12%

*Numbers represent percentage of multinational respondents who report their program being very effective.
Source: The 2010 Global Talent Management and Rewards Study.

Asking how things fit together, and where they could work better in combination, is often the key to a whole that is much more than the sum of its parts

Integration and synergy at Shanda

- **The case:** Shanda, based in China, is the fastest growing online gaming company in the world
- **Key issue:** Engaging Shanda employees in the same way customers were engaged by Shanda's games and products
- **Principle in action:** Shanda applied the same gaming principles underlying its customer proposition to its HR architecture
 - The acquisition of points and a tolerance for failure
 - The point system drove all aspects of total rewards, from compensation and promotions to development and skill acquisition
- **Outcome:** An integrated and highly synergistic architecture that has proven highly effective in attracting, engaging and retaining the best talent

Risk leverage

- Transforming the traditional mindset that risk is bad
- Asking and answering two key questions:
 - Have you identified where risk-taking is going to help us vs. hurt us?
 - Have you planned for multiple future states?
- Making distinct choices about how risk will be accepted, hedged, mitigated or managed

Risk is merely a deviation from an expected outcome. It can be analyzed, planned for, managed and exploited to the economic benefit of the organization. Taking the right risks is often as vital as avoiding the wrong ones

Risk leverage at PNC Bank

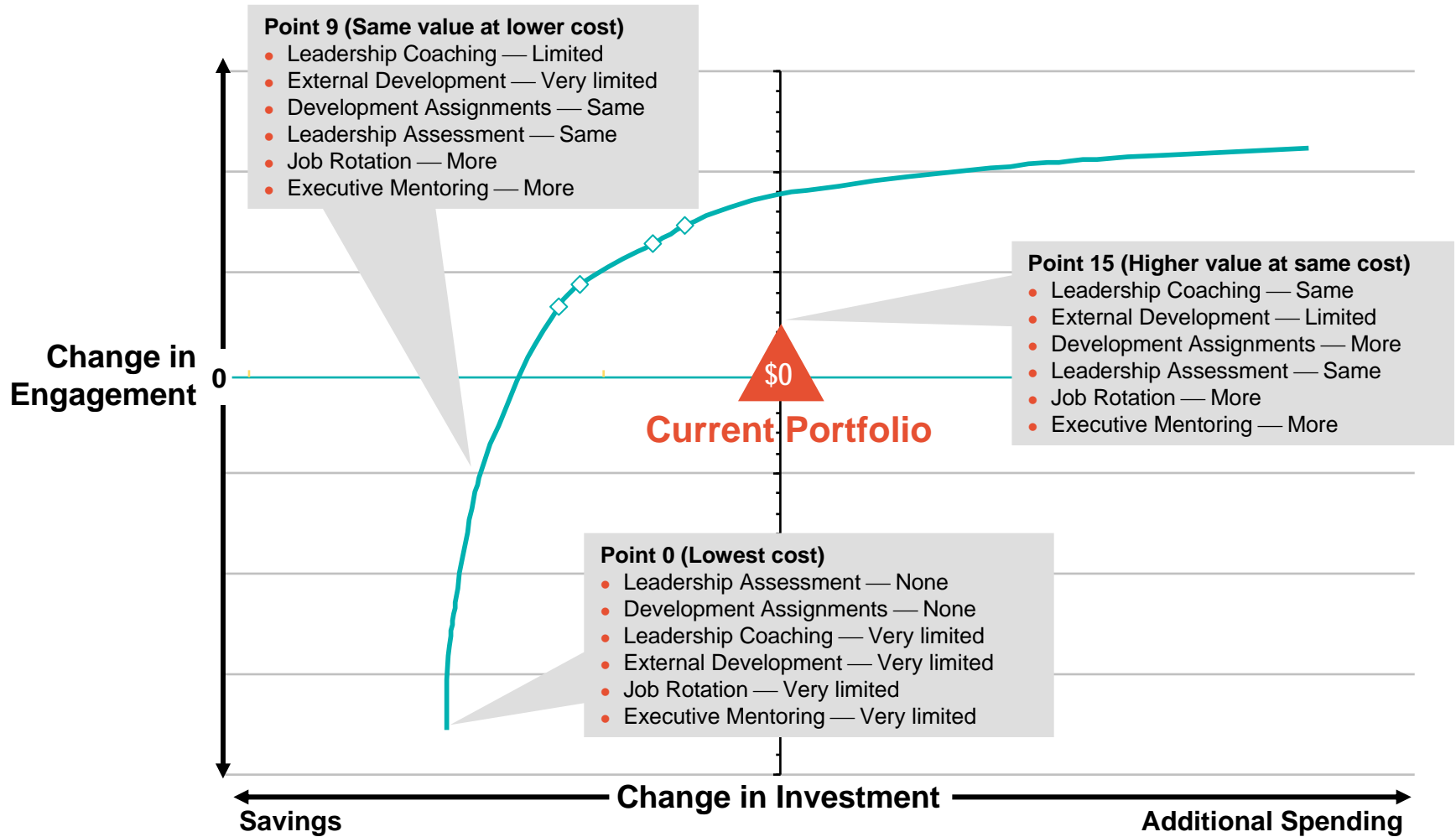
- **The case:** PNC is one of the largest regional banks in the U.S., with over 50,000 employees
 - Named “Bank of the Year in the USA in 2010” by *The Banker* magazine
- **Key issue:** Growing emphasis on pay and risk since the financial meltdown
 - PNC needed to increase overall understanding of the behavioral and economic risks associated with incentive plans
- **Principle in action:** PNC formed a close partnership between HR, Risk Management and Finance to develop powerful tools and methodologies for assessing compensation and incentive plans
- **Outcome:** The application of these tools and methodologies to other aspects of HR and talent management continues to distinguish PNC’s thoughtful approach to leveraging risk

Optimization

- Optimization means...
 - Investing where it makes the biggest difference
 - Having the courage not to invest where it doesn't make a difference
- Optimization is achieved through a combination of the other principles
- Optimization means moving the needle the farthest with the least investment

Optimization follows segmentation and is about exploiting the differences between employee groups to enable the organization to realize the optimal value exchange between itself and a particular group

Optimization



Have the courage to invest differently when it makes sense, and the capacity to explain the differences clearly

Optimization at RBS Group

- **The case:** RBS is one of the largest universal banks in Europe, long distinguished by thoughtful use of analytics in all aspects of managing its business
- **Key issue:** Optimizing data and measurement to avoid information overload and analysis paralysis
 - Provide just the data needed to make the right decisions
- **Principle in action:** For human capital, identify the equivalent of Marketing's "customer service index" or finance's "sales over target" to focus attention/priority
 - Use analytics to connect human capital measures to specific business outcomes that matter
- **Outcome:** Distilled Board presentations from "everything you might want" to "the top four to six things" that relate to pride, leadership and engagement

In conclusion, HR can deliver greater strategic impact with evidence-based change

Five Principles of Evidence-Based Change

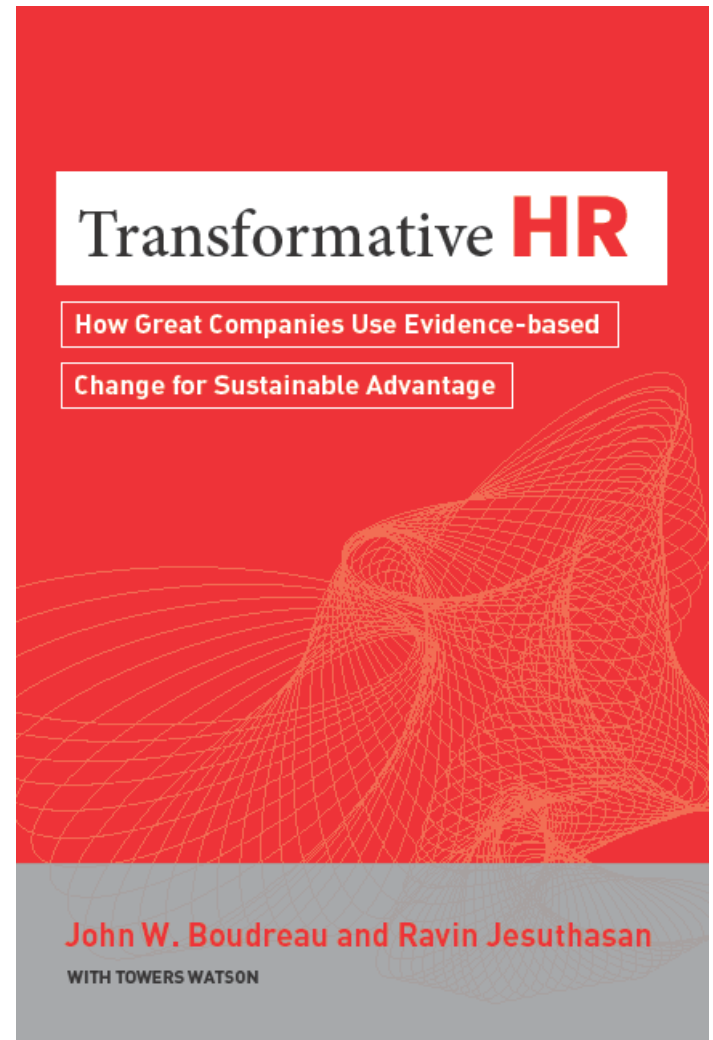
Logic-driven analytics	Segmentation	Integration and synergy	Risk leverage	Optimization
Defining the talent metrics and scorecard to measure the impact of talent management investments on business performance	Creating a differentiated focus on talent segments	Realizing the promise of talent management by taking an integrated view across programs, functions and organizations	Understanding the full spectrum of HR risk and approaching it with a mindset of leverage and not avoidance	Managing the deployment of investment dollars to make the biggest difference

About the book

- To be published by Jossey-Bass, a division of Wiley
- Publication date is September 26, 2011
- Event attendees receive a complimentary copy shortly after publication

“Transformative HR gives HR leaders new tools for a new era, allowing them to think more clearly about their talent priorities and execute their human capital strategies more effectively.”

Lynn Tetrault, Executive V.P. of Human Resources and Corporate Affairs, AstraZeneca PLC



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