A HARVARD BUSINESS REVIEW ANALYTIC SERVICES REPORT

Harvard Business Review

HOW CEOS AND CHROS CAN CONNECT PEOPLE TO BUSINESS STRATEGY

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It goes without saying that successful HR functions are strategic: they play a vocal role in critical business decisions and directly manage or impact a majority of most companies' expenses. Indeed, in today's resource-competitive environment CEOs are increasingly looking for the CHRO to play a more critical role in influencing business outcomes.

Yet the vast majority of HR organizations still lack the workforce intelligence capabilities required to develop and act on a data-driven people strategy. As a result, they cannot connect that strategy to metrics the business cares about.

HR has long focused on achieving operational excellence. This has included many multimillion-dollar investments in systems that manage and automate HR tasks, act as systems of record, and help HR execute on administrative activities faster, with fewer errors. Systems such as payroll, performance management, learning and development, compensation and benefits management, applicant tracking, and others generate lots of data, but they are not capable of even effective operational reporting, much less comprehensive analytics. They cannot integrate data from multiple sources, or effectively answer strategic workforce questions, connect workforce decisions to business outcomes, or support predictive modeling and projections. The underlying technology of transactional systems, designed to process one record at a time, is simply not suited for any meaningful analytics.

Fortunately, a new platform has emerged to enable strategic HR decisions: the people strategy platform.

The people strategy platform complements investments in HR transactional systems by bringing together the data from all those HR systems—and from other business sources—to answer important questions that link people strategies and policies with business results. Focused on providing strategic insights to make better people decisions and plans, and connecting those decisions directly to business outcomes, the people strategy platform enables HR and line management for the first time to manage the people asset the same way they manage other business assets—in an organized, measurable, predictable, and strategic way.

With adoption of the people strategy platform, it is possible to understand why people leave the business and who might be at risk, how to hire the best possible candidate, how to accurately predict the headcount and compensation costs over time, how to link compensation and benefits decisions to better performance, and how to identify high-performing organizations or managers and learn what makes them so.

Now is a great time to be in HR. With the adoption of the people strategy platform to enable strategic human asset excellence, HR organizations can finally demonstrate a meaningful business impact and win a role as trusted advisors to their business colleagues.

John Schwarz
Founder & CEO
Visier

HOW CEOS AND CHROS CAN CONNECT PEOPLE TO BUSINESS STRATEGY

IT IS SOMETIMES SAID that a company's most important assets—its employees—walk out the door each night. Yet research repeatedly shows that CEOs often know less about these assets than they know about the fleet of trucks in the company parking lot.

Data about the workforce isn't as big a reason for this as it was in the past. With good intentions to build better people strategies, more HR teams today collect data and report metrics about the corporate workforce. The question is whether CEOs are using these metrics the way they use financial, marketing, or supply chain metrics to make strategic business decisions.

Not often enough, according to new research by Harvard Business Review Analytic Services. Although human capital metrics are widely used, they are neither comprehensive nor reported routinely by HR to the executive team. Furthermore, executives do not regularly study workforce metrics analytically to make sense of multiple data points or predict likely outcomes.

While in most companies, the CEO and the CHRO appear to communicate effectively and collaborate on talent management strategy, the survey results suggest these two executives are not yet making the most of that relationship. When the CEO and CHRO are in sync and using metrics, CEOs are able to get an in-depth understanding of the workforce and its impact on business results. They can then use this information when making business strategy decisions.

"Too many CEOs know what they need to know about finance, operations, etc., but not what they need to know about talent," says John Boudreau, a professor at the University of Southern California Marshall School of Business and research director of the Center for Effective Organizations there. "If you have an analytics-savvy CHRO, he or she won't let the CEO get away with problem turnover rates or engagement scores. They have deep conversations about how these metrics are connected to the business."

Boudreau and other experts say the relationship between CEO and CHRO is crucial to gleaning strategic business value from human capital metrics. The CEO must be willing to hear advice from the CHRO. The CHRO must have the experience, business acumen, and courage to confront the CEO when needed. Their relationship needs to be based on trust, common values, and the ability to communicate well, supported by metrics and analytics.

SUMMARY OF FINDINGS

To understand whether CEOs receive the human capital metrics and analysis they need, and whether these have value for strategic business decisions, Harvard Business Review Analytic Services surveyed 168 companies, most of which have 3,000 or more employees.

Harvard Business Review Analytic Services also conducted interviews with several thought leaders and CEOs from large global companies to learn which metrics are more useful and to understand the importance of the CEO-CHRO relationship for making strategic use of human capital metrics.

Among the survey findings:

- About two-thirds of respondents use human capital metrics at least sometimes; however, only one-fourth provide advanced metrics and analytics as well.
- Respondents place high importance on a variety of strategic human capital management activities. Yet fewer than half of respondents routinely report metrics about these activities to the C-suite.
- Fewer than half of respondents say HR uses metrics to predict talent needs, measure the results of their talent strategy, and improve the business.
- Communication between HR and the CEO is at least somewhat effective, and talent strategy is most often a collaborative effort among HR, the C-suite, and business units.

The findings suggest that companies are making progress in their use of human capital metrics, says USC's Boudreau, who is also coauthor of "Global Trends in Human Resource Management: A twenty-year analysis" (Stanford University, 2015).

Boudreau observes that the survey results align with other research findings, including his own. In his most recent global survey of HR leaders, he says, "The progress being made still looks pretty glacial. But this year we've seen statistically significant movement in using talent metrics—to assist with strategy, for example."

METRICS THAT MATTER

Two-thirds (67 percent) of CEOs get at least a basic set of human capital metrics from HR. But only 24 percent of respondents said they also provide analytics that connect their people metrics to business metrics. figure 1

Furthermore, although survey respondents overwhelming acknowledge the strategic importance of 10 common activities, that importance is not reflected in the human capital metrics that they routinely report to the C-suite.

Consider one example: "total cost of workforce." It tops the list of strategic priorities, with 88 percent considering it important. Yet only 49 percent of respondents regularly provide this information to top decision makers.

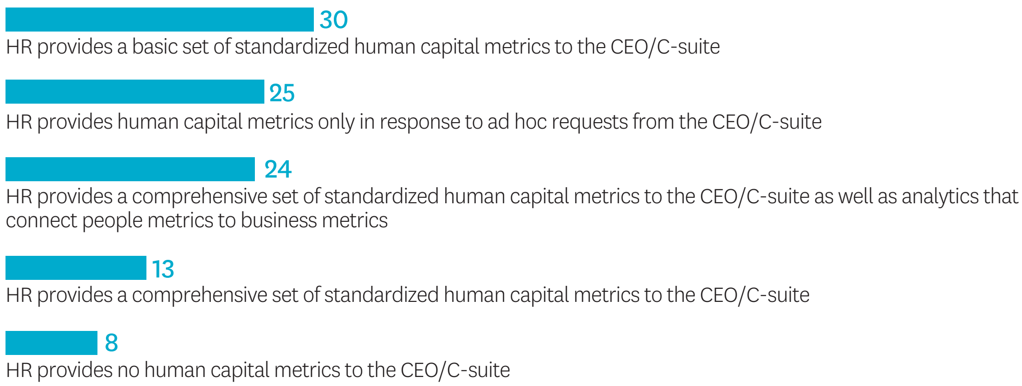
There appears to be no single reason for the discrepancy. "This is a long-standing paradox," says Boudreau, who suggests one explanation lies in a lack of connection between what HR measures and what CEOs want reported.

Many CEOs have themselves to blame for the gap, according to Victor Lund, president and CEO of Teradata Corp., which develops software and services for data analytics and technology

FIGURE 1

HUMAN CAPITAL METRICS ARE BASIC AND AD HOC

HR measures the workforce, but most organizations do so at a basic level, or only when the CEO asks for metrics.



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architectures. Lund believes executives readily agree that human capital management activities are important to business strategy, but they aren't committed to investing the time and money in measuring them. "There's an awful lot of lip service to the strategic importance of these areas," Lund says.

Aart De Geus, chairman, co-CEO and cofounder of Synopsys, Inc., a developer of electronic design automation tools and services, argues that any human capital area could be strategically important sometimes, but not all are important all the time. The executive committee might not need to look closely at turnover until there's a sudden spike—or better yet, when data predicts a spike. Then, De Geus says, leaders will want to know whether it's due to ineffective management in some business unit or the result of a hot new company moving into the neighborhood and offering staggeringly larger salaries.

DECIDING WHAT TO MEASURE

In other words, context is everything. The metrics that Harvard Business Review Analytic Services included as the basis for the survey comprise only one possible list. Which metrics are most important to a CEO depends on the issues the executive is facing.

Lund became CEO at Teradata about a year ago to lead a turnaround. In this context, he says, one of the most important areas he's focused on is whether the current workforce has the competencies to drive the change necessary for the company to achieve its strategy. He believes some do, and for certain roles the company will have to bring in outside talent. "We're evaluating the capabilities and competencies of our employees versus the skill sets we need, by position, and identifying where there are gaps," he says. "As we transform our business, we need our people strategy to lead the way, so we'll be evaluating talent on an ongoing basis as a part of our standard business practices."

> Even when the CEO hasn't asked for a specific set of human capital metrics, they can still be used to manage people strategy and inform decisions about the workforce.

Retention is always important to De Geus. He wants to see the breakdown by subgroups of employees—such as their role or function, business unit, geography, or contributions to innovation—to see if there are patterns to address. Input from Jan Collison, senior vice president for HR and facilities, is important to help him understand what the numbers mean and how to respond. "If you just look at the numbers," he says, "you don't get the story underneath them."

At Infosys Ltd., a global technology consulting and services company, CEO Vishal Sikka wants most to know about the small slice of employees with the biggest impact. The company identifies this group—based on tenure, performance ratings, and consistent, long-term closeness to customers—as having the most impact on customers and therefore on revenues. "This is the lifeblood of the company," Sikka says.

This core group of about 5,500 employees includes a top tier of about 800 employees who have been consistently at "zero distance" to the client over a long period of time and who have consistently high performance. This top tier is so important that if one of them appears ready to leave, Sikka himself intervenes to try to keep the employee. The rest of the executive team intervenes for the rest. Besides measuring the performance of this group, Infosys conducts engagement surveys. "We want to know who is most passionate about the work," Sikka says.

Compare the priorities of Lund, De Geus, and Sikka with the answers of survey respondents, and it's clear that there is no consensus on an ideal set of human capital metrics. figure 2

- Lund's top need—the skills gap assessment—is an aspect of workforce planning, which at 78 percent ranked last out of 10 in importance among survey respondents. Yet workforce planning ranked fourth (chosen by 41 percent) among the activities for which HR reports metrics to the C-suite.
- De Geus' most important ongoing concern is retention. At 79 percent, employee retention ranked ninth in importance in the survey, fifth (chosen by 37 percent) among the metrics reported to the C-suite.
- A top need for Sikka is to know how engaged his top-tier employees are. At 82 percent, employee engagement ranked fourth in strategic importance in the survey, and third (chosen by 44 percent) among metrics reported to the C-suite.

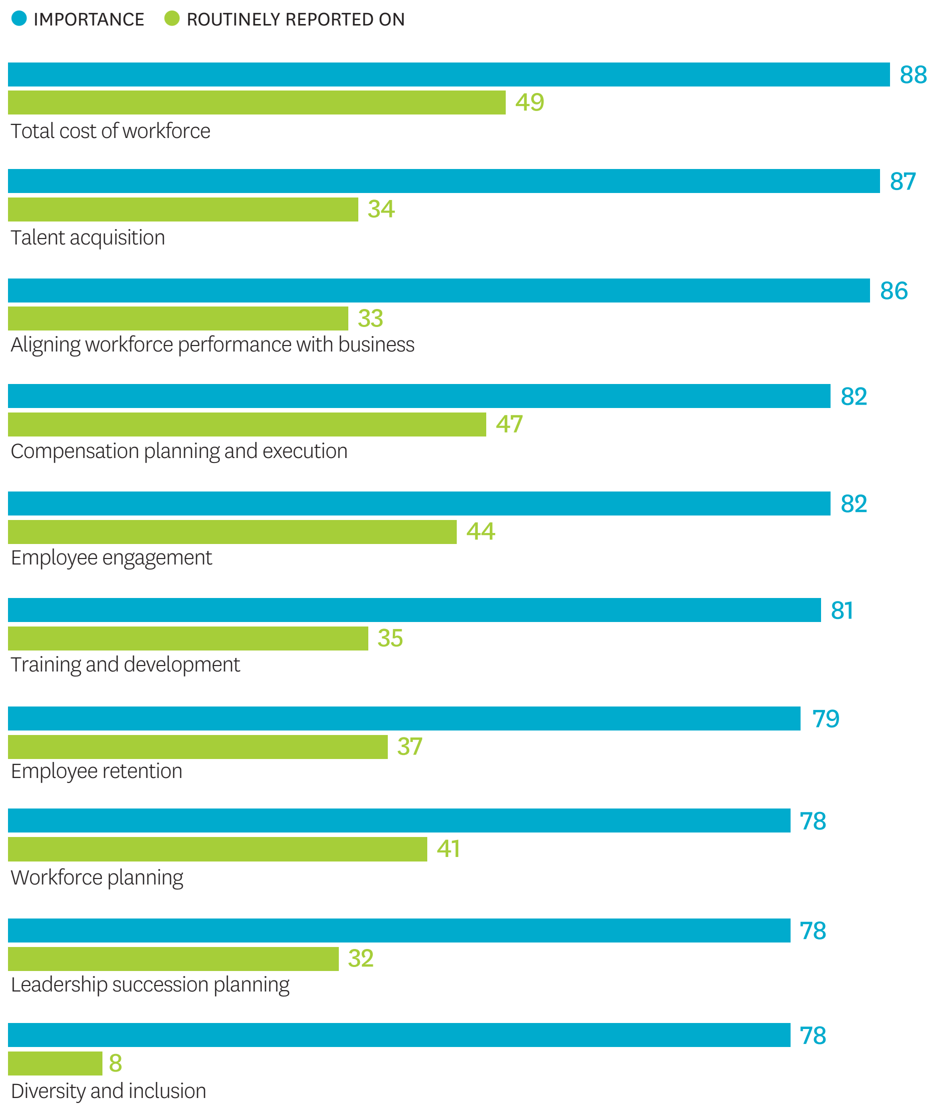
As should be clear from the above examples, not all metrics are important to CEOs all the time. CEOs don't necessarily know what they will need when a strategic business decision confronts them. For this reason, HR should collect a broader set of metrics and analytics than the CEO needs every single day.

"Whether you use this data all the time or not, do you have it if you need it? The CHRO should know what you should be looking at, at any point in time," De Geus says.

FIGURE 2

MANAGED MORE THAN MEASURED

Although a variety of human capital management activities are strategically important, HR does not routinely report on them.



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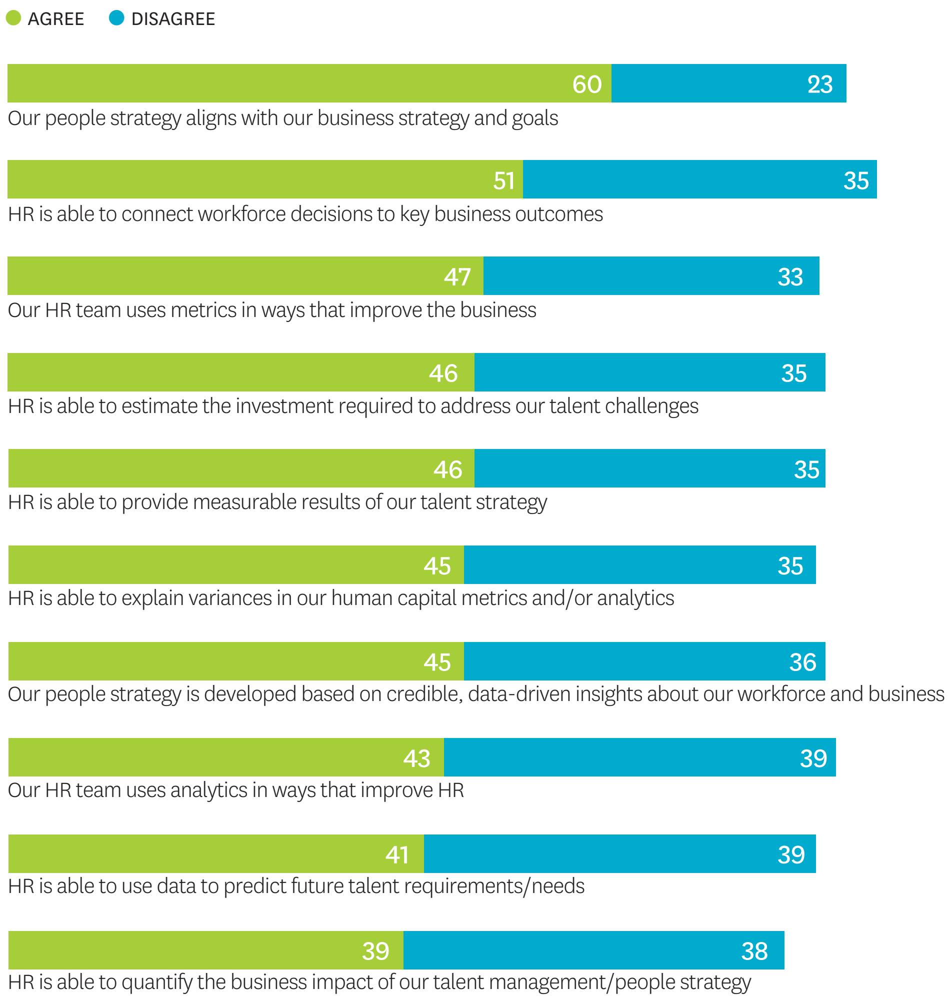
Even when the CEO hasn't asked for a specific set of human capital metrics, they can still be used to manage people strategy and inform decisions about the workforce. But HR has difficulty doing so.

Survey respondents were asked whether they agreed with a series of statements about the impact of metrics on business decisions. Most reported that their people strategy aligns with business strategy and goals (60 percent) and that HR can connect workforce decisions to key business outcomes (51 percent). But fewer than half (47 percent) are able to use metrics in ways that improve the business or even understand the impact of their people strategy on the business. figure 3

FIGURE 3

CONNECTING METRICS TO BUSINESS OUTCOMES

Most organizations can become more sophisticated in their use of human capital metrics to improve the business. PERCENTAGES MAY NOT ADD UP TO 100% DUE TO ROUNDING.



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CEO AND CHRO: A TRUSTED RELATIONSHIP

Deriving meaning from metrics and analytics falls to the CHRO. John Sullivan, a talent management consultant, author, and professor of management at San Francisco State University, offers several tips for how to increase the strategic value of metrics:

- Deliver metrics that cover talent areas with the highest business impact.
- Report metrics in terms of their dollar impact.
- Provide trend lines for predictive metrics.
- Include an assessment of causes of any problems, and recommendations for fixing them.

"You don't report cost per hire and turnover data out of context. You say the industry average turnover is 10 percent, we're much higher than that, and it costs us $15 million a year. Then they listen," Sullivan says.

Boudreau agrees that CHROs need to do a better job of presenting and analyzing metrics for the C-suite. He also urges CEOs to demand that CHROs do better. "Leaders outside HR have some responsibility to ask for better, more useful information," he says.

Human capital metrics are more likely to have strategic value when the CEO and CHRO have a trusted relationship. Most survey respondents report they have two prerequisites to that relationship: effective communication (80 percent) and a collaborative approach to talent strategy (62 percent). figure 4

Experts and CEOs agree that creating and implementing the right people strategy requires steady communication about business goals and rigorous analysis of the factors—including headcount, future capabilities, and employee engagement—that contribute to business outcomes.

Yet metrics help executives make decisions only when they approach decisions with a shared set of values. No set of numbers can replace operating principles, such as a commitment to enabling work-life balance or improving diversity. "If you don't have shared values, you cannot discuss all the difficult decisions that have no right or wrong answer. If you don't have alignment on values, then fundamentally difficult questions are intractable," De Geus says.

At Synopsys, Collison has been CHRO for 14 years. Before that, she worked in facilities and real estate management. "I was able to apply the rigor for data and analysis I learned in facilities and real estate to the HR function. My predecessor was also a data-intense HR professional. Data has supported what we do for two generations of CHRO leaders."

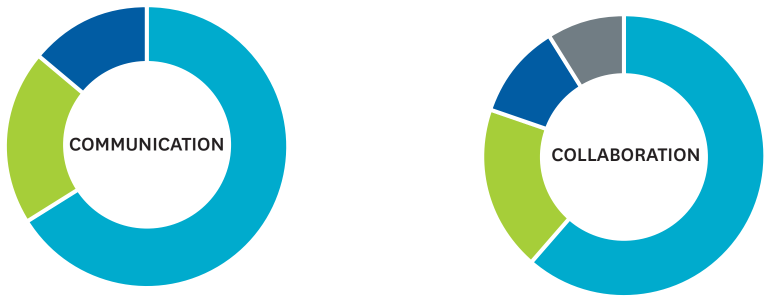
Just as important, Collison has "a clear understanding of what we are trying to do," De Geus says. "The business we're trying to invest in, who is our competition. We need to know: Who are we losing to competitors? Who are we attracting from them?" He expects Collison to know as much about Synopsys' talent and related data as the CFO knows about the company's financial position.

Hiring a new CHRO was one of Lund's first actions when he arrived at Teradata. "I looked for someone who knew how to be a cohort with me in the process, and who was metrics oriented." Like all Lund's direct reports, the CHRO attends business strategy meetings and is involved in major decisions. Candor is a key to their relationship, he says. "You have to be open and honest. I am straightforward and don't pull punches."

FIGURE 4

FOUNDATION FOR CEO-CHRO SYNERGY

CEOs and CHROs are communicating and collaborating—prerequisites for making data-informed decisions.



Effectiveness of communications between HR staff and CEO/C-suite

VERY OR SOMEWHAT EFFECTIVE	66%
NOT AT ALL OR NOT VERY EFFECTIVE	20%
NEITHER EFFECTIVE NOR INEFFECTIVE	14%

Responsibility for setting/defining talent management/people strategy

THE C-SUITE, HR, AND BUSINESS UNIT COLLABORATION	62%
HR STAFF	19%
C-SUITE	11%
BUSINESS UNITS	9%

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The established CEO-CHRO communication and collaboration at Synopsys and the way these are evolving at Teradata are uncommon, observes USC's Boudreau. "It's not that this isn't happening, but in general we still can't count on it happening often enough."

CONCLUSION: HOW CEOS AND CHROS CAN MAKE HUMAN CAPITAL METRICS MEANINGFUL

Although most large enterprises collect a variety of workforce data, many CEOs currently are not using human capital metrics or analysis to make strategic business decisions. CEOs don't ask for the metrics, HR does not deliver them effectively, or the CHRO is not using them to help connect people strategy with business strategy.

"Human capital metrics are supportive instruments for building an argument, but they are not the argument themselves," De Geus says. "We do not make data-driven decisions. We make *data-informed* decisions because we also bring our intuition and experience to bear on the problem."

Many CEOs still need to become better attuned to which human capital metrics matter most for them, and need to find a CHRO who is a full partner, even a guide, in this endeavor.

Concludes De Geus: "Data can be a great asset, but the CEO and CHRO have to be aligned on a common vision on how you build a long-term, high-quality company—and have a common understanding what 'long-term' and 'high-quality' mean."

METHODOLOGY AND PARTICIPANT PROFILE

This report is based on a web survey of 168 organizations conducted in April 2017 by Harvard Business Review Analytic Services. The Harvard Business Review audience of participants were all from companies based in the U.S. with 1,000 or more employees.

The sample included:

- 168 respondents
- 77 percent from companies of 3,000 or more employees
- 77 percent in management or higher roles
- 23 percent in HR/training

THE FOLLOWING EXPERTS WERE INTERVIEWED FOR THEIR INSIGHT

JOHN BOUDREAU | Professor at the University of Southern California Marshall School of Business

AART DE GEUS | Chairman, co-CEO and cofounder of Synopsys, Inc.

VICTOR LUND | President and CEO of Teradata Corp.

VISHAL SIKKA | CEO, Infosys, Ltd.

JOHN SULLIVAN | Former professor of management at San Francisco State University