



# Why Read This Book?

## The Good, the Great, and the Stupidus Maximus Award

In 2001 a book called *Good to Great* was published that profiled companies that were considered to have exemplary business practices.<sup>1</sup> One of those companies was the electronics retail company Circuit City. Less than ten years after *Good to Great* was published, Circuit City was bankrupt, and its stock was delisted. How did such a high-performing company go so quickly from good to great to gone?

Many things contributed to the demise of Circuit City, but one action that stands out was the decision in 2007 to fire their most experienced employees and replace them with less-expensive newly hired staff. This move provided immediate financial benefits but created lasting and permanent damage to Circuit City's performance. It even led to the creation of an award to recognize colossally bad management actions: the Stupidus Maximus Award. The award observed, "It doesn't take a genius to know that getting rid of your most experienced and productive workers is not only a terribly shortsighted strategy, but incredibly dumb."<sup>2</sup>

It would be nice if stories such as this one from Circuit City were rare. They are not. We all have stories of apparently stupid things we have seen managers do. Bad management seems to be something we simply expect and accept as something we just have to live with, much like bad weather. What leads to

all these bad management decisions? Most people who get promoted to management positions have had to demonstrate that they possess at least a reasonable level of intelligence and have shown that they can be trusted at some basic level to support and help others. Very few managers are particularly unintelligent, cruel, or unethical. Circuit City's decisions were almost certainly done by extremely bright and highly successful executives. These executives may have earned the Stupidus Maximus award, but they were not stupid people. The reality is that all of us are capable of making stupid management decisions. Many of us, although it may be painful to admit, have already done so. The challenge is that companies do not learn that their management decisions were stupid or ineffective until after they have been made.

The reason companies make bad workforce management decisions is usually the same reason people make other bad decisions: they fail to think through the consequences of their actions or overlook crucial pieces of information. Poor management decisions are often the result of not appreciating what actually drives employee performance. More often than not, this comes from looking at decisions from the perspective of the organization without thinking about these decisions from the perspective of employees. A decision that makes sense in terms of a company's financial models may not make sense if you look beyond these numbers at the psychological factors that underlie employee actions that drive company profits. Employees do not do things because their company wants them to. They do things because they want to do them, have the capabilities to do them, and have confidence that solely they can succeed.

Successful companies are not built solely on the things leader and managers do themselves. Successful companies result from what leaders and managers are able to get their employees to do. This requires understanding work from the perspective of others and knowing how to predict and change employee behavior to align with business needs. That's ultimately what this book is about.

This book is a guide to using strategic human resources (HR) to increase business performance. Strategic HR encompasses a variety of processes, including staffing, talent management, performance management, compensation, succession, development, and training. The term *strategic HR* is used to distinguish these processes from other HR processes that are more administrative in nature.

Strategic HR focuses on processes used to align the workforce to deliver business results. It is often described as getting the right people in the right jobs doing the right things and doing it in a way that supports the right development

for what we want people to do tomorrow. Administrative HR focuses on administrative and legal processes associated with the employment of people: managing payroll, providing health care benefits, and handling the administrative and legal details associated with establishing and terminating employment contracts, for example.

Strategic HR is critical to achieving business objectives consistently and effectively. It has a major impact on the profit, growth, and long-term sustainability of organizations. Administrative HR is critical to organizational functioning but is not a strong source of business advantage. For example, although it is difficult to motivate employees if their paychecks don't show up, paying people on time is not going to give a company competitive advantage. In this sense, administrative HR is similar to other crucial support services such as processing expense reports, maintaining e-mail systems, and managing building facilities. Administrative HR gets little attention from most business leaders unless it fails to work. Business leaders rarely ask administrative HR questions such as, "How do I ensure people get paid on time?" But they often ask strategic HR questions such as, "How can I get the employees I need to support this project?" or, "How do I get people aligned around the company's strategic goals?"

There is a symbiotic relationship between strategic HR processes and administrative HR processes. Although there is a tendency to discuss these two sides of HR as though one were more important than the other, the reality is that we need both. Administrative HR is needed to employ people. Strategic HR is necessary for ensuring that people are doing what we have employed them to do. Strategic HR is where companies gain the most competitive advantage because it is about increasing workforce productivity and not just maintaining standard corporate infrastructure. If HR professionals want to increase the impact they have on their company's strategic initiatives and business operations, then being good at strategic HR is how they will get it (see the discussion: "Strategic HR: Leadership: What It Does and Does Not Look Like").

## **STRATEGIC HR LEADERSHIP: WHAT IT DOES AND DOES NOT LOOK LIKE**

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If HR is going to influence business strategies, then its leaders must show how HR methods can improve business results. These leaders must be willing to advance bold recommendations on how HR

processes can support business operations and back up these claims with decisive action. People in HR often speak about “getting a seat at the leadership table,” but HR leaders must also play a vocal role in the conversation at this table if they wish to keep this seat. My experience is that not all HR leaders are comfortable taking such a highly visible role. The following two stories illustrate the difference between strategic HR leaders and HR leaders who may be at the leadership table but seem reluctant to speak up.

The first story illustrates what strategic HR leadership looks like. A major manufacturing company suffered a severe downturn in business due to the 2008 recession. It hired a new CEO who realized the company would go bankrupt unless it radically changed its strategic focus. This meant getting a tradition-bound company to adopt difficult and highly challenging goals quickly. HR leaders in the organization spoke up and said that improving the HR processes used to manage employee goals could play a central role in this turnaround. They then committed to implementing HR technology that allowed the organization to set and track goals across more than twenty thousand employees in over fifteen countries. They agreed to do it in less than four months. This was an extremely ambitious HR initiative, and it played a central role in the company’s turnaround strategy. Rather than shy away from this high-profile and risky engagement, the HR leaders committed to making it happen. Two years later, this company had completed an extremely successful business turnaround, and the HR organization had played a highly visible role in making it happen.

Compare the previous story of strategic HR leadership to the following one illustrating a different type of HR leader. A product marketing company was about to launch a new technology-enabled process to set and track employee goals. Two weeks before the goal management process was to be launched, the HR leadership team learned that the company had made a massive acquisition. Business leaders wanted to align the two workforces as quickly as possible around a common set of strategic objectives. The immediate reaction among some members of the team overseeing the goal management process was, “This is perfect timing because goal management is central to workforce alignment.” Yet the HR leadership team did not appear to see it this way.

Traditionally at this company, goals had mainly been used as a way to justify compensation decisions. They thought of goals only as a tool for personnel administration, not as a means to support strategic communication and alignment. Rather than seize this opportunity to demonstrate how this HR process could support a critical business need, the HR department chose to delay the goal management process launch until the acquisition settled down.

The difference between these two stories was the difference in the willingness of HR leaders to play a central, high-profile role in supporting a mission-critical business need. If HR leaders want to have strategic impact, they need to be willing to take on projects that put HR in the spotlight. Such projects are likely to be high stress and high risk, but such things are necessary to becoming highly relevant to business strategies. It is not enough to have a seat at the leadership table; you need to influence the conversation.

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This book explains the major design questions that underlie effective strategic HR processes. It does not prescribe using certain specific strategic HR processes or give advice that assumes there is one best way to manage people. There isn't one best way to manage people in general. However, there is a best way to manage the people in your organization, taking into account your company's particular workforce characteristics, business needs, and resource constraints. This book helps you think about strategic HR process design and deployment so you can uncover the practices that are truly best for your company. It will also help you recognize and avoid particularly bad practices, such as firing your most skilled and experienced employees to save short-term costs!

This book is based on psychological research studying factors important to workforce productivity, combined with my experience working with companies of all sizes around the globe.<sup>3</sup> The more than twenty years I have worked with companies seeking to improve workforce productivity that have hammered three fundamental beliefs into my brain. First, there are very few true best practices. What works in one company may not work in another (see the discussion: "The Problem with HR Case Studies"). In fact, what works in one company may actually hurt performance in another. Second, although there are no true best practices, there are necessary practices that influence the design of many HR

processes. These practices may not provide competitive advantage, but HR processes will not work if you do not address them. Third, the reason HR often fails to be effective is that companies did not fully think through key design questions when building and deploying HR processes. In particular, they did not consider how these processes must interact with employee psychology to create the behavioral changes they are intended to achieve.

## THE PROBLEM WITH HR CASE STUDIES

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This book contains many stories of effective and ineffective HR practices drawn from work I have done with hundreds of organizations. I intentionally do not share the names of these companies for several reasons. Foremost, which companies these are is not the point. The point is what we can learn from their experiences. Furthermore, not all of these stories portray companies in a positive light. Finally, I do not want to perpetuate a tendency in the HR field to copy other organizations' HR practices based on the name of the company instead of the nature of the practice.

The field of HR has a history of idolizing companies based more on their current financial performance than on the quality of their workforce management methods. It is common to see books or case studies written about HR methods used by companies that have achieved financial success. These usually include an explicit or implicit admonition that other companies should use the same HR methods. There are two problems with this approach. First, HR processes that work in other organizations may not work or even be feasible in your own. Second, just because a practice worked for a company in the past does not mean it will continue to work in the future. Companies need to adjust their HR methods to meet the shifting nature of labor markets, technological resources, business models, and economies.

The value of strategic HR methods depends on your company's business needs, its culture, characteristics of its employees, its resources, and a range of other variables. This point was succinctly made by a colleague of mine in the 1990s when General Electric (GE) was doing exceptionally well under the leadership of its famous CEO, Jack Welch. Many books were written about HR methods at GE under Welch as examples of HR

best practices. During that time, an HR professional asked my friend, “What does our company need to copy the HR practices used at GE?” to which he replied, “100 years of history, 100,000 global employees, and hundreds of millions of dollars’ worth of financial capital.” His response was somewhat flippant, but the point is valid. GE’s practices worked extremely well for GE at that time in history. But that does not mean they will work equally well for another company or at another time.

This book contains dozens of examples of HR methods drawn from scores of different companies. Only three of these companies are mentioned by name: GE, Circuit City, and Enron (in chapter 6). GE is an example of a company whose HR practices have significantly changed over the years to adapt to shifting business needs. Many HR practices that GE was famous for in the 1990s such as forced ranking are no longer used by GE today. Circuit City and Enron are examples of companies that were once extremely successful and were lauded for having highly effective strategic HR practices. Both also experienced colossal business failures that were caused in part by flaws in their approaches to strategic HR and a failure to effectively change their HR methods to meet changing business demands. The lesson to be learned is to never implement a strategic HR practice just because someone else is doing it. Study what other companies are doing as a source of ideas and insight, but do not implement an HR practice until you critically examine whether it makes sense for your company’s unique situation.

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This book takes a comprehensive look across all of the major strategic HR processes used to hire, motivate, develop, and retain employees throughout the employment life cycle. It addresses design issues affecting specific strategic HR processes and explains issues related to integrating multiple processes to address different types of business needs. Unlike many other HR books, this book does not prescribe how HR processes should be designed. Instead it walks through the major considerations to ensure the processes you create are the right ones for your business. This book is not an instructional manual that presumes to tell you how to manage your workforce. It is a guide through the major questions, concepts, and issues to consider when building and deploying strategic HR processes to support the unique business needs and culture of your company.

The book summarizes years of experience and knowledge into a set of frameworks, key questions, and diagnostic tools that will help you create a healthier, more productive work environment for employees, managers, and customers alike. I do not pretend that this book has all the answers. But it does provide solutions and concepts that have been effectively leveraged across a huge variety of companies. Some of the topics discussed are a bit complex as a result of the topic area. As is commonly said, if this problem was easy to fix, someone would have figured out the solution long ago and we'd all be using it. Nevertheless, many of the concepts in this book can be effectively learned and applied to your company's strategic HR processes in a matter of weeks. If you want to understand how to think through HR at a more strategic level, how to articulate its value to others, and how to design processes that positively change employee behavior, this book is for you.

## 1.1 HOW THIS BOOK IS STRUCTURED

Chapter 2 provides clarity on what strategic HR is, why it is important, and why it is often difficult. The chapter also explains the four fundamental strategic HR processes of right people, right things, right way, and right development.

Chapter 3 introduces the concept of business execution, explains why understanding a company's business execution drivers is fundamental to the design of effective strategic HR processes, and describes the link between the six key business execution drivers and the four fundamental strategic HR processes.

Chapters 4 through 7 discuss critical design questions underlying each of the four fundamental strategic HR processes: right people, right things, right way, and right development. These chapters discuss how to build and deploy processes associated with staffing, goal management, performance management, succession management, development, and other forms of strategic HR.

Chapter 8 looks at methods for integrating and aligning different areas of strategic HR to create an overall strategic HR road map. This chapter could be read either before or after chapters 4 through 7. I placed it later in the book because I believe it is often easier to develop strategies if you have a solid understanding of the methods that will be used to execute them.

Chapter 9 discusses methods for deploying integrated strategic HR initiatives. This includes techniques to get employees, managers, and leaders to adopt and effectively use HR processes.



Appendix 1 contains a detailed competency library and associated structured interview questions that can be used to implement many of the concepts discussed in the book. Appendix 2 discusses how many of the principles in the book can be applied to build out a comprehensive succession management program. This provides an example of what is involved in building a truly integrated strategic HR process.

This book can be read as a complete document or as a reference guide where you read individual sections by themselves. The Contents provides a fairly detailed guide to the topics covered in the chapters, and the index can be consulted for looking up specific topics. Each chapter also includes discussions that address particular concepts and methods related to strategic HR. A glossary at the end of the book defines common strategic HR words and phrases.

## **1.2 THE ROLE OF HR TECHNOLOGY IN STRATEGIC HR**

The term *HR technology* refers to specialized computer systems designed to support HR processes. This is not a book about HR technology. The concepts discussed in this book can be applied independent of using any particular type of technology. Nevertheless, many of the processes discussed in this book are difficult, if not impossible, to implement in large organizations without the use of effective HR technology (see “How Technology Is Transforming HR: The Death of the Paper Binder”).

### **HOW TECHNOLOGY IS TRANSFORMING HR: THE DEATH OF THE PAPER BINDER**

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Until recently, strategic HR processes such as performance management, career development, goal setting, compensation, and succession management were conducted using paper forms, slide presentations, and spreadsheets often filled with half-completed, manually entered employee reviews and profiles. HR departments spent months pulling together data needed to support compensation decisions and succession planning, for example. Much of this information was obsolete by the time it was assembled. This left HR in the unenviable position of trying to engage leaders in strategic

talent conversations using clumsy paper binders full of questionable information.

Thanks to advances in technology systems, we are finally seeing the death of the HR paper binder. HR is shifting from manually created spreadsheets and documents to dynamic online, web-based systems that make clumsy processes much more efficient and easy to use. One company I worked with set coordinated goals across more than ten thousand employees worldwide in less than sixty days. Another global company achieved the following in one year across over thirty countries:

- Set 1,787,465 performance objectives aligned to the company's overall business strategy
- Completed 253,465 performance reviews using a single consistent process
- Conducted close to 6,000 talent review and calibration meetings

With a single mouse click, this company can instantaneously generate online reports providing immediate visibility into what people are doing across the company and how well they are doing it. These sorts of processes would be impossible to implement or support without the use of specialized strategic HR technology.

Advances in HR technology have provided companies with many new capabilities they did not previously have, such as the ability to quickly record and post training videos on company intranet sites or the ability to instantaneously search across the entire workforce to find employees who possess specialized skills. But much of the value of HR technology also comes from enabling managers to take advantage of strategic HR data and processes that have long been available but were historically difficult to use. In this sense, the impact that technology has on HR can be likened to the impact that GPS technology has had on the use of street maps. These technological systems take existing information and knowledge out of documents where it was rarely accessed and put it in the hands of decision makers when they need it in a format they can readily use.

Major advances have been made over the past twenty years in the development of HR technology to support strategic HR processes—for example:

- Staffing systems used to post job openings on the Internet, find qualified candidates through searching through Internet sites, automatically screen and select candidates using online assessments, and transition new employees into the organization
- Management systems used to communicate and set employee goals, measure and track employee performance, and develop and measure employee skills
- Reporting systems that integrate data on employee accomplishments, qualifications, and pay levels to guide compensation and internal staffing and promotion decisions
- Learning systems that provide employees with online access to training and knowledge resources necessary to perform their jobs
- Social communication tools that allow employees to share ideas, feedback, and suggestions with each other through online forums

HR technology enables companies to achieve results that would be impossible to achieve without the use of technology. An example is tracking the performance, potential, and career goals of employees across a company and then conducting real-time searches to match existing employees to new job opportunities in the organization. Another is providing tools so employees in one part of an organization can record and share instructional videos with employees elsewhere in the company.

Using HR technology does not lead to positive results unless the technology is used correctly. But failing to leverage advances in technology limits a company's ability to use strategic HR methods. Many examples of poorly designed strategic HR processes are based in part on reliance on inadequate HR technology. Consider the example of the performance review. The traditional performance reviews that many companies use ask managers to fill out a form once a year rating employee performance.<sup>4</sup> Managers are supposed to share these forms with employees in a way that inspires the employees to increase their performance. These annual performance reviews rarely work as intended, however. Many managers do not think about the review until a few weeks before it is due, and as a result they often do not know what to write on the reviews. Their reviews

frequently contain vague notes based on what they can remember from the few months immediately prior to the review and may ignore the first half of the year entirely. Not surprisingly, employees often find the review process to be demeaning and generally unpleasant. And many companies never use the results of the reviews for anything at all. The forms go into a file, never to be seen again. Yet these types of reviews were (and still are) used by lots and lots of companies. How did we ever get to this point?

Technology constraints provide one explanation for the creation of ineffective annual performance review processes. At some point in the past, business leaders decided they wanted to consistently measure performance of employees so they could reward high performers and address problems caused by underperformers. Paper forms were the best technology available at that time. The only performance management process that could be effectively implemented using paper was the annual review form. If companies had access to the online tools that currently exist for measuring employee performance, it seems unlikely anyone would have created the traditional paper-based annual performance review process. For example, technology now provides tools that capture customer and coworker comments about employee performance on an ongoing basis, allow managers to go back and review employee performance against goals and projects assigned to them over the course of the year, and provide databases of content to help managers provide effective behaviorally based feedback. If these tools were around fifty years ago the traditional paper-based performance review would probably not exist today.

An analogy can be made to traditional HR methods such as the annual performance review form and the QWERTY keyboard (QWERTY refers to how the keys are ordered, starting with the upper left of the keyboard). The QWERTY keyboard was created because of a technology constraint. It was designed to slow down typing speed because early typewriters jammed if people typed too fast. If computers had been available when keyboards were invented, the QWERTY keyboard would never have been created. We use QWERTY keyboards not because they work well with modern technology but because they worked well with technology available 120 years ago. We continue to use them because they are familiar even though other keyboard designs would significantly increase our typing speed and accuracy.

The same is true for many traditional strategic HR processes. These processes were not adopted because they were highly effective. They were adopted because

they worked with the technology available at the time they were created. There are many examples of this, such as using labor-intensive and inaccurate manual reviews of résumés as the main process for screening candidates, trying to align employee goals with corporate strategies using PowerPoint presentations and Excel spreadsheets, and attempting to develop complex capabilities like global team leadership primarily using classroom training. We finally have the technology needed to replace or augment these obsolete practices with methods that are far more effective. It is time to make this change.

Most of the strategic HR methods discussed in this book are based on well-established and rigorously tested theories of employee psychology that are not particularly new. But until we had better HR technology, we couldn't effectively use them on a widespread basis. HR technology has radically improved and gets more powerful every year. This technology makes it possible to apply knowledge gained from decades of scientific research on employee performance to radically improve business results. It is just a matter of using this knowledge and technology correctly.

HR technology also decreases administrative burdens associated with managing talent, which frees HR professionals to focus on addressing business-relevant issues. Instead of spending time asking people to "please fill out their talent forms," HR can use technology to gain insights and drive strategic discussions around information contained in those forms. Technology systems enable HR departments to shift their focus from administering processes to working with business leaders to ensure these processes are supporting business needs.

Technology also allows HR to provide data and job aids to managers that help them make better decisions about people. These tools help managers more accurately evaluate employee performance and provide constructive, behaviorally based feedback to assist with employee development. Another benefit of HR technology is the visibility it provides into whether managers are carrying out basic management tasks such as setting employee goals and providing employee feedback. One client told me that until her company implemented strategic HR technology, it had no way to effectively measure whether managers were talking to employees about performance at all, let alone whether they were doing it well. The implementation of technology-based strategic HR processes made it possible to measure whether managers were practicing the most basic tasks associated with managing employees: setting expectations, evaluating performance against expectations, and providing feedback.

Strategic HR technology allows organizations to create processes that profoundly improve how line managers run their businesses. This technology enables HR leaders to change the role they play within companies. Thanks to innovations in talent management technology, HR has now, perhaps for the first time in its history, both the knowledge and the tools needed to play a true leadership role in driving the execution of business strategies. The next step is for HR leaders to take ownership of this role. We have the tools and knowledge; we just need the courage and conviction to use them.

### 1.3 WHY THIS BOOK MATTERS

Work matters a lot. Where we work, our success at work, whom we work with, how we work with them, whom we manage, and how we are managed by others all have major impacts on our health, happiness, and financial success. When used appropriately, HR processes improve both business performance and employee satisfaction. This benefits everyone: employees, managers, leaders, HR professionals, customers, and shareholders. Strategic HR processes can and should play a central role in building better workplaces and, through this, creating a better world overall. But it is up to us to use these processes in a way that matters.

#### NOTES

1. Collins, J. (2001). *Good to great*. New York: HarperBusiness.
2. *Workforce Management* (2008, April 7), p. 34.
3. Citations are included for passages where readers may wish more information or research evidence beyond what is provided in the book itself.
4. Garr, S. S. (2013). *The state of performance management: Performance appraisal process benchmarks*. Deloitte Development LLC.