10+ powerful ways that HR can WOW a CEO by producing unambiguous business impacts

*How your HR function can become
a corporate hero!*

September 22, 2016 – TLNT webinar

© Dr John Sullivan

3 topics we will cover today

1. Why HR should be at the top of a CEO's agenda

2. Steps that HR can take to make its **impact on business results larger and more visible**

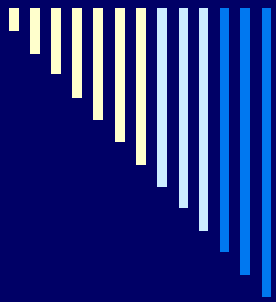3. Functional examples of ways that HR can **directly impact business results**

Please send in questions at anytime

I was happy with our HR approach…

but now… **"I want that one"**

CEO of General Mills

First let's understand HR's <u>potential</u> for impacting business results

Let's make sure that everyone understands the potential of HR

Jack Welch, former CEO of GE and **Fortune's "Manager of the Century"** has made **HR's potential crystal clear**…

"**What could possibly be more important than who gets hired**, **developed, promoted**, or moved out the door?"…

"When it is used appropriately", **HR… "is the most important department of a company"**

In the future… HR has a significant opportunity to <u>drive financial performance</u>

What is the #1 <u>predictive strategy</u>

for global financial performance?

"Building an inclusive culture"

Source: Bersin by Deloitte

What is the #1 global <u>business challenge</u> facing CEO's?
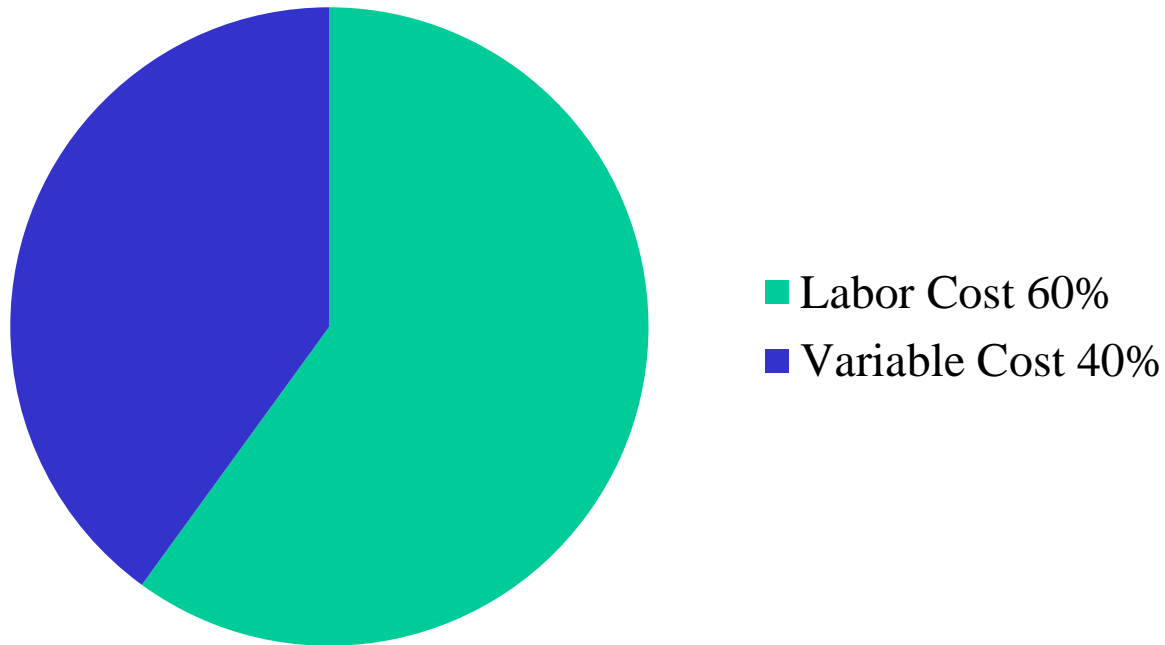
Top CEO global challenges 2016

4 of the top 5 challenges require outstanding employees

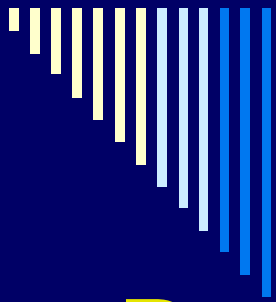➡️ 1. Human Capital

2. Customer Relationships (tied)

2. Corporate Brand and Reputation (tied)

4. Operational Excellence

5. Innovation and Digitalization

6. Regulation and Risk

7. Sustainability

Based on <u>costs</u>, HR is also #1 in importance

Labor costs are often as high as 60% of all corporate variable costs

- Labor Cost 60%
- Variable Cost 40%

Because HR is the top business challenge, CEO's are now <u>expecting more</u> from their HR functions

But unfortunately the evidence shows that HR is… <u>often underperforming</u> and it is <u>not</u> meeting these new higher CEO expectations

Almost everyone agrees that HR must… become <u>more strategic</u>

When CEO's and board-level executives <u>rank</u> business functions…

Which one is listed <u>as the most strategic</u>?

Sales

Where was HR ranked on the list?

"The least strategic function"

Almost everyone agrees that HR must… increase its impact on business outcomes

Of the 18 business factors that contributed the most to business outcomes…

#1 - With the highest impact was…

Reducing operational cost structures

And talent was ranked…

"Talent was dead last" (#18 out of 18)

(Source: KPMG / HfS research)

Of all the things that we do well, where do executives rate HR's effectiveness in "proving its value to the business" (KPMG)

Category	Percentage
Managing costs	39%
Collaborating with senior management on our people strategy	35%
Implementing coaching and career development programs	29%
Retaining key talent globally	26%
Achieving operational excellence	26%
Sourcing key talent globally	25%
Supporting an increasingly virtual/flexible workforce	24%
Supporting the greater globalization of our business	24%
Preparing for a changing workforce (e.g. retiring workers)	22%
Ensuring that succession planning is in place	22%
Making use of social media (e.g. for recruiting key talent)	20%
Measurably proving the value of HR to the business	17%
Providing insightful and predictive workforce analytics that provide understanding of the people agenda in businesses	15%

(12th out of 13 Bus. case)

Source: Economist Intelligence Unit study: Rethinking Human Resources in a Changing World, 2012

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Analytics usage correlates with an increase in business results

A Harvard Business Review study concluded that… **advanced users of workforce analytics*… Produced <u>higher business performance</u> in several areas:**

➢ **Profitability** **- a 65%** increase in performance

➢ **Growth** **- a 65%** increase in performance

➢ **Productivity - a 64%** increase in performance

(* when compared to the performance of competitor firms that were less effective in the use of analytics)

Where does HR <u>rank in analytics usage</u> compared to other bus functions?

	% of <u>advanced</u> users	% of <u>non-users</u>
1. Finance	58%	7%
2. Executive team	51%	11%
3. Operations	48%	9%
4. R&D	44%	23%
5. Marketing	41%	16%
6. Sales	34%	20%
7. HR (last)	**27%** ½ of finance	**23%** 3X finance

Source: AMA/i4cp

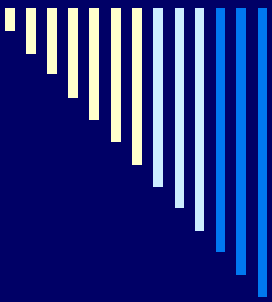# What percent of CEO's have faith in HR metrics?

Unfortunately, "Only **12% of CEO's** are confident with the quality of Human Capital metrics"

CEO
12%

AICPA survey

BTW… C- Level Executives rated **new hire quality as the most important performance metric** (Source: Survey by staffing.org)

But only **33% feel they do a good job** of measuring quality of hire (Source: LinkedIn)

The best way to become a corporate hero is to shift to "Business Impact HR"

What are the benefits of shifting to business impact HR?

The <u>many benefits</u> of being able to influence your CEO with direct business impacts

Benefits to the HR function

➢ You will have a larger **impact on business results**

➢ Expanded **access to executives and leaders**

➢ While sitting at the table, you'll be **listened to** more

➢ Because you will improve their business results, **managers** will gladly help & **collaborate with you**

➢ More **budget** dollars and fewer cuts

➢ **Faster approvals** and fewer project / idea denials

➢ Your HR **staff will be able to move** to other SBU's

Individual benefits

➢ Less stress, better **pay, security,** more **promotions and external job opportunities**

Accept accountability for improving people management results

➢ CEO's love those **that accept accountability**
➢ The critical thing to remember is that **HR designs, manages and reports on the results of all talent processes**, so in most CEO's view… HR is "the default owner"
➢ But unfortunately HR leaders complain that they shouldn't be held accountable for people management results **because so many people decisions are made by managers**
➢ **However realize that managers will <u>never</u> accept responsibility,** so forget that approach

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HR must impact the <u>top strategic corporate goals</u>

1. Profit and margins
2. Revenue
3. Innovation
4. Product features that allow us to charge more
5. Customer service
6. Workforce productivity
7. Product brand
8. Agility and adaptability
9. The CEO's bonus criteria

Know the differences from the traditional approach
A side-by-side comparison

Tactical HR	Business impact HR
HR results	**Business results / impacts**
HR soft language	**CEO language** – $ and #
HR agenda items	**Executive com. agenda**
Improved recruiting, retention, development	**Increasing productivity/ innovation, speed, agility**
Admin. efficiency	**Improve the performance of those outside of HR**
Compliance focus	**Performance consultant**

Solve business problems, not HR problems
➤**Business problems have <u>strategic goals</u> in their title** (We have an __ **$**... sales, marketing, customer satisfaction, production or innovation… **problem**)
➤**HR problems have <u>HR words</u> in their title** (We have a… recruiting, retention, engagement, pay or performance appraisal problem)

Example
➤Instead of saying… **we have a sourcing problem**
➤Word it this way… **We have a $1.5 mil. sales problem**, the strategic sales goal was not met last quarter (down 10%) because sales training was not available due to the slow hiring of trainers

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Impress your CEO by…reducing HR's focus on cost-cutting

Revenue generation is <u>superior to cost savings</u>

➢ Rev - shows **competitiveness in the marketplace**

➢ Rev – shows that **your products are superior / innovative…** so you can charge more

➢ Rev – shows that you have a strong **product brand**

➢ Rev – shows that you have great **customer service**

➢ Cost-cutting – requires **no business savvy**

➢ Cost-cutting – takes your **focus away from growth**

➢ Cost-cutting – means that **you've been inefficient**

➢ Cost-cutting – often **reduces quality**

➢ Cost-cutting – has **unintended consequences** >

Reveal the "real impact of <u>HR cost cutting</u>"

Don't miss revealing the <u>costs of unintended consequences</u> (that **occur later** in the budgets of **other departments**)

Froze <u>safety training</u> (Saved **$50,000**… in the training department's budget)

But track **"other department's added costs"** after 1 yr. (i.e. other pocket costs)

Safety dept. – Accident rates doubled -$400,000

Insurance   – Insurance rates up 23% -$187,000

Operations – Turnover of employees $_{+15}$ - $89,000

Other departmental budget costs that are not automatically obvious = - $676,000

The easiest way to demonstrate performance improvement is to initially…

➢ Start with jobs where employee performance is **already measured in $** (e.g. Sales, loan officers, investment jobs, bad debt collection etc.)

➢ Next consider jobs where performance is already **quantified with numbers** (e.g. Customer service, call centers, new customer acquisition, shipping etc.)

➢ And it's wise to focus on **P & L business units** where unit performance improvement is easier to measure in dollars

9 more <u>key actions</u> for increasing your business impacts

Maximize business impacts to impress your CEO

Actions to maximize HR's business impacts

1. **Prioritize bus. units** – focus on SBU's with the highest margins, growth rates and innovation rates
2. **Prioritize jobs** – determine and then focus on the jobs that have the highest revenue and business impacts (sales, innovation, customer service, business development, revenue impact jobs etc.)
3. **Prioritize employees** – identify and then focus retention and development **on high-impact employees regardless of their job** (e.g. top performers, innovators, those with extensive connections, magnet employees)

Maximize business impacts to impress your CEO

Actions to maximize HR's business impacts

4. **Shift to a data-based decision model** – database decision-making throughout HR may increase business and HR results by as much as 25%

5. **Convert HR results to $ of revenue** – Work with the CFOs office to **convert** HR results to their dollar impact on revenue… and report HR results in **$**
(e.g. turnover of a single store manager equals a loss of $1 million in sales)

6. **Prioritize HR programs** – identify which HR programs have the highest business impact and effectiveness & **shift resources** and talent to them >

Prioritize the HR sub-functions that have the highest business impacts

Which **HR area** normally has the highest impact on rev. & profit?

HR function or process Firms that excelled at this function performed _ times better	**Revenue** **Growth**	**Profit** **Margin**
1. **Recruiting**	**3.5** times	**2.0** times
2. On boarding and **retention**	2.5x	1.9x
3. Managing talent (Current talent)	2.2x	2.1x
4. Employer branding	2.4x	1.8x
5. Performance management and rewards	2.1x	2.0x
6. Developing leadership	2.1x	1.8x
7. Mastering HR processes	1.8	1.8
8. Global people management/ global expansion	1.8	1.7

Actions to maximize HR's business impacts

7. **Reward managers for great business and people management results** – you get better business and people management results when you measure & reward managers & HR for exceptional people performance (only 39% of firms do it)

8. **Change the mentality and focus of HR** – hire and retain HR people that have business acumen, business experience and that focus on business results (Google 1/3 are from outside of HR)

9. **Focus on PISA –** productivity, innovation, speed and adaptiveness have the highest business impacts >

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Avoid these actions that <u>reduce influence</u>

Minimalize the use of these 6 <u>weak</u> CEO influence approaches

1. Sitting back & **letting your work speak for itself**

2. **Acting like overhead** functions that **haven't made the transition** (i.e. accounting vs. finance)

3. Relying 100% on **personal relationships**

4. **Aligning** with business goals (but not impacting them)

5. Striving only to be a **business partner** (vs. a leader)

6. Acting with traits that are different than **those held by the CEO** (**not questioning everything**)

Examples of…

How using the "Business Impact HR" approach directly and unambiguously improves business results

How <u>Recruiting</u>…

can have direct measurable business impacts

Online assessment predicts on-the-job success

Footlocker predicted new-hire success

➢ **Shifted to a digital assessment (on-line)** to more accurately select interview slates

➢ **To increase their commitment, sales & finance were involved** to support the business case

Results from the pilot

➢ Double digit increase in **sales-per-hour**

➢ Double-digit reduction in **staff turnover**

➢ Managers also saved time by **reviewing fewer applicants** (From as many as 300 to as few as 3 per opening)

Prioritize jobs and focus on those with a high revenue impact

Decrease time to fill in revenue generating positions

➢ The bank's CFO found that for each vacant loan officer position..**$5000/day is lost in loan revenue**

➢ **The position was prioritized** and a second recruiter was added to reduce TTF

➢ The added recruiter **reduced vacancy days by 100**

➢ **$5k times the reduced 100 excess vacancy days** equals **a $500,000 revenue increase per year**

➢ The **recruiter cost** was only $100K

Recruiting increases sales

HR prioritized the recruiting of salespeople

➤ Last year, a revised **data-driven recruiting program for salespeople** was implemented

➤ Because of the improved hiring process, newly hired salespeople now **sell nearly 15% more** (+ $10,100 a month or $121,000 per year)

➤ With over **100 sales hires** per year, **the CFO calculated that the revenue impact exceeded $12.1 million**

➤ That amount is **nearly 4X** the total corporate recruiting budget and 12% of corporate revenue

Example

How <u>retention</u>…

can have direct measurable business impacts

HR reported a 40% turnover of store mgrs., but execs showed no interest… so HR <u>converted the impact to $</u>

When a <u>retail manager leaves</u>	**Bus. Impact**
Their store sales decrease	- $1 million
Store customer satisfaction	- 13% ($560,000)

A 40% store manager turnover meant a yearly loss of 220 managers (220 X $1.56 mil. = $343 million loss)

Business impact HR's focused retention efforts

➢HR retention efforts were focused on the identified primary turnover cause (paying attention to store mgrs.)

➢That effort reduced the 40% turnover rate **down to 20.1%** (110 fewer store manager turnovers)

➢Impact on total corporate store revenue after one year (120 X $1.56 mil.) = +$170 million

How <u>Onboarding…</u>

can have direct measurable business impacts

Example – Google's simple <u>onboarding approach</u> had a huge impact on productivity

½ of the managers of new hires were sent a JIT on-boarding email… A **control group** got no reminders

The email **reminded the managers to do 5 things**

1. Have a discussion on their **role and responsibilities**
2. Match your new hire with a **peer buddy**
3. Help your new hire build a **social network**
4. Set up onboarding **check-ins once a month** for their first six months on the job
5. Encourage an **open dialogue**

Result – new hires of the "reminded managers" **had a 25% increase in speed to new-hire productivity…** compared to the control group
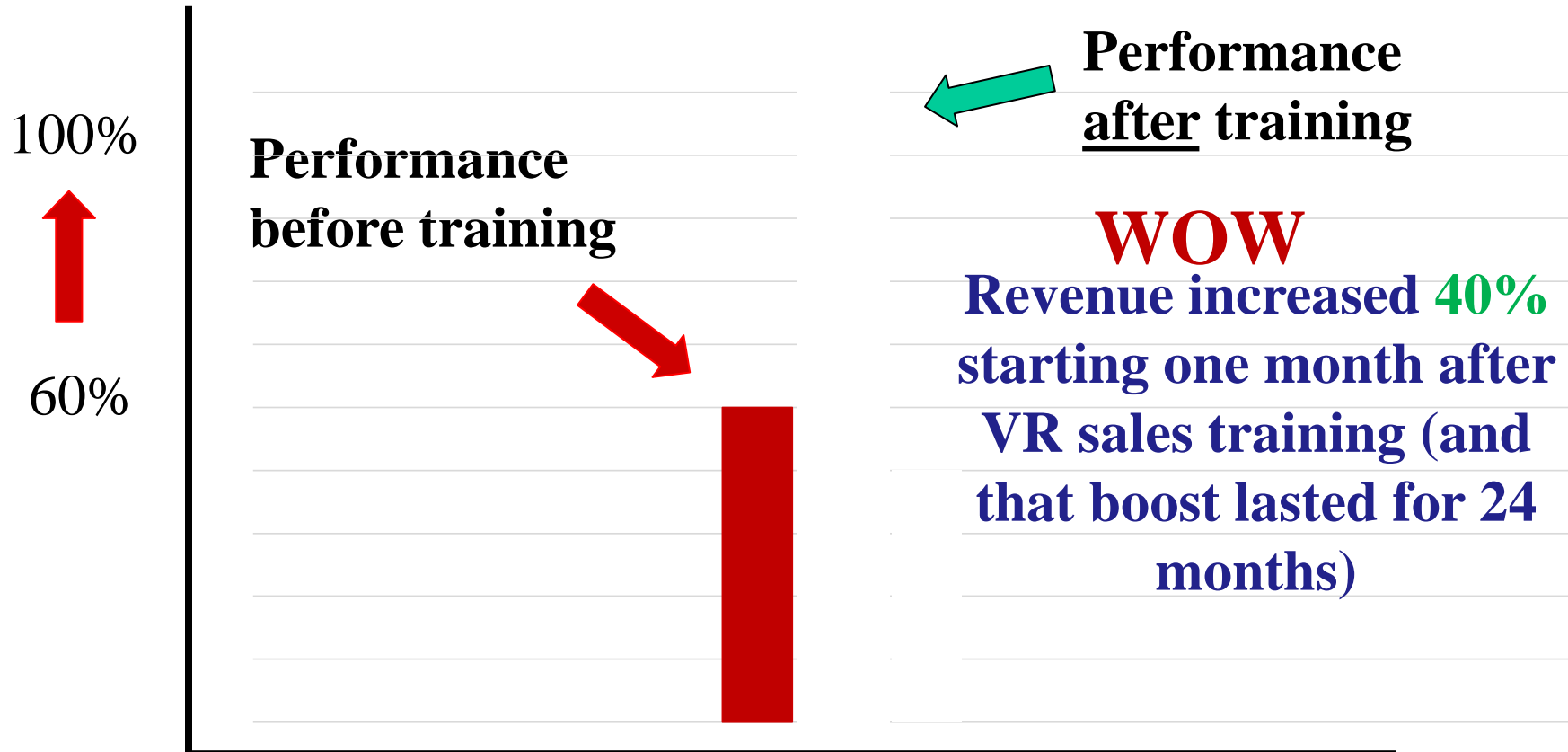
Source: Laszlo Bock

How <u>Development</u>…

can have direct measurable business impacts

Example of training increasing revenue

Does <u>virtual-reality sales training</u> actually increase sales?

% of sales target met

100%

60%

Performance before training

Performance <u>after</u> training

WOW

Revenue increased 40% starting one month after VR sales training (and that boost lasted for 24 months)

1. **$299k** is the average **yearly sales** for a salesperson
2. That average goes up by **$49k… if the salesperson completed advanced sales training** within 2 years
3. The average goes up by **$98k** if the they spend 6 hrs. a wk. **on social networks…** sharing / learning
4. The average goes up by **$147k** if they have between **2 and 7 years tenure** at this firm in a sales job
5. If they **meet all 3 requirements,** an employee's total yearly sales gain is **$294k** (nearly doubling yearly sales) **Would this stir a CEO to <u>take action?</u> And what specific actions would you suggest**?

How <u>Diversity</u>…

can have direct measurable business impacts

Illustrating diversity's business impacts

Emergency room team diversity impacts

A team of 10 (with no diversity) **had two diverse people added** (ADA, EEO, Gay, Age)…

A similar **control group ER teams** had no changes

Within three months because of:

Better communications (fewer translation issues)

Increased empathy

A higher comfort level (among customers and employees)

Employees are more approachable

Less fear & increased trust and

Better understanding of patient needs

 The following changes occurred in team results >

Illustrating diversity's business impacts

Better patient satisfaction   + 36%

Fewer errors / mis-diagnosis   < 27%

Service delays (waiting for an interpreter)   < 8%

A lower complaint rate   < 48%

Reduce team turnover rate   <   8%

The control group ER team on other shifts had no measurable changes

Estimated **$** impact… Priceless

How increasing <u>innovation</u>…

can have direct measurable business impacts

Understand the value of innovators

➢ **The top 1% of your workforce** produce what % of your total output? __10%__ **(or 10 times their expected value)**

(U of Indiana study by O'Boyle and Aguinis)

An innovator produces what "multiple" more?

(i.e. how many times more than the average employee in the same job?

GE, Netflix & Yahoo **- 10 times** the average

Apple   **- 25 times** more than average employee

Google   **- 300 times** more than the average

Ways that HR can increase workforce <u>innovation</u>

- ➤ Increase **serendipitous interactions** among non-teammates to increase **collaboration** (physical space)
- ➤ Offer **free time** to experiment (i.e. 20% time)
- ➤ **Recognize / reward** risk-taking and innovation
- ➤ **Use stretch goals** and frequent **project rotations**
- ➤ **Fast approvals** for new ideas
- ➤ **Require learning** after a failure (failure analysis)
- ➤ **Create a unique process for hiring** innovators
- ➤ Add a **meeting day "for makers"**
- ➤ **Fund** risky approaches over **sure things**

<u>Increasing workforce productivity</u>

is HR's primary role

Increase the <u>productivity</u> of your workforce

The #1 expectation for HR… is <u>increasing the productivity of the workforce</u>

Productivity = revenue per employee per year (or the profit to labor cost ratio)

You can compare your firm's revenue per employee to other firms on MarketWatch.com

How could an HR executive demonstrate that they have improved workforce productivity?

➢ Using our firm's **"revenue per employee" measure of workforce productivity** (which is the easiest to compare across firms),

➢ Our rev. per employee # was **$1.75 million per yr.** (but the average employee **is only paid $__,000**)

➢ Our rev. per ee was **up 18.5%** over the previous year

➢ And it far exceeds the **industry average of $208,000,**

➢ And **it was #2 overall in our industry,** compared to #1 Apple, at $2.01 million

<u>Additional ways</u> that HR

can have direct measurable business impacts

Always calculate <u>the ROI of exceptional employees</u>

"We pay great employees up to 100% more than other retailers"

But we get… **"three times the productivity at two times the payroll cost"** (ROI)

"You save money, the customers win, and **all the employees win because they get to work with someone great"**

They have a **"10 % turnover rate" vs. 75%** in the industry

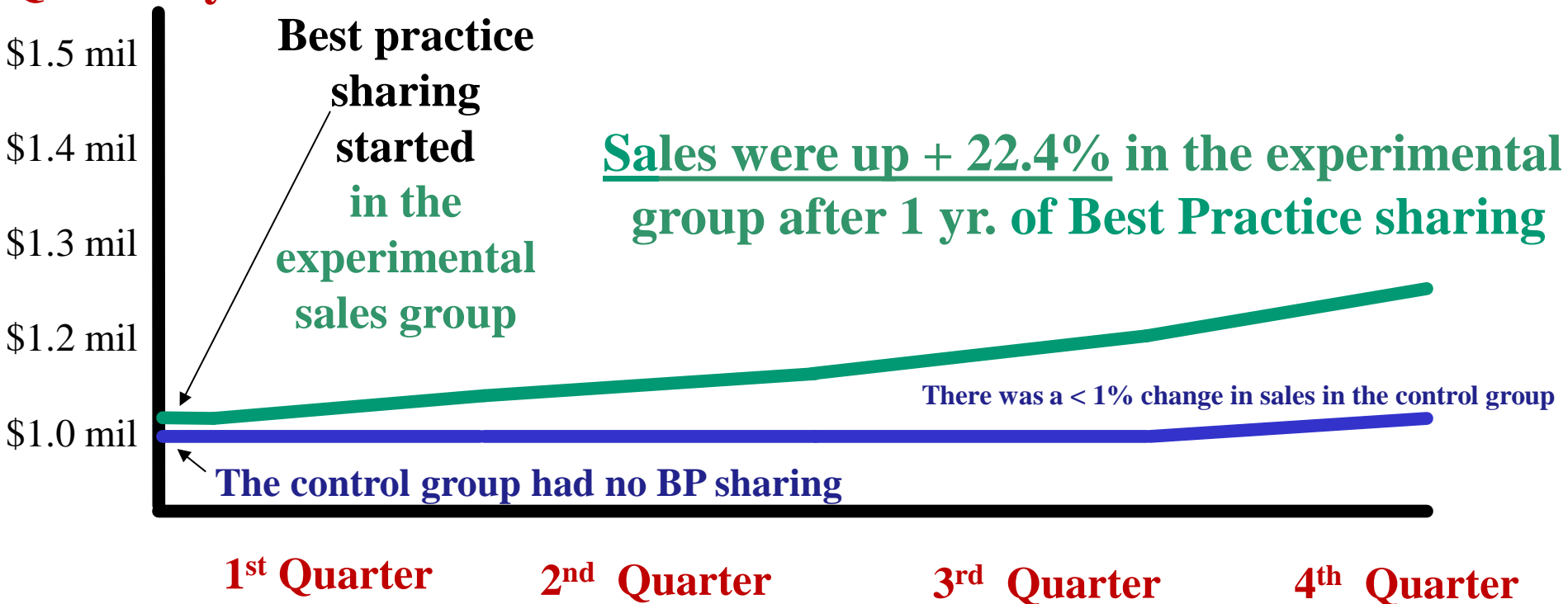# Google found that the single <u>factor</u> with the highest <u>impact on team productivity was…</u> their manager

Google's "<u>project oxygen</u>" showed that they were…
"able to improve 75% of our worst-performing managers" with these 8 actions Source: L. Bock

8. Have key technical skills to advise the team (not #1)

7. Have a clear vision and strategy for the team

6. Help your employees with **career development**

5. Be a good communicator & listen to your team

4. Don't be a sissy; **Be productive / results-oriented**

3. Show interest in their success & personal well-being

2. Empower your team and **don't micromanage**

1. Be a good coach – hold regular one-on-one's and provide personalized constructive feedback

The sales group was randomly split in half (control & experimental)

Quarterly sales

Best practice sharing started in the experimental sales group

Sales were up + 22.4% in the experimental group after 1 yr. of Best Practice sharing

$1.5 mil

$1.4 mil

$1.3 mil

$1.2 mil

There was a < 1% change in sales in the control group

$1.0 mil

The control group had no BP sharing

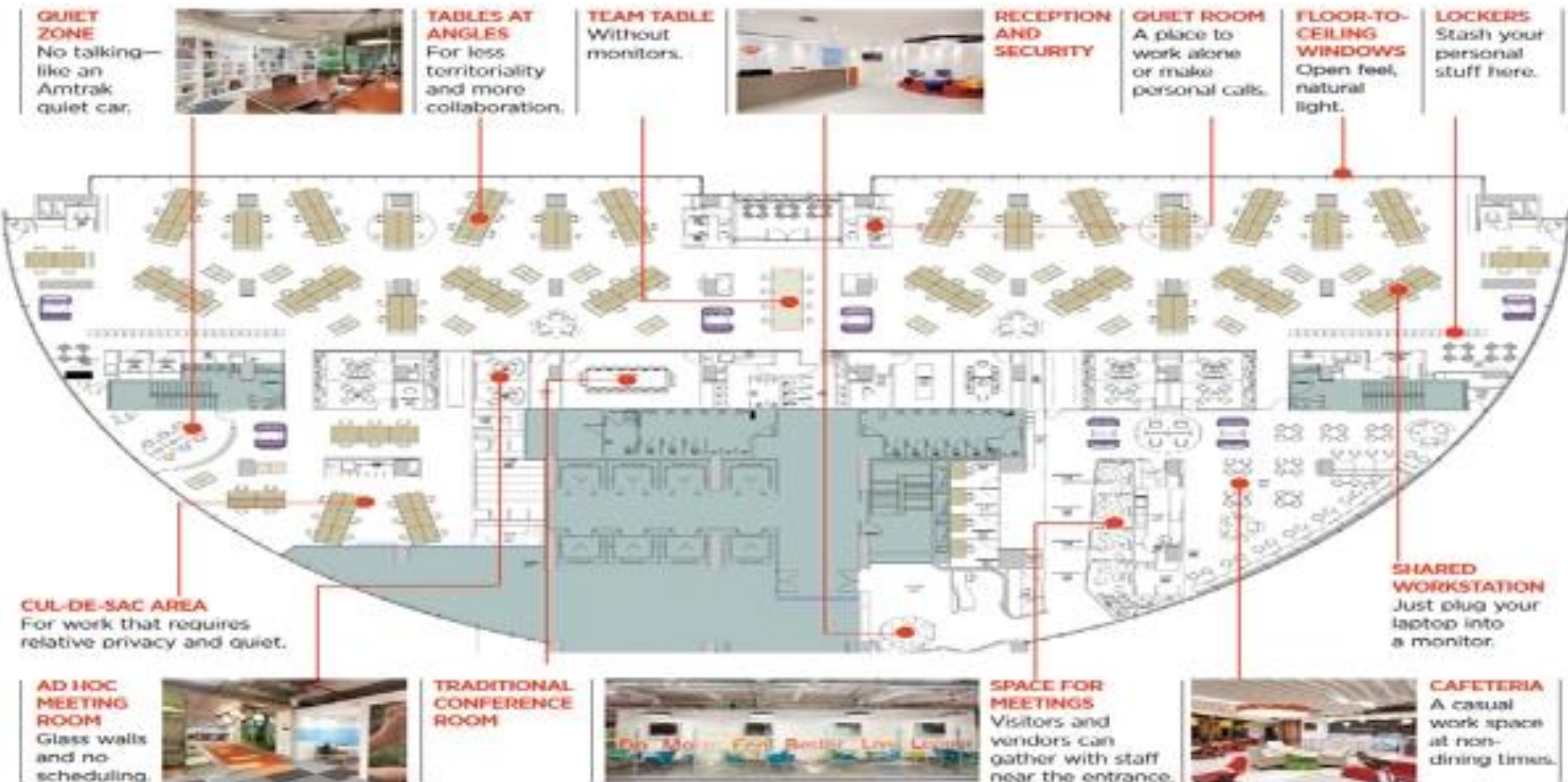**1ˢᵗ Quarter**   **2ⁿᵈ Quarter**   **3ʳᵈ Quarter**   **4ᵗʰ Quarter**

Conclusion – Best practice sharing **increased revenue by $116 mil. the first year**, at a cost of only $23.3mil. with an ROI of 4 to 1

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GSK's open-office design improved decision-making speed by 45% & reduced expensive unnecessary delays

QUIET ZONE No talking—like an Amtrak quiet car.

TABLES AT ANGLES For less territoriality and more collaboration.

TEAM TABLE Without monitors.

RECEPTION AND SECURITY

QUIET ROOM A place to work alone or make personal calls.

FLOOR-TO-CEILING WINDOWS Open feel, natural light.

LOCKERS Stash your personal stuff here.

CUL-DE-SAC AREA For work that requires relative privacy and quiet.

SHARED WORKSTATION Just plug your laptop into a monitor.

AD HOC MEETING ROOM Glass walls and no scheduling.

TRADITIONAL CONFERENCE ROOM

SPACE FOR MEETINGS Visitors and vendors can gather with staff near the entrance.

CAFETERIA A casual work space at non-dining times.

Source: Forbes 2012

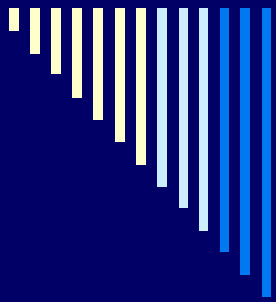# Data reveals that "everything matters"

➤ **Employees "that are <u>better networked</u>** have <u>better performance</u> and higher promotion rates"

 Source: Prasad Pretty of Google

➤ There is "**a clear link between <u>color and satisfaction</u> with a person's work area**", "which in turn **can boost employee creativity and productivity**"

Source: Meghan Casserly

<u>Additional ways</u> to influence your CEO

Impress your CEO by doing these things

Help the CEO be more visible

Most CEO's like positive exposure (ask them)

➢ Provide information that makes them look good in front of **shareholders and industry analysts**

➢ **Winning "best place to work awards"** provides them with opportunities to be visible

➢ Having a strong Employer Brand **positively impacts the firm's product brand**

➢ Wide exposure of best practices and superior talent results **may get them on "Best CEO lists"**

➢ **HR should also be more visible** by being mentioned on analyst calls and BOD meetings

Help the CEO build a <u>performance culture</u>

➢ A performance culture **places an extraordinary focus on producing superior results**

➢ This focus means **designing all…**

- Processes
- Resource allocations
- Communications
- Measures, rewards and punishments

So that they focus **time, talent, metrics and resources on producing measurable results** in every area of the business

Avoid even a single <u>major HR error</u>

CEO's remember who caused a major headache, no matter how many good deeds that you've done

➢ **Meet each of your business goals** every quarter

➢ Avoid any **major negative PR**

➢ Avoid any **major legal or regulatory issues**

➢ Avoid any major **internal HR audit issues**

➢ Avoid any major **ethical scandals**

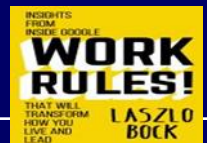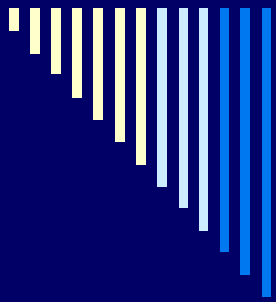➢ Avoid any **sexual harassment scandals**

Indicators that you have significant CEO influence

➢ HR is prominently listed **in the annual report**

➢ The VP of HR is the **"go to person" in a crisis**

➢ **HR is mentioned** in CEO's speeches/presentations

➢ **Budget & headcount** increases are above average

➢ Top HR staff **move into business unit positions**

➢ Exemptions from **hiring / budget freezes / layoffs**

➢ Being listed high on **"best place to work lists"**

➢ The VP is **on the succession plan to be CEO**

Checklist of CEO influence action steps

- ☑ Be bold and proactive
- ☑ Focus on revenue and business impacts
- ☑ Maximize productivity and innovation
- ☑ Convert all results to dollars
- ☑ Talk with data and numbers
- ☑ Use predictive analytics to alert
- ☑ Prioritize business units and managers
- ☑ Prioritize HR programs w/ high impacts
- ☑ Benchmark Google and read Work Rules

INSIGHTS FROM INSIDE GOOGLE
WORK RULES!
THAT WILL TRANSFORM HOW YOU LIVE AND LEAD
LASZLO BOCK

Did I make you think?

Are there any more questions?

Please take a minute and link with me on LinkedIn

www.drjohnsullivan.com or JohnS@sfsu.edu