

# Developing an Effective HR Strategy

“It is critical that the CHRO is intimate in the formulation and implementation of strategy, as the culture, morale, and talent architecture are inextricably linked to the ability to execute strategic plans. The CHRO is right in the middle of the talent and culture/environment equation.”

Wright, Stewart and Moore, *The 2011 CHRO Challenge*, CAHRS.

# Executive Summary

- 1 To develop an effective HR strategy, HR needs to understand the business strategy it is there to support - along with the business, economic, demographic and social context in which the organisation operates. Although our research uncovered many leading organisations where HR is involved in developing business strategy, there is still much progress to be made for the function to be considered truly 'strategic'.
- 2 We considered whether HR strategy should exist in its own right or simply as part of business strategy. We concluded that a single document, covering business and people strategy is preferable, though the key factor is to have clear line of sight between business priorities and HR actions. We distinguish between **people strategy** - the people-focused aspects of business strategy - and **HR strategy**. This is often confused with the HR functional plan, or the HR actions which support both business and people strategy. Hence our adoption of the term 'people strategy' throughout this report.
- 3 Strategy develops through formal processes, the outputs of which are strategy documents and plans. However, strategy also results from 'little', daily strategic decisions across all levels of an organisation. With rapid, ongoing and disruptive changes in business, organisations have to find ways of combining formal processes with the adaptability to react to such challenges.
- 4 Most organisations have some form of regular strategy review process, although this may not be an annual event. HR directors generally are involved in strategy discussions, but their contribution depends, ultimately, on their personal capability - and the organisation's view of what HR can contribute to strategy.
- 5 HR directors report that they spend more time on strategic activities now than five years ago, and less on administration. Those surveyed in 2011 spent about 18% of their time acting as strategic advisors to the executive team.
- 6 There is a perception that HR has traditionally focused on implementing, rather than developing, strategy. Often this may still be true, but we found that HR in leading organisations tends to be involved in strategy from start to finish. Our research identified four specific roles that HRDs can play in developing corporate strategy.
  - Full contributor.
  - Facilitator.
  - Subject matter expert.
  - Implementer.These role definitions reflect the extent to which an HRD is involved in both the **content** and **process** of strategy. While some of these roles can be combined, in practice, it is difficult for an HRD to act as both full contributor and facilitator.
- 7 The key contributions HR makes to strategy content are talent management, succession planning, organisation effectiveness, executive compensation, and supporting strategic change - mergers and acquisitions and entering new markets are two examples. We found HR increasingly provides internal and external data to support corporate strategy.

“As talent and engagement have emerged on every CEO’s radar screen, people have become a critical basis for competition. Failing to integrate people into business strategy is like trying to play golf without a driver.” **Professor Pat Wright, Cornell-CAHRS.**

**8** Our research identified the following key skills that HR professionals should have, or develop, to participate fully in defining business strategy and developing effective HR strategies.

- Analytical skills to interpret developments in business, market, regulatory and social environments.
- Business acumen and a good understanding of customers, investors and other stakeholders.
- Understanding business metrics and being able to describe, and justify, HR’s contribution to business results.
- Personal credibility so as to be taken seriously as a strategy contributor.
- Deep knowledge of HR tools and techniques and their application to business strategy and issues.

**9** This report provides steps that HR directors can take to be more involved in strategy development. While recognising that the organisation culture or the CEO can influence the degree to which they participate in strategy discussions, they can improve their position by

- developing their personal skillset
- expanding their business knowledge and understanding
- providing credible data for the executive team.

**10** Our work reveals the following features of an effective people strategy.

- A focus on business needs before deciding what to do.
- A good understanding of how the organisation’s people and capabilities enable success.
- Clear linkages between HR actions and business outcomes.
- Tracking and communicating performance against metrics.
- A feedback loop for evaluating the effectiveness of strategy and supporting the planning cycle.

**11** Leading academics on strategy urge that it should be made explicit. This means ensuring it is clearly communicated to and understood by all employees. HR has a crucial role in communicating strategy, enabling line managers and their people/teams to work towards that strategy, and ensuring they have the capability to do so.

**12** Today, HR is more likely to be involved in strategy discussions - being able to contribute but also to improve the quality of strategic thinking in HR. Clear line of sight between business strategy and HR actions is essential. HR can also guide their organisation to become more strategic by

- helping the executive team improve its effectiveness in strategy development
- developing strategic awareness skills across the workforce
- communicating strategy well.

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