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Compendium of CRF research

"Corporate Research Forum is the place to turn to for the latest thinking, best practices and top influencers in HR today."

Herminia Ibarra, Professor of Organisational Behavior and the Cora Chaired Professor of Leadership and Learning at INSEAD. Author of *Act Like a Leader, Think Like a Leader*

"I love the substance and style of CRF. It's an upbeat, thought provoking, future-focused forum where you can tap into the latest topics and network with smart people. If you are a busy HR professional who wants to stay sharp, it's a super investment of your time."

Mary Alexander, Senior Director Human Resources, Europe, Middle East & Africa, PayPal

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CORPORATE RESEARCH FORUM

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About CRF

Founded in 1994, Corporate Research Forum (CRF) is a membership organisation whose international focus is on research, discussion and the practical application of contemporary topics arising from people management, learning and organisation development. CRF has become a highly influential focal point and network for over 165 members representing a cross-section of private and public sector organisations.

- Its annual programme of research, events and publications fully reflects members' interests, in addition to the annual international conference. Side meetings and interest groups are also initiated to meet challenges that members might have.

- Contributors are acknowledged experts in their field with a worldwide reputation as leaders and innovators in management thinking and practice.

- Sharing and collaboration among members is a key feature of CRF's activities. We actively encourage networking at all events, and especially through member lunches and HR director dinners.

- CRF is led and managed by highly-regarded former HR professionals who have a passion for delivering excellence in the leadership and development of organisations and people.

CRF's goal is to be valued for excellence, rigour, relationship building and providing an independent view which, together, lead to measurable improvement in members' people and organisation performance.

"CRF is peerless in the field of HR thought leadership, bringing together the best of academic thinking and real world application. This creates a stimulating and often provocative, but always constructive, environment in which to share ideas and learn. Nobody does it better."

Dan Simpson
Head of Talent, Siemens UK

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Introduction

Corporate Research Forum (CRF) is a research-led membership organisation that has published thought-provoking research on contemporary issues relating to people management, learning and organisation development for over 20 years. Within this short document, we are delighted to present the executive summaries from a selection of some of our most recent work.

While each of these articles explore a different issue, there are a number of good practice principles uniting them, all of which are required for a strong, coherent and effective people strategy.

- The need for a clear and direct line connecting the particular intervention with the people strategy and, ultimately, the organisational strategy. This is particularly highlighted in the summary titled *'Coaching – business essential or management fad?'*

- A strong academic theory underpinning the work as is evident in the report we explored on *'Organisation Agility'.*

- An independent and robust process for evaluation, best highlighted in the report *'Leadership Development: is it fit for purpose?'*

- A systematic approach to HR, ensuring activities and interventions are not undertaken in 'silos of one' with little regard for their implications in other parts of the system. The summary focusing on *'HR's Contribution to Creativity and Innovation'* addresses this.

We trust you will find these summaries of interest and they provide a flavour to the issues we explore, the rigour of our work and the focus on practical recommendations in our research.

If you are interested in receiving the full copy of one of the featured reports or discussing the benefits of CRF membership for your organisation please contact Richard Hargreaves, Commercial Director, on +44 (0) 20 7470 7287 or at richard@crforum.co.uk.

"CRF offers us access to quality research, networking, resources and meetings that energise, engage and develop our diverse Human Resources community. Feedback from our HR team is always positive, stressing the pragmatic and freshness of the discussions and ideas."

Bev Cunningham
Vice President Human Resources Europe,
Ricoh Europe

LEADERSHIP DEVELOPMENT – IS IT FIT FOR PURPOSE?

"Learning from experience needs to have a good foundation. Too often we see that 'on-the-job' learning is actually 'on-your-own' learning. Leaders prefer developmental assignments, but this needs to be linked to core skills development within a framework of formal learning. The two need to be closely interconnected." **Evan Sinar, Chief Scientist, DDI**

Our report considers the current leadership development market and discusses how organisations could be more effective in their approach and evaluation of their leadership development. It explores current practice, asking whether it is fit for purpose and how it can be improved, and features a number of case studies illustrating how organisations are thinking more strategically about leadership development.

1. Spend on leadership development has increased since the economic crisis that began in 2009, and is now an estimated $50 billion globally per annum. Surveys show that building leadership talent is one of the top concerns of CEOs. Yet it is clear from both our survey and other reports that levels of satisfaction with the quality of leaders and the effectiveness of leadership development are low. Less than one-third (31%) of respondents to the CRF leadership survey rated their overall ability to develop leaders as 'Good' or 'Excellent'. There is also little evidence that investments in leadership development lead to improved business performance.

2. This report reviews current practice in leadership development, asking whether it is fit for purpose today and how it can be improved.

3. We consider the current context for leaders, best characterised by the term VUCA – volatile, uncertain, complex and ambiguous. The pace of change is increasing, global competition is fierce and the balance of power is shifting from West to East. We also explore the change in 'followership' – positional authority is waning, followers seek engagement and involvement, and leaders are under unprecedented scrutiny. We find this results in a call for a different style of leadership, based on

   • ability to align others around shared purpose and vision

   • strong adaptive and systems-thinking capability

   • learning agility

   • self-awareness and authenticity

   • leading through collaboration and influence

   • ability to build high performing innovative cultures and effective teams

   • confidence to lead through uncertainty.

4. Leadership development needs to be closely connected to business strategy. This is easier said than done, and many organisations fail to make the right connections. It is also essential to focus on the needs of future leaders rather than relying on what has made leaders successful in the past.

5. We consider briefly what leadership is and find that there is little consensus. For the purposes of this research, we take a pragmatic view and focus on the people organisations are developing to run their businesses in future. We contrast leadership and management, finding that leaders need to employ both skill-sets. We also highlight a third element – direction – which is crucial for successfully implementing a strategy, but is often confused or neglected.

6. We discuss the implications of adult learning theory for the design of leadership development activities. We find that neuroscience is beginning to shed light on ways of designing learning in line with optimal brain function. The main conclusion is that traditional, classroom-based teaching alone is not the most effective way of learning. The features of well-designed leadership development include the following.

   • Building in space for reflection, discussion with peers and senior leaders, and practice.

   • Making content, experiences and exercises as relevant as possible to the real work of leaders.

   • Engaging different senses and emotions, through, for example, stories, video and hands-on experience.

   • Recognising that leadership is a skill that requires years of practice to develop, rather than being teachable on a five-day programme.

   • Making sure that the context in which leaders work is receptive to the new skills they are developing and allows them to put those skills into action.

"We're still trapped in the traditional model where leadership development is training-led. We're trapped in the notion that development is episodic, rather than a continuous life long process. And we're still overlooking the critical influence of the boss." **Jay Conger, Professor of Leadership Studies, Claremont-McKenna College**

A key recommendation is to make learners aware of how they learn, teach them how to reflect on what they have learned and how they can apply it in practice, and to make line managers responsible for supporting their learning.

7. We find that the 70:20:10 model of learning has become a key feature of how organisations approach leadership development. This holds that approximately 70% of learning results from on-the-job experience, 20% from learning through others, and 10% from formal training. In one sense this is positive: it encourages L&D to focus on extending learning beyond the classroom and creating opportunities to learn from experience 'on the job'. However, there are concerns that the model is being used too prescriptively, or that L&D focuses only on delivering the 10% formal training and assumes that the remainder happens automatically. Both on-the-job and formal learning need to be better integrated.

8. We explore current practices in leadership development. Although we find that the core approaches have not changed substantially in the past 15 years, we identify the following key trends.

    • Formal development is increasingly linked to key transitions, particularly as described by Charan's Leadership Pipeline.

    • Programmes tend to run over longer timescales these days (typically from six to 18 months) and combine teaching modules with feedback from 360-degree assessments, action learning, coaching and e-learning.

    • Use of online, virtual and blended learning is increasing.

    • There is increasing availability of 'just-in-time' resources such as mobile apps to help leaders tackle specific day-to-day issues.

    • Coaching and mentoring are widely used; peer and internal coaches are making coaching more widely accessible.

    • Experiential methodologies such as simulations, immersive experiences and gaming are becoming more popular.

Leadership competency models remain popular, but we find they have limitations: they tend to be backward-looking, overly complicated and present an 'idealised' view of leadership that is rarely borne out in practice.

9. Research suggests that leadership development happens largely through experience. We discuss Morgan McCall's work, which identifies the most critical development events for forming leadership skills. McCall finds that the experiences with the biggest impact are challenging, high stakes, high pressure and complex. This framework is useful for thinking about career planning, developmental assignments and job rotations to help leaders build relevant experience over the course of a career. In practice, however, this can be difficult for organisations as it means taking risks, such as giving valuable development experiences to those most likely to benefit from them, rather than to tried-and-tested performers. Sadly, we find many organisations are predominantly focused on formal development, and planning for learning from experience is neglected.

10. In conclusion, we consider some of the key features of fit-for-purpose leadership development.

    • Clear definition of purpose and objectives.

    • Linked to business strategy.

    • Expertly designed to reflect how adults learn, building in opportunities for reflection, practice and learning from experience.

    • Grounded in good theory and evidence.

    • Clearly defined roles and responsibilities: commitment from the top, a skilled, professional leadership development function with good business understanding, and a high degree of involvement from line managers in making sure learning is put into practice and leaders build the experience required to learn.

    • Proper evaluation of outcomes.

2

COACHING – BUSINESS ESSENTIAL OR MANAGEMENT FAD?

"There is a challenge with 'everything' being solvable by coaching – this is not the case. It is not the be-all and end-all solution, nor should its impact be diminished when it is done well."
Respondent to CRF member survey

This research paper considers the state of the coaching market, key trends, the conditions required to make coaching effective and the current state of evaluation. The report also features findings from a CRF member survey and a number of organisation case studies.

The report findings conclude: the use of coaching is increasing – as a methodology, it is here to stay; organisations could be more thoughtful about their approach to coaching; systematic evaluation is still patchy, but anecdotal evidence of effectiveness is widespread.

1   This report considers the state of the coaching market, current trends within organisations, the evidence that coaching works, and how coaching can be evaluated.

2   We define coaching as a series of results-focused conversations between coach and client, designed to help the client come up with their own solutions to the issues discussed.

3   The coaching market has seen rapid growth over recent years, with both coaching spend and the number of practising coaches having increased considerably. A CRF member survey found that 56.2% of respondents had 'increased' or 'significantly increased' spending in the last three years. Similarly a majority of respondents expected spend to 'increase' or 'increase significantly' over the next three years. The supply of coaches remains fragmented, with one-man-bands and small coaching companies predominating.

4   The principal reasons companies use coaching are:

   • helping leaders prepare for the transition to a more senior role

   • to provide ad hoc support for leaders' personal development

   • integrated into leadership development programmes to help embed learning

   • providing an independent sounding board for CEOs and other senior executives.

   There has been a move away from 'remedial' coaching, with much greater focus on helping high performers get even better.

5   There is, however, a risk that coaching is simply a management fad or fashion. Common criticisms of coaching include:

   • it is simply a substitute for good management, which should be the responsibility of line managers, not coaches

   • having a coach has become a 'badge of honour'

   • coaching has become a 'panacea', when other development interventions such as training, mentoring or a stretch assignment may be a better solution

   • inadequate assessment of coaching's contribution to business outcomes.

6   We find that organisations have become more professional about how they manage coaching, and the internal and external coaches who deliver it. Many organisations coordinate coaching centrally, although budgets are usually held in business units. Coaches are increasingly selected from pre-vetted supplier lists, with consistent application of well-defined selection criteria.

7   A key trend is the rise of internal coaches, with expenditure increasingly being diverted from external coaches to developing in-house capability. The reported benefits of internal coaches – aside from lower cost – include a better understanding of the business context, greater flexibility, and the opportunity to make coaching available to more junior populations who largely miss out on executive coaching.

8   We found little scientific evidence that coaching works, as there have been no large-scale trials measuring the greatest impact of coaching. However, research suggests that trials which have found psychotherapy to be effective can be applied to coaching. The research identifies the following active ingredients, which appear to have the greatest impact:

"If you did nothing else … other than go around your organisation requiring a far higher standard of clear goal-setting, that alone would be transformational." **Anne Scoular, Managing Director, Meyler Campbell**

- the characteristics of the coaching client, such as their commitment to change and their work environment
- a strong, trust-based relationship between coach and client
- the quality of goals set during a coaching assignment
- in contrast, the techniques and approaches selected by the coach appear to make little difference to outcomes.

We also find the quality and calibre of the coach to be critical.

9 Practical reasons why coaching works were identified, including:
- providing space to think, consider issues and options in depth, and practise new techniques in a safe environment
- greater commitment to implementing ideas that the individuals develop themselves.

We also note that successful coaching is highly dependent on the support of the employer, and the organisational context within which the client works.

10 We considered how to find a good coach. First, clarity about business needs and objectives is critical. Second, the process for selecting a coach needs to be rigorous. Good practices include conducting a sample coaching session before engaging a coach, and checking their references. We found that the bodies that accredit coaches are increasing their influence, but accreditation does not provide a guarantee of quality.

11 Criticisms commonly levelled at coaches are discussed. These include:
- a lack of senior-level business experience
- insufficient understanding of – and ability to apply – psychological tools and techniques.

12 We describe a four-stage process highlighting good practice that can be applied to obtain maximum benefit from coaching. The stages are:
- establish the business case and goals for coaching
- select and manage suitable coaches
- set up and manage coaching assignments
- review and evaluate effectiveness.

13 The difficulties of evaluating the business impact and effectiveness of coaching are recognised. Suggestions include:
- designing the evaluation approach before coaching commences
- establishing a baseline against which outcomes can be measured
- focusing on outcomes, not inputs or activity.

However tricky evaluation may be, it is vital that organisations build this into their coaching activities.

14 Throughout the report, we consider the potential impact of some key trends in coaching, including:
- increasing use of technology
- the impact of positive psychology and neuroscience
- the growth of team coaching.

15 We conclude that coaching has the potential to help individuals improve performance and learn new skills, but that success is highly dependent on having clear business objectives for coaching, selecting high quality coaches, setting specific, measurable goals for coaching assignments, and the commitment of the individual who is coached. There are examples of good practice, but for many organisations, current approaches fall short. This is an area where HR has the opportunity to set an example, ensuring a clear 'line of sight' between the use of coaching and business outcomes.

3

STORYTELLING – GETTING THE MESSAGE ACROSS

"Stories provide a window on the soul of our organisation. The stories people tell instruct us about how they feel about the business." **Geoff Lloyd, Group HR Director, Serco**

Our report on storytelling considers what we mean by 'stories' in the organisational context, what organisations can achieve through storytelling and what constitutes a good story. The report also features a number of case studies illustrating how organisations are using stories in practice to achieve business objectives.

1   Storytelling in the context of organisation development and internal communications has become big business in recent years. This report considers:

   • what we mean by 'stories' in the organisational context

   • what organisations can achieve through storytelling

   • the evidence that storytelling is more effective than other forms of communication

   • what makes a good story

   • how organisations are using stories in practice.

2   Stories have been around almost as long as human beings. They appear to play a key role in developing cohesive societies and in helping us to understand why we act as we do.

3   The use of storytelling in organisations has become much more common. Leaders are increasingly realising that sharing information based on logic and rational analysis alone has only limited value, and that for employees to commit to action they need to be engaged at both an emotional and intellectual level.

4   Storytelling appears to work because:

   • it helps people make sense of their environment and the challenges they face

   • it is rooted in emotion and can therefore touch people in ways that more rational forms of communication can't

   • stories are more memorable and easier to recall than data

   • it allows people to add their own perspective to the story, and engage with the story in a way that's unique to them

   • stories reflects the ambiguity of real life and allow complex ideas to be presented in a way that's easy to digest

   • it can spur commitment to action far more effectively than logical analysis.

5   Cognitive psychology provides clues to why storytelling is effective.

   • It appears to be a natural human trait to use stories to make sense of situations.

   • People are significantly more likely to remember information that is presented in the form of a story.

   • Active involvement in a story facilitates learning.

6   The elements of what makes a good story are rooted in the concept of 'rhetoric' first developed by Aristotle in Ancient Greece. Effective stories combine each of the following three elements:

   • 'logos' – reasoned discourse or argument

   • 'pathos' – awakening emotions to achieve a desired outcome

   • 'ethos' – the aspects of the character, beliefs and values of the storyteller that make them credible to their audience.

"There's something profoundly counter-intuitive about … narrative intelligence. We would all like to believe that it's substance that convinces, that analytic understanding must surely be more effective than any mere story.… It's hard to accept that something as primitive and old-fashioned as… narrative can be more powerful than analysis in the sophisticated business world of the 21st century."
Stephen Denning, author of *The Secret Language of Leadership*

7   The structure, plot and characters in the story are also important, and storytellers need to pay attention to content and style in order to make stories compelling. Stories can also be crafted to suit different organisational requirements, such as sparking action, sharing values and leading people into the future.

8   We review the 'universal' stories that recur throughout history and in disparate societies, and ask whether they have resonance in today's organisations. We also consider the relevance of Carl Jung's concept of 'archetypes' – the idea that certain innate characteristics inform all human experience and behaviour.

9   The report shares insights into how organisations have used storytelling to achieve a variety of business objectives, including:

- engaging people in the organisation's history and sense of purpose

- developing and sustaining culture and values

- developing business strategy and gaining employee commitment to strategy execution

- setting an agenda for change and making change happen

- handling conflict and sensitive situations

- celebrating success and rewarding and recognising employee contributions.

However, we found little, if any, direct evaluation of the effectiveness of storytelling as a management technique.

10 We consider the role of leaders as storytellers. Our research found that organisations are encouraging their leaders to develop storytelling as a core leadership capability. Some organisations are making significant investments in helping leaders develop storytelling skills.

11 In conclusion, we find that storytelling can be a powerful business tool if it is used well and with care. We recommend that organisations consider whether there are opportunities to expand their use of storytelling and further develop their internal capability.

4

ORGANISATION AGILITY

"Agility is a dynamic capability that allows an organisation to make timely, effective, and sustained responses to environmental change. It is more than 'good management' … Agility allows the organisation to adapt, over and over again, in meaningful ways to support above-average performance over long periods of time." **Worley et al, 2014**

This research paper considers the implications of organisation agility for HR, both in terms of designing agile HR practices and HR's role in supporting the organisation to become more agile. It identifies the practical steps organisations can take and features a number of member case studies illustrating how organisations are starting the transformation journey to agility.

1. Agility is an advanced and dynamic management capability. It allows the organisation to make timely, effective and sustained changes, to stay ahead of the competition in a fast-changing business context, and deliver sustained high performance relative to peers over long time periods.

2. Agility is key to long-term superior performance, but it is also relatively rare. In an analysis of CRF member organisations, we found that only 17% met the financial standard of agility.

3. Agile organisations possess four 'routines' – that is, unique ways in which they develop and execute strategy and accelerate/drive change.

    • The **Strategising** routine describes how agile organisations establish an aspirational purpose, develop a widely-shared strategy and manage the climate and commitment to execution.

    • The **Perceiving** routine concerns how agile organisations monitor their environment to sense changes, and rapidly communicate these perceptions to decision-makers who interpret and formulate appropriate responses.

    • The **Testing** routine describes the unique approaches agile organisations have to setting up, running and learning from experiments.

    • The **Implementing** routine describes the ability and capacity of agile organisations to implement both incremental and discontinuous change.

    Our survey results suggest that the more of these routines an organisation has the better it will perform. Organisations that have deployed three or more routines tend to be more agile than those with two or fewer.

4. We tested out the agility routines with a selection of CRF member organisations. We found the following differentiating characteristics of higher performers.

    • A clear sense of purpose, beyond making money, that is consistent with the promises they make to customers and is played out in the day-day-day experience of employees.

    • A high-trust, transparent culture, where employees are treated like adults, are trusted to act in the organisation's best interests and are encouraged to 'tell it like it is'.

    • A strong sense of accountability, with clear ownership of objectives and results, and expectations that people will deliver what's required without the need for micro-management or second-guessing.

    • Flatter, more flexible, externally-focused organisation designs that maximise the 'surface area' between the organisation and its external environment, and break down organisational silos through informal networks and cross-functional integration.

    • Open and transparent communication flows between the top and bottom of the organisation, and across internal boundaries.

    • Flexible resourcing, so there is enough capacity to redeploy resources in response to changing demand.

    • A culture that's open to learning from experiments and using that learning for continuous improvement.

    • Change is viewed as continuous, not episodic, and change management capability is widely distributed and embedded throughout the organisation.

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"We find that, increasingly, organisations are realising that the ability to transform themselves constantly is a key source of competitive advantage." **Matt Crosby, Head of Expertise, UK and Ireland, Hay Group**

5. We consider the implications of organisation agility for HR, both in terms of designing agile HR practices and HR's role in supporting the organisation to become more agile. Depending on the people strategy, the design of the HR function and the capability of HR professionals, HR can either help or hinder the organisation's attempts at becoming agile. As a minimum, HR must be fit for purpose – that is, deliver services that support the business strategy and be capable of continuous improvement. But agile HR has two distinct additional features.

- *Flexibility:* processes can be operated effectively under different circumstances.

- *Speed*: processes operate at a speed that reflects the cycle time of the business, the pace of change in the business and its external environment, and have high levels of transparency.

In practice, 'flexibility' might mean managing talent differently in a new venture compared to a well-established business within the same organisation. 'Speed' may require moving away from default annual processes in areas such as goal setting, resource allocation and rewards.

6. As well as operating differently, we find that the capabilities required of HR are different in agile organisations.

- Strong business and commercial skills are integrated with a deep understanding of the business strategy and external environment.

- Analytic and consulting skills to diagnose appropriately, and competence in organisation design and implementation to develop suitable solutions.

7. We consider the practical steps organisations can take on their journey towards agility.

- Action should be guided by diagnosis. Do you have a clear corporate identity? Does it resonate both internally and externally? Is your strategy clear and widely shared and understood? Which agility routines do you already possess and which need to be developed?

- Implementing an organisation development process should focus on three key areas.

  i. The skills and knowledge required to make the capability operational.

  ii. The systems and structures that make the capability repeatable.

  iii. The experience and learning that make the capability effective over time.

8. Building organisation agility requires organisations to take a 'whole-systems' view.

- The agility routines are built on basic management practices, but it's the ability to build an integrated system of routines and practices that confers agility.

- Becoming agile is not about implementing a one-off change programme or 'transformation'. Agility requires ongoing commitment to continuous learning and adaptation.

5

HR'S CONTRIBUTION TO CREATIVITY AND INNOVATION

"Innovation prowess is gained by combining strategic discipline in growth-seeking activities with an organisational ability to achieve aspirations and intentions of the growth strategy."
Professor George Day, 2013

This report explores the particular contribution HR professionals can make and the levers HR can pull to develop an organisation culture that supports creativity and innovation. The report also features findings from a CRF member survey, determining the HR function's active involvement in the support of creativity and innovation within organisations.

1   This report considers the issues involved in developing creativity and innovation in organisations. It highlights the particular contribution HR professionals can make and the levers HR can pull to develop an organisation culture that supports creativity and innovation.

2   Creativity and innovation are different concepts, requiring divergent skills and approaches:

  • Creativity is the application of imaginative ideas to practical opportunities for invention.

  • Innovation is the process of applying creativity to achieve workable solutions or develop new products. Successful innovation requires both the new ideas generated by creativity and the disciplined application of innovation – a combination of skills, mindset and rigour.

3   Innovation is critical in today's fast-moving, hyper-competitive business environment. Some organisations and industries have a greater need for innovation for their businesses to survive and flourish. However, all organisations need to innovate to some degree, and developing the capabilities to manage innovation effectively is a key business requirement.

4   The degree to which HR is involved in developing organisation capability in this area depends to a large extent on the importance of innovation to the firm's success. Regardless of the level of demand for innovation, HR professionals can learn from the efforts of companies like Google and Disney in which creativity and innovation are part of their cultural DNA. In these and other highly creative and innovative organisations, HR often takes the lead in ensuring the components of the organisation are designed to support a culture of innovation.

5   A survey exploring how HR supports creativity and innovation today found that HR is focused on:

  • bringing an innovation angle to more 'traditional' HR activities such as selection, development and reward;

  • helping leaders develop skills to support creativity and innovation; and

  • developing an innovation culture.

HR has more to do in areas such as helping innovation teams function effectively, bringing customer insights into innovation efforts, and optimising physical work spaces for innovation.

6   Although the pace of innovation is different across industries and between firms within the same industry, we find that organisations that are successful in the longer term tend to be better at anticipating market changes and innovating consistently in the face of external threats. HR has an opportunity to challenge the organisation to give adequate consideration to future challenges and opportunities in strategy discussions, and to set an example to the business by identifying future trends, bringing them to the attention of senior management, and taking an innovative approach to HR service delivery.

7   HR can play a role in developing innovation strategy, whether this is through helping identify future business opportunities, facilitating the strategy development process in a way that gives adequate airtime to issues of planning for innovation, or making sure there is a clear 'line of sight' between the firm's plan for innovation and HR's agenda and actions.

'To add value to discussions of innovation processes, HR professionals need to bring what they know about people and human systems to the conversation, a perspective which those in charge of research or innovation may be lacking.'

8   Organisation cultures that support innovation share common features, including openness to creative ideas, a rigorous approach to innovating, acceptance of risk-taking and experimentation, willingness to learn from failure, and strong external orientation. Organisations that are built on these principles – often building on the core beliefs of founders – tend to be more innovative. However we find it is possible to develop a more innovative corporate culture by taking a systemic approach to culture change focused on changing behaviours of key players who in turn help others experience the benefits of new ways of thinking and acting. The beliefs and behaviours of senior leaders are critical in moving towards and sustaining a new culture.

9   Options for developing an organisation design to support innovation are explored. These include:

- ambidextrous organisations, in which innovation units are structured as separate units, sheltered from the prevailing bureaucracy of the rest of the firm;

- virtual and network organisations, that allow businesses access to a wider range of ideas and expertise than they can house within their own organisation boundaries; and

- agile organisations, able to move quickly to develop and implement new strategies in response to changes in the external market.

Companies also need to attend to the 'lateral organisation' – the processes and networks that form the reality of how organisations function day-to-day. Innovation projects typically cut across geographies, functions and unit boundaries, and lateral aspects of the organisation need to be explicitly designed to support innovation.

10 We find that HR needs to rethink how its activities support innovation. Particular consideration needs to be given to:

- how resourcing strategies and approaches need to be reconfigured to attract people with the right skills, mindsets and motivation for creativity and innovation;

- coaching leaders to support innovation and ensuring leadership development programmes focus on the right capabilities;

- providing support for the set-up and ongoing operation of innovation teams; and

- designing reward systems consistently with the firm's ambitions in regard to creativity and innovation.

11 Above all, HR needs to ensure it is highly knowledgeable about what is needed to drive innovation and support creativity, that people processes support – and do not work against – developing the right culture, and that HR sets an example by experimenting with new approaches and being creative and innovative about how HR services are delivered.

DEVELOPING AN EFFECTIVE HR STRATEGY

"However beautiful your strategy, you should occasionally look at the results." **Winston Churchill**

This report considers whether HR strategy should exist within its own right or as part of the wider business strategy. The report provides steps that HR Directors can implement to be more involved in strategy development and identifies the key skills that today's HR practitioners should have to participate fully in defining the business strategy and developing effective HR strategies.

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.

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"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, University of South Carolina**

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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