

High Impact HR – How do we create a more business-relevant function?

“There is no one-size-fits-all model that addresses the issues HR faces in seeking to be business-relevant. Each organisation has unique business needs and priorities. HR in turn needs to be clear about the purpose it plays, how its work enables the delivery of business objectives, and the operating principles that underpin HR plans. This needs to be supported by investment in hiring high quality people into HR, and providing them with an appropriate level of development to build commercial and business skills, and deep expertise in the technical aspects of HR.”

Gillian Pillans, Report Author

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Executive Summary

“Business expectations are increasing at an ever faster rate. What this often means for HR is it’s struggling to keep up with responding to what the business wants today, never mind getting ahead of the curve in proactively shaping the people agenda for the organisation.” **Christopher Johnson, Senior Partner, Mercer**

1. HR has to adapt to stay relevant in today’s fast-changing business environment. It is more important than ever to build and sustain a professional HR function that’s commercial, close to the business, and has clear alignment between business strategy and HR plans and activities. While HR has on the whole been very good at delivering HR services with increasing efficiency, developments such as automation and artificial intelligence will make much of what HR currently does redundant. HR needs to refocus on delivering the people and organisational elements that make organisations succeed. However, the reality for many organisations is that HR is often disconnected from key business priorities, and it is unclear how HR contributes to critical strategic and commercial objectives. This report considers the current state of the HR function, and looks at the role HR should play in helping organisations develop and execute strategy, and what HR can do to become more business-relevant.
2. We find there is often a gap between what CEOs and other senior executives expect from HR and what they get. CEOs are looking for HR to help orchestrate and execute the business strategy, not just turn the wheel on HR processes. They are looking for HR to act as a business-centric function, leading the leadership team through the people and organisational elements of the business strategy, and helping build the capability for strategy execution. And yet, HR is often insufficiently engaged in the commercial realities of the business, driving an HR rather than a business agenda. We highlight five key areas where HR can fall short.
 - HR isn’t closely enough attuned to the organisations it serves.
 - In seeking to drive effective performance, HR tends to gravitate towards developing and supporting individuals at the expense of developing the organisation.
 - HR doesn’t bring enough, or the right bits of, the outside world in.
 - HR’s work is often not based on robust theory or evidence.
 - HR can be ‘numbers-shy’ and ‘technology-shy’.
3. In order to address these issues, a key priority for HR is to be clearly aligned to the organisation’s strategic direction. While this may not mean that HR has to be instrumental in deciding which strategies to pursue, it does mean that HR needs to work closely with the line to understand what it will take to execute the strategy effectively, and to put in place plans and programmes to make this happen. This requires HR to have a deep understanding of what the business strategy is, and ensure HR’s analysis of what is required from a people and organisation perspective is anchored in the organisation’s goals related to sales and profit growth, innovation, quality, cost control, and customer experience.
4. Another priority is for HR to adopt a commercial mindset in analysing problems and situations. This means
 - having a deep understanding of how the business works and using this as the basis for analysis of what HR should do
 - being able to talk the language of business
 - being comfortable with numbers
 - thinking business-first and developing solutions to address real business needs, rather than pushing products
 - having the foresight to anticipate what will be needed, not just react to events.
5. HR needs to be clear about its purpose within the organisation, and how that links to the organisation’s value proposition. This needs to be communicated to the organisation. There are four key areas where HR must deliver.
 - Providing core operational services at the required level of quality and cost.
 - Creating a high performance work environment.
 - Managing talent.
 - Improving organisational and individual performance.

“I talk with CEOs across the globe who are disappointed in their HR people. They would like to be able to use their CHROs ... as sounding boards and trusted partners – and rely on their skills in linking people and numbers to diagnose weaknesses and strengths in the organisation, find the right fit between employees and jobs, and advise on the talent implications of the company’s strategy. But it’s a rare CHRO who can serve in such an active role. Most of them are ... focused on internal matters such as engagement, empowerment, and managing cultural issues. What they can’t do very well is relate HR to real-world business needs. They don’t know how key decisions are made, and they have great difficulty in analysing why people – or whole parts of the organisation – aren’t meeting the business’s performance goals.” **Ram Charan, author and consultant**

6. HR should be guided by a core set of operational principles that provide the foundation for what HR does and how. CRF’s research over twenty years suggests that the following are essential elements of an effective operating model for HR.
- **Analysis before action** – identifying what problem the proposed course of action is designed to fix, and why the proposed solution is the best answer.
 - **Definition of terms** – being clear about what the core terminology of HR, such as performance, talent and engagement, mean within the specific context of an individual organisation.
 - **A robust underpinning theory** – HR initiatives need to be founded on sound principles of social science such as cause and effect and validity.
 - **A sound business case** – although it is difficult to show a monetary return on investment in HR activities, it is important that HR’s plans are given a similar level of scrutiny as other business initiatives.
 - **Delivery against a clear HR plan** – HR should have a written plan that describes what it is committed to doing and how that links to business objectives. This helps HR communicate with stakeholders and assess its performance.
 - **Evidence** – decisions about HR actions and priorities should be based on experience, experimentation, data and learning, not just intuition.
 - **Evaluation** – there needs to be a feedback loop, both quantitative and qualitative, that enables HR to assess its performance and identify how to improve.

7. There are no easy answers to the tricky challenges faced by HR today and looking into the future. There is no one-size-fits-all model that can be applied to every organisation or situation. HR needs to develop strong commercial, analytical and consulting skills in order to craft solutions that address the unique business needs and priorities of the organisation it supports. HR must avoid becoming obsessed with ‘best practice’, instead focusing on solutions that tailor good practice to the needs of individual organisations. By investing in hiring and developing high quality, business-focused people into the function and making sure HR plans focus on what is required to enable business success, HR has the best chance of remaining relevant through turbulent times.

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