

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.



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Corporate Research Forum One Heddons Street Mayfair London W1B 4BD United Kingdom

ISBN: 978-0-9564487-5-0

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Gillian Pillans

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Gillian Pillans

About the author

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Gillian was co-author of the 2011 CRF report, *Diversity and Business Performance*.

Acknowledgements

I would like to thank all the participants in this study for their time and insights. They are listed at the back of the report. In particular, I am grateful to Professor Pat Wright for his direction - and generosity in making available his extensive range of contacts. We were able to achieve a much richer range of stories and examples as a result.

Gillian Pillans, January 2012

About CRF

Founded in 1994, the Corporate Research Forum 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 100 members representing a cross-section of private and public sector organisations.

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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.

WHAT IS STRATEGY?

Topics covered		Introduction
1.1 Where to begin?	9	This chapter examines what is meant by strategy and how it is shaped - and then fleshes out the distinctions between HR and people strategy. All are essentials for HR being, or becoming, 'more strategic'. The important notion of 'emergent strategy' is described and contrasted with traditional methods of strategy development.
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“Failing to integrate people into business strategy is like trying to play golf without a driver.”
Professor Pat Wright.

Strategy responsibility - Board or Exco?

- An issue from interviews was to clarify which body is responsible for developing strategy.
- In most organisations, this appears to be the executive team or committee rather than the Board, although the Board may rubber stamp or validate the strategy.
- This suggests that, to be involved in strategy, HR does not necessarily need a seat on the Board but should be a member of the executive committee.

1.1

Where to begin?

Key to the title of this report is that HR strategy cannot be considered in a vacuum. It must be interpreted within the context of the corporate strategy it is designed to support.

- The report begins by considering whether HR, or people, strategy should exist in its own right - or whether it should just be an embedded part of business strategy.
- We then review what corporate strategy is, and the role HR plays in helping define it, and how it is developed.
- It is only when we have an understanding of this can we make any sense of what HR should do.
- The remainder of the report discusses how HR or people strategy can be developed, and what it looks like.

The report is based on a review of relevant academic literature, discussions with leading strategy thinkers, and interviews with senior HR practitioners to examine their involvement in strategy development and their approach to developing HR strategy. Several models and tools for assessing HR's contribution to strategy development and identifying opportunities the function can exploit in future are described.

1.2

Does HR strategy exist?

A question we continually returned to was whether there is such a thing as HR strategy. Should it exist in its own right or is it merely an element of business strategy - or HR's action plan in response to business strategy? And, what is the difference between **people** and HR strategy? Those organisations with HR functions more in tune with business strategy

- tended not to have a separate HR strategy, but integrated people elements into business strategy - though they did have functional HR plans
- talked more about formulating **business** strategy than **HR** strategy
- referred to the people elements of business strategy as 'people strategy' rather than 'HR strategy'.

We conclude that it is better to have one business strategy which includes people elements, as there are likely to be stronger linkages between people and the business if they are in one document. Professor Pat Wright confirms that he sees this in practice. "As talent and engagement have emerged on every CEO's radar screen, people have become a critical basis for competition." However, whether there is one document or several, it is more important to have a clear line of sight between business strategy and what HR does - and that HR can demonstrate causal linkages between its activities and what the business needs.

"I never allow my guys to use the term 'HR strategy'. Our people strategy flows directly from business strategy." **Alex Wilson, former Group HR Director, BT.**

When distinguishing between 'HR' and 'people' strategy, our interviewees had strong opinions.

- Stephen Dando at Thomson Reuters sees HR strategy as being about the 'plumbing' of what HR does - it is important and needs to be done but is not of significant concern to the business.
- In contrast, Thomson Reuters talks consciously about people strategy, which refers to the people elements that enable corporate strategy, and are facilitated by HR but actioned by the business.
- Pat Wright considers that, regardless of what it is called, the key to people or HR strategy is for the business to identify how people enable business success.

Considering the options, we prefer the term 'people strategy' to describe the people elements of business strategy and 'HR plan' which refers to the actions an HR function takes to support business strategy. This terminology is used throughout. Note, though, we have not considered how to develop a functional HR plan, which is beyond the scope of this report.

1.3

Defining and shaping strategy

People tend to regard 'strategy' as a document or plan defining an organisation's direction. Most we surveyed have some form of annual process, often led by an internal strategy department with a strategy document as the output. Put simply, an organisation's strategy should be what it does differently to that done by others. This does not necessarily flow neatly from an off-site strategy meeting.

Key questions - and distinctions

In his teaching at Cornell University, Pat Wright uses these questions to guide organisations in determining strategy.

- Where to compete - which geographic/product markets should we target?
- How to compete - what value should we deliver to customers? Against which criteria will we be different: quality, service, reliability, innovation?
- With what do we compete - what people, technology and processes will we need to deliver this value to customers? Is this our core competence?

In some cases, an organisation's business strategy will not just set out what it does, but will also clarify boundaries - that is, what it does not do. See the example below of A B Sugar and the notes on Corning in the next column.

Some definitions of strategy

- "The direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling shareholder expectations."

Johnson and Scholes, *Exploring Corporate Strategy: Text and Cases*, 2006.

- "A pattern or plan that integrates an organisation's major goals, policies and action sequences into a cohesive whole."

James Quinn, *Strategies for Change: Logical Incrementalism*, 1980.

- "A pattern in a stream of decisions."

Henry Mintzberg, *Crafting Strategy*, *Harvard Business Review*, 1987.

- Refer also to *Strategy Safari*, **Mintzberg, Ahlstrand and Lampel**, 2008.

- See **Marcus Alexander's** interpretation of emergent strategy in 1.4 below.

Management guru, Tom Peters, famously offered \$100 to the first manager who could demonstrate that a successful strategy resulted from a planning meeting - he has yet to pay out, apparently.

Case notes: Corning's strategic exits

- Corning's strategy is to develop innovative products and maximise the cash generation of older technologies.
- The company invented Pyrex and the light bulb, but has since exited these markets.
- Corning's strategy now involves being the lowest-cost producer worldwide of its product portfolio - not a low-cost producer.
- This subtle distinction means it will exit any business where it is unable to be the lowest cost producer.
- As a result, the company focuses on innovative technologies where it has competitive advantage and can produce technically advanced products at competitive prices.

Case notes: Dissecting strategy at A B Sugar

A B Sugar has a simple statement of strategy - to be the world's leading sugar business. However, such simplicity masks a considerable number of strategic choices. The strategy can be broken down into its elements by considering each of the following words.

- **World:** defines the company's geographic spread - that is, global.
- **Leading:** the company defines this as product quality rather than volume.
- **Sugar business:** A B Sugar had to decide how far from its core sugar business it would venture - after all, in simpler forms, sugar can be used as a food or fuel and has the potential to be developed into agrichemicals and plastics. The company had to choose between exploiting these markets itself or selling sugar to other businesses which would process and distribute the final products.

Ultimately, A B Sugar decided that its strategy was to venture no further than one step away from sugar. As an example - and unlike some of its rivals - it chose not to move into paper manufacturing in China as a by-product of sugar production.

1.4

Emergent strategy - and strategic decisions

In his seminal *Harvard Business Review* article of 1987 - see the previous column - Henry Mintzberg likened strategy development to a potter at his wheel. The potter may have a clear picture of the finished article he is trying to create, but needs to be conscious of how the clay is responding to his touch and reacts by constant shaping until the pot is made. Mintzberg calls this 'emergent strategy'. This means that a new product might emerge from responses to customer requests, rather than from 'blue-sky thinking' at an off-site.

According to London Business School's Marcus Alexander, a trend over the last 30 years has been to recognise that what really matters is the 'little', rather than just the 'big', strategic decisions. The latter concern the issues typically discussed at executive team strategy away-days or set out in strategy documents.

However, in Alexander's view, strategy can be influenced by many small decisions taken hundreds of times a day at all levels of an organisation - particularly among customer-facing staff. So, by responding to changes in customer needs, organisations may find their strategic direction changes or a new product or service is developed that might not have emerged from a typical, analysis-heavy, top-down strategic planning process.

Just as a five degree error in plotting a ship's course will result in it being a long way off course over time, each of these small adjustments can build into a completely different strategic picture. For an example of this in practice, see the Home Depot case notes below.

“The process of developing a winning strategy is messy, experimental and iterative; and it is driven from the bottom up.” **Campbell and Alexander, 1997.**

In short, Alexander’s view of the importance of ‘little’ decisions is interesting and ties in with other thinkers’ views of emergent strategy. However, there is still a place for ‘big’ strategic decisions - those needed to pursue mergers or acquisitions, or to enter or exit markets, for example. See the diagram and table below.



Source: Marcus Alexander, 2011

Contrasting methods of strategy development	
Emergent Strategy	Intended Strategy
<ul style="list-style-type: none"> Emerges informally Ad-hoc Bottom-up Dynamic 	<ul style="list-style-type: none"> Usually the result of a formal process Considered on a regular basis Top-down Can be out of date before implementation

Source: CRF, 2012

Intended or emergent - our observations

Many of our surveyed organisations historically tended to focus on ‘intended’ rather than ‘emergent’ strategy. The former is rooted in plans from which emerge formal strategy development processes, usually resulting in some form of strategy documentation. This is important because organisations need structure and processes to manage their resources and track performance. As we shall see later, HR has a critical role to play in communicating strategy across the organisation and in making it explicit.

To do this, that strategy has to be clearly articulated and supported by formal documentation. However, there are dangers when relying solely on intended strategy, as the column notes.

Therefore, a challenge for organisations is to be sufficiently sensitive and responsive to customers’ changing needs. This is an opportunity for HR to find ways of creating structures or processes to enable customer insights to be captured and developed.

Intended strategy - watchouts

- In a fast-moving environment, a strategy developed at the beginning of the financial year may be out of date before the year end, and resources may not be available for new opportunities arising throughout that year.
- Strategy becomes nothing more than a glorified financial plan, and is not sufficiently long-term.
- Detachment from reality may occur - strategic decisions are often made by senior managers or strategy specialists who may not be sufficiently involved in day-to-day management to understand the practical consequences of their decisions.
- Lack of ownership - the deliberations of the executive leadership team and/or the strategy function may not be widely accepted throughout the organisation.
- An overly rigid process may stifle innovation and result in important grass-roots market and customer developments being overlooked.

Strategy whiteboarding

When working with executives, Stu Winby uses office whiteboards to explore strategic possibilities.

- When a new idea emerges, an executive initiates the concept on the whiteboard. He then has a series of conversations with colleagues who help shape and develop it.
- Once it reaches a level of certainty, it is presented to the organisation for a corporate decision on what to do next.
- This could lead to a meeting/workshop bringing together a network of people who could progress the model to a higher level.
- Some organisations have quarterly meetings to agree which of the whiteboard concepts should be developed further.

These meetings are different to the typical strategy off-sites, which often feature presentations rather than debate. They also tend to promote organisational learning.

Stu Winby of Sapience Organizational Consulting advises companies on the executive paradox of decisions around formalising strategy into defined plans and being able to react to rapid market change. While he believes that formal plans and budgets are very important, organisations still have to respond to occurrences not factored into their strategic plans. In such situations, they have to integrate the two processes, with each requiring different mental models and leadership styles, viz

- formal planning and budgeting processes
- a flexible approach that overlays formal processes enabling adaptation to changing circumstances.

Winby uses tools and techniques originating from product design for executives to explore, discuss and prototype ideas in real time. A practical example is in the column.

Some of our surveyed organisations have adopted or evolved more dynamic approaches to developing strategy. For example, Thomson Reuters considers it to be an ongoing dialogue of 'living strategy'. There is evidence that techniques which help organisations respond rapidly to market changes are being adopted more widely.

Case notes: Home Depot's emergent strategy

In the 1990s, Home Depot was known as an entrepreneurial, decentralised and customer-focused organisation, based on a successful customer intimacy strategy. Managers were highly autonomous and each store could order its own products in response to local customer needs.

- In 2000, Bob Nardelli left GE and joined Home Depot as CEO. He had never worked in retail and was steeped in GE's Six Sigma manufacturing process - he was hired to bring efficiency to the customer intimacy approach.
- However, under Nardelli, rather than just becoming more disciplined, the strategy gradually morphed into operational efficiency, leaving customers frustrated and disillusioned.
- There was never an off-site at which the strategy was discussed in these terms, but with each operational decision - such as centralising procurement - the new strategy gradually evolved.

Margins and revenues increased but customer service suffered, the share price flat-lined and, ultimately, Nardelli was fired. This is a cautionary tale about letting strategy drift.

1.5

Summary

- We believe that any consideration of what an organisation's people strategy should be must start with understanding what the business is trying to achieve - its strategy.
- As HR professionals become more involved in corporate strategy development, they need to know what business strategy is and how it is put together.

HOW STRATEGY DEVELOPS IN PRACTICE

Topics covered		Introduction
2.1 Five key factors	15	How strategy actually develops and is reviewed is influenced by several factors - not least how clear the coupling of strategy formulation and implementation actually is. This chapter examines issues, practices and models through experts and leading organisations.
2.2 Strategy review process	16	
2.3 Strategy development models	17	
2.4 Summary	18	

“The basic ingredient of a good strategy is insight into how to create value.” **Campbell and Alexander, 1997.**

2.1

Five key factors

How an organisation chooses to develop strategy depends on some or all of the factors below.

1 Relative power and influence of group/corporate centre and business units

Marcus Alexander suggests that the dynamic tensions between these works best when the group only involves itself in areas where it can genuinely add value to the strategies of individual businesses. He describes this as ‘pots of gold’ - the distinctive characteristics that the parent company possesses which add value above and beyond what individual businesses could achieve alone.

As examples, GE under Jack Welch developed unique management processes which were deployed successfully across highly divergent businesses; whereas at Canon, the group’s expertise lies in putting together successful multi-disciplinary teams.

2 Degree of business portfolio homogeneity

In highly decentralised organisations such as Serco and BT, each business line has its own strategy. This can be challenging for corporate HR, as it may limit the strategic HR actions that can be applied consistently across business units. For example, in BT’s people strategy, corporate HR identifies three-to-four pan-BT issues on which to focus. Divisional HRDs then develop their own plan and, in reality, only 15%-20% of content would become pan-BT initiatives.

3 Nature of business and planning time horizons

As an example, contrast oil companies and pharmaceutical businesses - which may have 20-year planning horizons - with hi-tech businesses and on-line retailers. The latter two may not be able to consider strategy longer than 18 months to two years in any meaningful way.

4 Organisation maturity of internal processes

Some organisations have sophisticated strategy and planning processes which have been developed and refined over many years.

5 Corporate culture and CEO’s preferred style

The CEO may prefer informal discussions with a small group of key individuals, or highly choreographed business unit presentations which leave little time for debating arising issues.

“Large organisations try to separate the work of minds and hands. In so doing, they often sever the vital feedback link between the two.” **Henry Mintzberg, 1987.**

Major shifts in strategy

- Major market changes, business crises, legislative or regulatory developments, etc, can lead to sudden shifts in strategy direction.

BP is currently reconsidering its strategy following the Deepwater Horizon disaster.
- US health insurance providers are having to reconsider their business models as a result of ‘Obamacare’.
- Other changes, such as a major acquisition or disposal, can also lead to strategy being reformulated.
- In 2010, Coca-Cola Enterprises - the third largest Coca-Cola bottler in the world - sold its North American business to The Coca-Cola Company, enabling the organisation to refocus on European customers.

Amelia Pulliam described how this transaction led to the existing five-year-old global operating framework being reviewed.

2.2

Strategy review process

Most surveyed organisations have some form of regular - usually annual - process, regardless of their industry’s pace of change. It is generally owned by the executive team. Some organisations are more fluid in their approach, as this example shows.

John Murabito and Charlene Parsons at CIGNA, a US-based healthcare provider, have an ongoing process of keeping strategy under review. But, rather than following a calendar-based timetable, the strategy is periodically recalibrated and fundamentally reviewed when there is a major market development, such as regulatory reform.

Some organisations carry out a fundamental review on a less frequent basis - and some in dynamic industries such as hi-tech and media, where one might expect fast-moving companies, still only have an annual process.

BT, for example, tends to ‘tweak’ its strategy annually and have a more in-depth review every two-to-three years - not because of a set schedule, but in response to market developments. Sometimes major changes force organisations into a rethink, as the column case notes show.

By contrast, BAE Systems has an integrated business planning process incorporating both strategic and financial planning. There is a potential danger in this approach as strategy may be neglected in favour of financial planning. One organisation we spoke to deliberately chose to run their strategy process on an 18-month timescale in order to be independent of financial schedules and planning.

Most organisations we surveyed have an internal strategy department that leads the process. Others, such as Logica, prefer to engage line managers in virtual teams to consider strategy.

Key messages

- One of the key messages advocated by leading academics such as Mintzberg and Alexander, is that there are dangers in decoupling strategy formulation from implementation.
- An opportunity for HR may lie in finding ways of equipping line managers and front-line staff - those who know most about the business - for participation in strategy formulation.
- They will also help develop business processes which enable ideas generated at grass-roots level to be considered as part of the strategy.

"I don't think it matters which model you use, as long as you use one." **Priscilla Vacassin.**

2.3

Strategy development models

Few surveyed organisations systematically apply a strategy development model, although some individuals have their preferred techniques. Some have gone out of fashion - Hoshin planning processes of the 1980s and 1990s are an example. The views of our interviewees can be summed up by BT's Alex Wilson. He thinks models are helpful in bringing discipline and focus to the strategy development process and in provoking debate - and that there are a number of different ones available which appear to work equally well.

Geoff Lloyd, Group HR Director of Serco, describes how his company uses a form of Mehrdad Baghai's Three Horizons Model to determine which markets they should be in - and to help distinguish between the role of the corporate centre and business units in developing markets and products.

Managing a Portfolio - the Three Horizons Model		
Horizon 1: 0-12 Months	Horizon 2: 12-36 Months	Horizon 3: 36-72 Months
Investments which contribute to returns in the same financial year and generate today's cash flow.	Investments which are expected to pay back significantly, but not in the year of market launch. They may need some time to be materially cash-generative, but in the meantime will make significant demands on internal resources without generating corresponding returns, and therefore need investment and patience.	Investments in the future of the business which will provide a return in the years outside the current planning horizon. They may require R&D investment, but as they will not be operational in the current year, they do not make claims on internal resources in the current year.

Source: Baghai, M., Coley, S., and White, D., *The Alchemy of Growth: practical insights for building the enduring enterprise*, Perseus Publishing, 2000

For Serco, note that

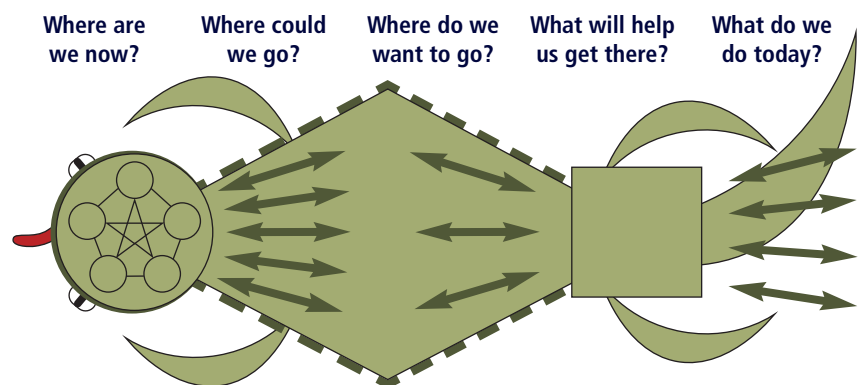
- Horizon 2 would represent markets adjacent but different to current operations - for example, when moving into prisoner tagging
- Horizon 3 could involve a new market outside current operations, but still within the business' core strategy - a recent example would be Serco's involvement in managing London's 'Boris Bikes'
- at Serco also, the corporate centre would focus on Horizons 2 and 3 businesses, whiles operating divisions would be mostly concerned with Horizons 1 and 2.

Marcus Alexander has developed the Lizard Model below which summarises how best organisations can identify and select strategic options and prepare implementation plans. He sees this model as a 'living organism' - a healthy lizard would look different for each organisation. Alexander cautions that many adopt a one-size-fits-all process, or use formulaic approaches to strategy development, without actually considering the 'disease' they are trying to 'cure'.

"There's no substitute for thinking." **Marcus Alexander.**

Alexander sees an opportunity for HRDs in diagnosing the parts of the strategy development process their organisation needs to improve, and tailoring that process to suit the culture and context. They can use this model to examine their strategic contribution at each stage and identify where they can increase that contribution.

Lizard Model: strategy process



Source: Marcus Alexander, 2011

2.4

Summary

- HR can help the organisation improve its strategy development practices, but must understand how this works.
- It should also take into account the five factors in 2.1 which are important influences on strategy development.
- Useful approaches and models are readily available for reviewing and improving strategy. Deciding whether they will suit your organisation and its circumstances is essential.

HR'S ROLE IN STRATEGY

Topics covered		Introduction
3.1 How involved is HR?	20	In this chapter, we consider the role HR can play in determining corporate strategy. The skills HR needs to participate in strategy development, and what HR can do to become more involved at the highest level, are examined.
3.2 HR's strategy roles	22	
3.3 HR's contribution to strategy content	25	
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3.1

How involved is HR?

Historically, in many organisations, HR had little or no involvement in corporate strategy and was simply expected to implement decisions made by the executive team. However, for our surveyed organisations, it is now a given that HR is involved because the HR director is a member of the executive committee. Simply being a member, though, does not give any real insight into the strategic contribution made, or the quality of input.

In some cases - Corning, for example - the HRD led part of the strategy process on an equal footing with other members of the executive team. Mostly, however, the contribution is limited to people-specific issues such as talent and succession. Marcus Alexander has found that few HRDs are good at the 'idea generation' aspect of strategy development - and finds that they tend to have a bigger role to play in developing implementation plans, providing expert input and, in some cases, facilitating the process of strategy development.

Research in 2009 by Ed Lawler and John Boudreau of the Center for Effective Organizations examined how HRDs spent their time in 2007 compared with five-to-seven years previously.

- HRDs reported a significant decrease in time spent on administrative, compliance and policy-related activity - and a significant increase for more strategic activities. See the table below.
- However, when Lawler and Boudreau examined the data for each activity more carefully, they found the time spent on administrative versus strategic activities had, in fact, remained constant.

They conclude that, although HRDs perceived in 2007 that the time spent on strategic matters had increased significantly, data comparison for the previous years told a different story. So, although HR executives think that how they spend their time is changing, this may, in fact, be wishful thinking.

Percentage of time spent on HR roles (2007)

	5-7 yrs ago	Current	Difference
Maintaining records: Collect, track and maintain data on employees	26.3	15.8	Significant decrease
Auditing/controlling: Ensure compliance with internal operations, regulations and legal and union requirements	15.2	11.6	Significant decrease
Human resources service provider: Assist with implementation and administration of HR practices	33.0	27.8	Significant decrease
Development of human resource systems and practices	13.5	19.2	Significant increase
Strategic business partner: Member of the management team; involved with strategic HR planning, organizational design and strategic change	12.1	25.6	Significant increase

Source: Lawler & Boudreau, 2009

Key source

Lawler, E and Boudreau, J, *Achieving Excellence in Human Resources Management: An Assessment of the Human Resource Function*, Center for Effective Organizations, 2009.

Roles of the CHRO

Strategic advisor to the executive team

- Focused specifically on the formulation and implementation of strategy - and ranging from providing human capital information to playing devil's advocate regarding strategies being discussed.
- Providing business-based opinions regarding the feasibility of proposed strategic decisions.
- This is the critical role in our model of HR's involvement in strategy development, as set out in Chapter 2.

Counsellor/confidant/coach to the executive team

- Activities include counselling or coaching team members, and resolving interpersonal or political conflicts.

Liaison with the board of directors

- Preparation for board meetings, telephone calls with board members, and attendance at board meetings.

Talent architect

- Focused on building and identifying the human capital critical to the organisation now and in the future.

Leader of the HR function

- Working with HR team members regarding the design, development and delivery of HR services.

Workforce sensor

- Identifying workforce morale issues or concerns.

Representative of the firm

- Relations with external stakeholders, such as lobbying or speaking to outside groups.

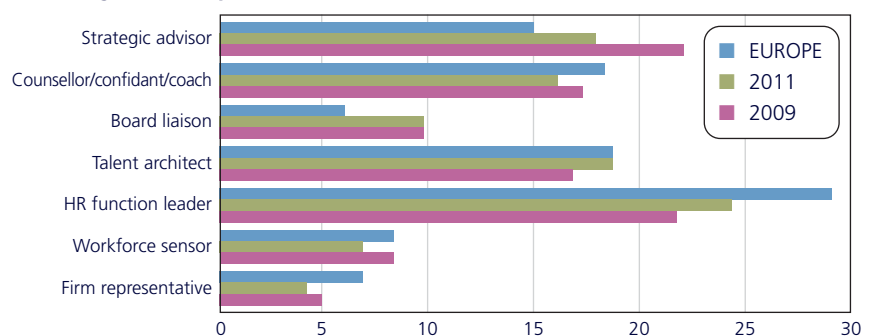
Source: CAHRS, 2011.

Another Lawler/Boudreau finding was that HR is more likely to be involved as a key contributor to business strategy and strategic planning - what they describe as the 'strategic partner' role - in organisations with a clear strategic focus. An implication is that, for HR to become more strategic, organisations themselves may have to become more strategic too.

Anecdotally, Pat Wright finds that HRDs consider themselves more involved in strategy than previously. As with Lawler and Boudreau's research, his view is that the time spent on strategic matters has not changed - though the quality of discussions may have improved.

Wright's research team at the Center for Advanced Human Resource Studies at Cornell University (CAHRS) has identified the seven CHRO roles shown in the column. CAHRS' annual survey asks them to specify how much time they spend on each. The diagram below shows the 2011 and 2009 results, and also - in the 2011 survey - picks out those for European CHROs.

Percentage of time spent in CHRO roles



Source: The 2011 CHRO Challenge, CAHRS

Note these trends when comparing the results for 2009 and 2011.

- The strategic advisor role shifted from being the second-most time-consuming to the third-most between 2009 and 2011.
- Talent architect moved up from fourth to second place during the same period.
- In each year, the CHROs reported that the HR function leader role took up most of their time.

Does this mean CHROs are spending less time on strategic issues? These results probably reflect the economic situation. In 2009, organisations were weathering economic storms and spending more time considering their strategic options. In 2011, the focus had shifted towards growth strategies and ensuring the right talent was in place.

In 2011, differences in time allocation were evident between US and European CHROs, the latter spending less time as strategic advisor and more as HR function leader.

"How CHROs influence strategy is less by being the 'expert' and more by being the person asking difficult questions." **Wright et al, 2011.**

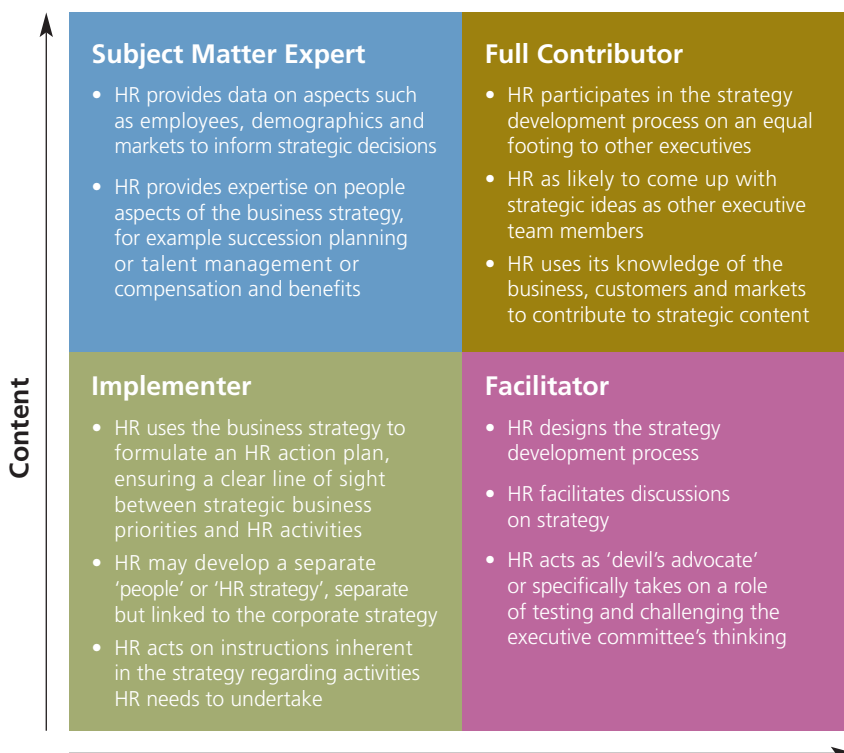
Finally, a recurring theme in HR's quest to be involved in strategy is that CHROs must first demonstrate credibility in managing effectively their own function. Wright notes: "European CHROs are currently building this credibility base. First, they have to get their own HR houses in order. Then they will be better positioned to become more involved in business strategy."

3.2

HR's strategy roles

We asked HRDs to describe how they became involved in formulating business strategy. A pattern emerged of four different roles which are further described below. These can be arranged into a two-by-two matrix - depending on the depth of content provided to business strategy, and the degree to which the role assists in the process of developing strategy. This is an important distinction.

HR's strategic roles



Source: CAHRS/CRF, 2011

The four roles are fleshed out below through case notes. Which an HR director adopts depends on factors such as

- individual capability
- organisation expectations
- the needs and cycle time of the organisation
- relationships with the CEO and executive team.

An HR director or the HR function may well take on more than one of these roles, perhaps at different times. We think it is difficult for an individual to act as both 'full contributor' and 'facilitator' because the latter has to be focused on process. Also, if an HRD intends to take on the full contributor role - if there is not a facilitator already - another individual should manage the process, thus releasing executive committee members to focus on content.

Case notes: the four roles

We found various examples of HRDs performing the roles described below. Note that each relates to a specific situation which could change in different circumstances.

Subject matter expert - US Steel

For many organisations, people are the biggest cost item or, in some, the quality of people is a strategic differentiator. Either presents opportunities for HR to contribute strategically. However, for US Steel, people costs come way behind raw materials and energy - not to mention the regulatory environment. These are bigger strategic challenges than people.

As well as participating in executive team discussions on strategy formulation, Sue Suver, Vice President - Human Resources, has a critical role in helping the business understand the demographic challenges it is likely to face over the coming years, and to take action early to avoid significant issues later.

Her team analysed staff profiles in each geography, and put together a talent roadmap showing when employees were due to retire. Combining internal data and external demographic information, it revealed an erosion of talent in the long-term and where talent troughs might occur.

The roadmap was used to pinpoint where skills would need to be developed, outsourced or technology-enabled. Its scope was 20 years ahead, with a detailed plan for the first one-to-five years, enabling US Steel to prepare for the forecast talent challenges.

Implementer - Serco and Logica

- The implementer role is not just about HR being a 'go-do' function.
- A successful implementer can demonstrate understanding of strategic imperatives and, through dialogue with the business, translate this into actions that have a clear line of sight between the business and HR function.
- We found various examples of this working well in practice, including Serco and Logica.

Facilitator - A B Sugar

- Quintin Heath was facilitator of a strategy review in 2010, partnering with the strategy director to ensure each business unit contributed to strategic options.
- The strategy function provided the analytical tools for assessing all strategic options. As HRD, he introduced a process methodology for those options to be teased out, developed and tested, along with the practical implications of implementation.
- The process included discussions with executive team members, meetings of the executive committee, and rolling out the conclusions at a conference attended by the top 50-60 people.
- As well as facilitating the process overall, Heath viewed his role on the executive team as broadening the scope of the strategy debate - again, a typical facilitator role.

Full contributor - Corning

- Corning CHRO, Christy Pambianchi, said she was asked to head a strategy stream for the business which would typically be a role for the marketing or strategy functions.
- She led a research team whose brief was to identify new markets for Corning products.
- This gave her an opportunity to apply her understanding of Corning's business in practice.

Lawler and Boudreau evidence on roles

In addition to the case notes above, the research by Lawler and Boudreau, referred to in 3.1, examined HR's strategic roles through evidence from HR executives and line managers. Their findings are in the table below. It is clear that

- HR executive and line manager perceptions of HR's involvement in strategy were different
- HR executives believed they played a bigger role in business strategy than line managers.

What may be encouraging from this research, however, is that at least three-quarters of each respondent group say that HR has either an 'input' or 'full partner' role in strategy.

HR's role in strategy

	HR Executives	Managers
No role	5.7	4.9
Implementation role	17.0	19.5
Input role	45.3	48.8
Full partner	32.1	26.8

Source: Lawler & Boudreau, 2009

"CEOs today clearly emphasise HR's critical role in building and/or acquiring the necessary talent to drive short- and long-term success." **Wright et al, 2011.**

3.3

HR's contribution to strategy content

Lawler and Boudreau found that executive compensation and succession management were the areas where HR is most likely to be asked to make a contribution - and, not surprisingly, identifying new business opportunities the least likely. Our research also supports this finding. Interviewees cited talent/succession management, compensation and benefits, and organisation development/change management as the main areas of strategic contribution. We found providing data to help inform strategic decisions was another area, which might include

- talent maps, revealing changes to the workforce profile over the planning horizon, and highlighting potential actions to be taken
- scans of the external market, showing how anticipated demographic changes might affect the feasibility of strategic options
- providing market and demographic data on new markets which the business is considering entering.

As the 2011 CAHRS research found, for virtually all organisations surveyed, talent was the top HR priority on their CEO's agenda.

What issues CHROs say are on the CEO's agenda for HR

	Europe %	US %
Talent	93	92
Cost Control	19	19
Succession Planning	29	19
Employee Engagement	10	18
Culture	20	17
Organization Effectiveness	26	7
HR Excellence	23	1
Compensation and Benefits	3	12
Executive Compensation	3	10
Change	3	7
Performance Management	10	0
HR Alignment	13	19
Workforce Planning	13	3

Source: CAHRS, 2011

3.4

The strategic skills HR must have

HR professionals need to have, or must develop, four sets of skills, if they wish to be credible about strategy development - analytical skills, business knowledge, personal/function credibility and HR tools. Each is described below and in the column.

Analytical skills

HR professionals need a good understanding of the external environment to be able to adapt HR plans and resources accordingly. A good starting point is the PESTLE model, which can be used to analyse trends in different areas.

- Political.
- Economic.
- Social/demographic.
- Technological.
- Legal/regulatory.
- Environmental.

Conducting such an analysis may reveal insights that other participants in the strategy process have not considered. A good understanding of the business' markets is also key. Ask yourself these questions.

- Currently, what are our principal markets - both geographic and product?
- Are there opportunities for expansion through organic growth or acquisition?
- Where are the major growth areas?
- Are there other market developments we need to consider?

Business knowledge

HR professionals can use this non-exhaustive list to assess their understanding of the business.

Customers

- Who are our key customers? Why do they deal with us rather than competitors?
- What is our company's market share? How is it developing?
- What is our value proposition? What is the company's value chain?

Investors

- Who are our major shareholders? Why do they own our stock?
- What is our p/e ratio for the last decade? How does it compare with the industry average?
- Who are the top analysts following our industry? How do they view our company?

Business processes

- What are the key operational processes?
- How effective are they - and can they be improved?
- Where is most cost tied up in the business? Where are the opportunities for improving efficiency/reducing cost?

Personal and function credibility

- Develop a track record of delivering results - this is one of the single most important things HR professionals can do.
- You are unlikely to be asked to contribute to business strategy if you are not seen as managing your own function well.
- Develop good relationships with other executives, particularly the CEO. You need to be trusted before you will be asked to be involved.
- One example was Priscilla Vacassin's experience at BAA. She was tasked with helping the new CEO settle in, allowing them to develop an understanding which resulted in his trust of her views on the organisation.
- Ask good questions and be prepared to give feedback.

"There's a big difference between having a strategy and being strategic." **Priscilla Vacassin.**

Getting more strategic

Our top five steps for HR

- 1 Work around the CEO.
- 2 Change job.
- 3 Improve personal effectiveness.
- 4 Provide better information.
- 5 Become business savvy.

Lawler's three steps

- 1 Learn how to deal with Boards and executives.
- 2 Learn the language and decision models of finance.
- 3 Teach other executives they are not necessarily HR experts.

Each is described in detail in this section.

Business metrics

- What are the key metrics used by the CEO and executive team to measure business performance?
- How has the business performed against these over the last five years?
- How well do I understand terms such as ROI, gearing, p/e ratio, etc? Can I read a balance sheet and P&L account?

HR tools

A deep understanding of the latest tools and techniques in the key areas of HR is essential for selecting the best solutions to strategic challenges. Priscilla Vacassin says she is often surprised when interviewing senior HR professionals how they have progressed in their career without acquiring a good HR toolkit - which would include techniques in the following areas.

- Organisation design and development - models, frameworks and theories.
- Talent and succession planning - definition, process, assessment and development.
- Reward - motivation theory, tax, benefits, costs and modelling.
- Performance management - definition, process, motivation theory and measurement.
- Leadership development - theories, development options, adult learning principles and evaluation.
- Employment legislation.

3.5

Getting more involved in strategy

In many organisations, we have found that HR has a key role to play in corporate strategy. However, where HR is not as involved as it could be, the following steps may improve the situation. The column has a quick checklist.

Work around the CEO

It is easier for HR to be involved in strategy in those organisations that value HR's contribution. The CEO's personal perception of HR is critical. For example, Jamie Dimon at J P Morgan Chase & Co is well-known for questioning the value-add of HR. However, Pat Wright says there is little an HRD can do if the CEO simply does not 'get' HR. The CEO's resistance is not necessarily driven by apathy - it may be a lack of understanding or a perception that anyone can do HR's job.

In this situation, the HRD may just have to continue attempting to demonstrate where HR can add value. It might also be possible to use other members of the Board or executive team to persuade the CEO to allow the HR director to become more involved.

Change job

In the Lawler and Boudreau research cited earlier, they found that HR tends to be more strategic in organisations that have a better strategic focus generally. Unfortunately, the reality may be that the best way for an HRD to become more involved is by moving to an organisation that is better at strategy development. However, the research is not clear about cause and effect. It may be that companies better at strategy have higher quality people who can bring a strategic perspective to their work, regardless of the function they are in.

Improve personal effectiveness

Both Pat Wright and Marcus Alexander see this as critical. The latter estimates that when he meets an HRD who is deeply involved in strategy development, in 99% of cases it results from the individual's effectiveness and personal skill set. Wright talks about "the theory of small wins" - HR professionals can demonstrate their capability by tackling real business problems with bottom line impact. As their reputation grows, they are more likely to be taken seriously on big issues. As a baseline, it is essential to run the HR function well.

Provide better information

It can be difficult for HRDs to provide business insights if they do not have the data to back up their views. Significant investments in HR systems offer opportunities for HR to use data to provide insights into the current state of the organisation - and to extrapolate that into the future. US Steel above is a practical example. HR can also introduce these forms of external data to support strategic decisions.

- Demographic and social data from existing markets or those worth expanding into.
- Benchmarking data.
- Data on talent trends and movement.
- Information on what competitors are doing.
- Networking with HR professionals from other organisations.

Become business savvy

Pat Wright finds that, generally, HRDs now have a 'seat at the table'. However, as noted above, the extent to which they are involved in strategy discussions depends on the calibre of the individual and their business acumen. Those who have had responsibilities outside the HR function, particularly in line roles, are sometimes better placed as they can draw on first-hand experience.

In larger, more diverse organisations, it can be difficult for HRDs to develop a good business understanding. However, where this is so, they can focus instead on getting to know the quality of the people. The larger the organisation, often the more time the HRD needs to spend as 'talent architect'. **They need to know the business and, as importantly, its people.**

Strategic opportunity for HR

- A change in company culture and values can present an opportunity for HR.
- For example, Stephen Kelly, Chief People Officer, has found that the development of the Logica brand to incorporate not only technical excellence but also quality of people, has led to a change in perception about the value of people.
- This has led to HR having more of a strategic role to play.

Lawler's suggestions - source

Lawler, E, CHROs and Boards: A Missing Link, in Wright, P, Stewart, M and Moore, O A, *The 2011 CHRO Challenge: Building Organizational, Functional and Personal Talent*, Cornell University Center for Advanced Human Resource Studies, 2011.

By contrast, Lawler makes these suggestions for becoming more strategic.

Train HRDs in dealing with Boards/Excocs

HRDs face a 'triple-whammy'.

- Generally, they do not sit on outside Boards so lack experience of how they operate.
- Typically, they do not sit on their own Board, so they also miss out on that opportunity.
- They do not often attend Board meetings, so miss the opportunity to observe how the Board operates and how decisions are made.

Learn the language and decision models of finance

This is often an area where HR directors fall short. It is not about understanding the mechanics of how accounts are prepared, but concerns an ability to spot opportunities, understand the principles of added value and time to market, conduct commercial negotiations, and recognise the consequences of missed targets.

HRDs also need to demonstrate an understanding of business and the business strategy. It is helpful if they have had experience of line management outside the HR function and/or P&L responsibility.

Get other executives to accept that they are not necessarily experts in HR

Often, senior executives think that doing HR is common sense and does not require specific skills. This perception can be countered by using the right metrics and tools as a way of demonstrating that 'there is more to human capital management than applying gut feel'. HR can model itself on functions which apply a more analytical approach, such as marketing and finance.

3.6

Summary

In this chapter we have looked at the extent to which HR is involved in strategy development and how it can become more so. However, strategy only goes so far. HR also needs to focus on implementation, and good execution of people strategies is critical.

DEVELOPING PEOPLE STRATEGY

Topics covered		Introduction
4.1 People strategy must start with the business	31	Our research highlighted key features of good practice for developing an effective people strategy. They are set out as a checklist in this chapter.
4.2 Identify how the organisation's people drive its success	31	
4.3 Identify four-to-six core components of people strategy that will be most effective in driving the key metrics	31	
4.4 Track and communicate performance against business metrics to the HR community and the business	32	

“HR functions and their corresponding strategies are better positioned to add value to their firms when they take an outside-in perspective.” **Wright et al, 2003.**

4.1

People strategy must start with the business

- Pat Wright describes this as taking an ‘outside-in’ perspective.
- Engage in dialogue with key stakeholders. People strategy and HR plans should not be developed by the HR function in isolation. Create a formal mechanism for obtaining line input if this does not already exist.
- Build in business measures at the outset.
- Measure in business not HR terms. For example, one of Merck Serono’s strategic priorities for HR is to help achieve top-line growth in emerging markets - the HR plan goes on to describe in detail the actions that support this objective.
- Ensure a line of sight from people strategy to the markets and customers the company serves - see the previous chapter for suggestions on how HR can develop an understanding of this.
- Build in a formal mechanism for tracking developments in the external environment. Gather relevant data.
- Focus on what HR can do to help the company achieve its business objectives.

4.2

Identify how the organisation’s people drive its success

- Define the organisation’s core people competence.
- Identify what people need to be good at - is it customer service, innovation, selling, etc?

4.3

Identify four-to-six core components of people strategy that will be most effective in driving the key metrics

- Focus on the important, not the urgent or fashionable.
- Use tools to help prioritise. The matrix below can help identify which should be priority actions. Aim for activities to be in the top-right box.
- Stop activities that are interesting but which do not make a difference to the business.
- Take a ‘zero-based’ approach by questioning everything HR currently does. Build the operating plan from the ground up.
- Do not become so process-driven that you lose sight of the bigger issues.

Insights on metrics

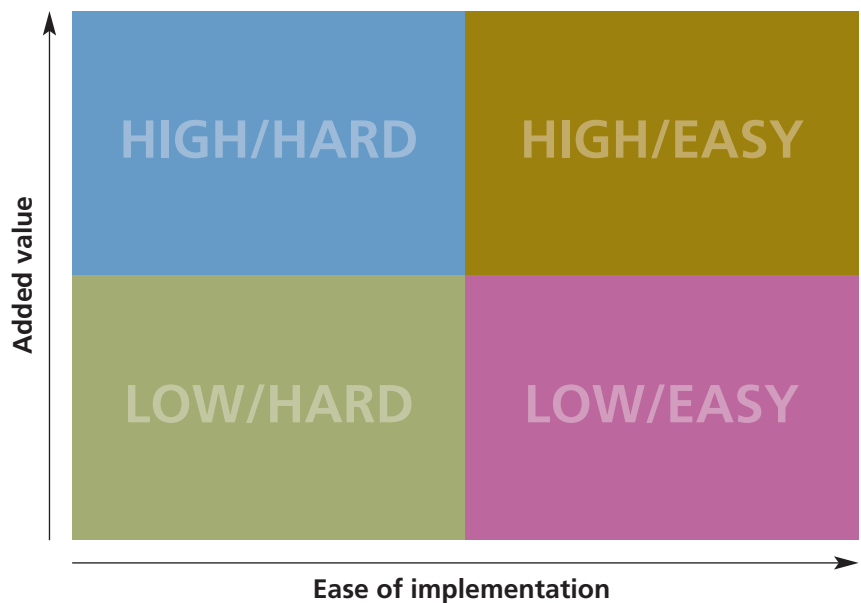
"You need to find out which metrics matter most to the organisation and focus on these, rather than trying to measure everything. Use the data in support of a richer dialogue with management, rather than simply generating data for its own sake. Position evidence in a business, rather than HR, context."

Geoffrey Matthews, VP, HR Strategy and Organizational Development, Merck Serono.

"Most HR people are not comfortable working with numbers and, therefore, put high importance on numerical outcomes without any understanding. They believe the number - even if it's erroneous - rather than the other evidence. You need to keep the brain engaged while going through the process - measurement doesn't provide any answers, but it can enable you to ask better questions."

Rick Emslie, Deputy Chairman, AdviserPlus Business Solutions.

Matrix for priority actions



4.4

Track and communicate performance against business metrics to the HR community and the business

- Throughout the planning period, make sure the function works on activities aligned to strategy.
- Identify and track business measures linking the HR plan with business outcomes.
- Be prepared to change tack during the year to react to changing circumstances.
- Build in mechanisms to review and evaluate performance. Feed this into planning for the next cycle.

"I believe in one strategy and one team. I'm ruthless about executing in line with our strategy and am quite unforgiving if business areas do things that aren't aligned to strategy." **Stephen Kelly, Logica.**

HR'S ROLE IN COMMUNICATING AND EVALUATING STRATEGY

Topics covered		Introduction
5.1 Communicating strategy - missed opportunity for HR?	34	It is one thing to have a sound strategy, but quite another to ensure that people understand what they have to do to support it - and that the strategy must be reviewed to ascertain its effectiveness. This chapter examines the issues and provides case examples.
5.2 Strategy evaluation	36	

"In the absence of an explicit statement of strategy, obsolete patterns of corporate behaviour are difficult to modify." **Stephen Kelly, Logica.**

5.1

Communicating strategy - missed opportunity for HR?

A comprehensive and well-crafted strategy is of little benefit if it is not understood by the people who have to implement it. Day-to-day decisions made by customer-facing staff and line managers can easily become remote from the strategy agreed by the executive team if its implications are not communicated.

As discussed in 2.3 above, Marcus Alexander believes that front-line staff have a critical role to play in interpreting and shaping business strategy. They have day-to-day contact with customers and are best-placed to understand what customers want and how their needs are developing.

We believe HR has a key role to play in communicating strategy. This is also an opportunity for HR to become involved in strategy development. Making strategy explicit is a critical need - see the column notes.

We tested 'making strategy explicit' with our surveyed organisations by asking how strategy was communicated internally. Then, critically, we asked participants how their organisations ensured that decisions taken by front-line staff and middle managers - the key customer interface - were consistent with the organisation's strategy. This latter question was intriguing for many organisations and often difficult to answer. In most cases

- organisations communicated strategy through presentations by the CEO and/or other executives - or some form of communication cascade
- they trusted that this was sufficient to give front-line staff a good enough understanding of the strategy to do their jobs.

However, as the examples below show, some organisations are more thoughtful in how they communicated strategy and make it relevant to employees.

Case notes: connecting strategy to people

Marcus Alexander suggests the best way of bringing strategy to life for employees is by using techniques such as story telling and role modelling, which provide real life examples of the many 'little strategic decisions' that can be taken or encountered on a daily basis.

- Logica tried this in practice. They took their 40,000 employees through a brand transformation programme using internal 'story tellers' to get across the brand story in multicultural environments. Says Chief People Officer, Stephen Kelly: "We hold the top 200 accountable for delivering the strategy but, ultimately, we have to trust our business leaders to make the right judgment calls."
- Christy Pambianchi at Corning offered a different insight. "The corporate strategy framework is the 'glue' that binds the company together. People understand the 'oral' story and this helps them focus on what needs to be done operationally. We make sure people are working in line with our values. They rarely go off track."

Making strategy explicit

Seymour Tilles believes that a well-defined strategy has little value if the concept of that strategy is not understood across the organisation. If this is not the case, "members of the organisation can find themselves working at cross purposes."

He says the need for an explicit strategy flows from two aspects of an organisation.

- Success depends on people working together so their efforts are mutually reinforcing.
- This must be accomplished in the context of rapidly changing conditions.

Unless strategy is made explicit, he argues, "the intentions of corporate leadership can remain a mystery to those people several levels down who are depended on for its implementation."

This is particularly important when implementing a new strategy as employees may not understand what is expected of them.

Source: Making Strategy Explicit, in Ansoff, H I, (Ed), *Business Strategy*, 1969.

**"We try to ensure that each employee understands how their job connects to our strategy."
Elease Wright, AETNA.**

- In a few cases we found that the internal communications function reports through HR, but mostly it was separate. At AETNA, the healthcare insurance provider, the communications function manages the process, but Elease Wright, Head of Human Resources, is held accountable for the outcome of those communications. "As an executive team we talk about how managers make decisions in line with strategy, and we try to ensure that each employee understands how their job connects to our strategy," she explains.

HR's role in making strategy explicit

When Priscilla Vacassin was HR Director at Abbey (now Santander), a business crisis, together with a new CEO, led to a new strategy. The executive team wanted to engage all employees and make it explicit across the organisation.

- A booklet was produced to communicate the new strategies and key messages.
- The language used was designed to provoke conversations and encourage staff to consider what the new strategy meant - for example, one of the principles was 'Always Now', meaning offering products and services which were relevant to customers' current needs.
- Vacassin, and other members of the executive team, cascaded the message to the top three layers of the organisation. Managers did likewise to all their employees.
- The booklet was also included in induction and featured in performance objectives.

According to Vacassin, engaging staff - rather than just broadcasting the message - was essential to embedding this strategy, and particularly in overcoming middle management cynicism. It was a well-thought out and debated series of actions, not just a casual activity. It was also important to remain vigilant. The cascade was only the start of a journey, and constant follow-up and reinforcement were necessary.

Opportunity knocks

Considering these case experiences, HR certainly has opportunities to improve strategic awareness in the workforce. Further to Alexander's concept of 'little strategic decisions', he believes it is necessary to help employees develop a 'strategic perspective' - regardless of their level in the organisation - and apply this to their work. HR, and particularly the L&D function, should be involved in helping staff to consider these points.

- What strategy means in practice.
- How should I spend my time?
- What actions should I prioritise?

Being strategic is about behaviour and actions rather than simply understanding messages, which is where OD and L&D functions can add value.

5.2

Strategy evaluation

A key feature of effective strategy is to have a feedback/evaluation loop to help shape and modify strategy from experiences of implementing plans. We asked our organisations how they evaluate the effectiveness of their strategy, and what role HR plays. **Many struggled to explain how they know they had selected, and followed, the right strategy.** Typical responses were as follows.

- "We'll know by our results if the strategy has worked."
- "We have a balanced scorecard which we use to align individual, group and business objectives."
- "We look at the KPIs and they tell us if we've performed against plan."

We were hoping for more thoughtful and insightful examples of evaluating the effectiveness of strategy. However, there is obviously an opportunity for HR to devise or deploy assessment tools/frameworks to evaluate whether the people strategy has delivered its objective - and describe the effect it has had on business performance. From our research, one example stands out - Standard Chartered Bank's strategic reviews, described in the column.

Standard Chartered Bank - People and Organisation Reviews

Jonathan Cormack's Organisation Effectiveness team has developed a process for evaluating business and people strategy - and determining whether they are fit for purpose. This involves the following.

- Identifying which markets are to be evaluated according to their importance to Group performance.
- Discussions with senior management, clients and both internal/external experts in the market under review.
- An in-depth, data-driven process which considers people priorities in relation to long-term business objectives.
- Workshops for senior managers from the market under review to identify what was working and what needed to change.
- An agreed action plan.

The first of these reviews was completed in 2010. One change needed was to adapt the scope of the people strategy, because it became clear it needed to be regional rather than nationwide.

CASE STUDIES

Topics covered		Introduction
6.1 Logica - at the heart of strategy	38	In this chapter, we provide three contrasting aspects of HR being tuned in to business strategy - the role it plays, a five-stage strategy engagement process and HR's top team contributions.
6.2 IBM - five-stage process	39	
6.3 National Grid - strategy contributions at the top	39	

What Logica's strategy team does

- The team examines business performance in the last three years and looks forward to the next three years, considering the markets Logica serves and clients' expectations.
- Kelly says that clients and people are the two main strategic considerations - people, after all, make up 65% of the company's cost base.
- Once the team has prepared a strategy 'straw man', it is presented to the executive committee, usually with a further review before the final strategy is presented to the board.

6.1

Logica - at the heart of strategy

A change in company culture and values over time can present an opportunity for HR. Stephen Kelly, Chief People Officer, has found that the development of the Logica brand to incorporate not only technical excellence but also quality of people has brought about a change in perception about the value of people. This has led to HR having more of a strategic role to play. HR at Logica, the business and technology service company, plays a critical role at the heart of corporate strategy development. The company does not have a dedicated strategy team or department: business strategy is developed by a team which includes members of the executive committee and senior leaders from across the business. Stephen Kelly is a member of this team. See the column for notes on its work.

He says that for the first time in his career, he has found that the people agenda is not simply adjacent to the strategy process - it is integral to it. People strategy is one of the chapters of corporate strategy. So, how does HR develop its response to this strategy?

Kelly reflects the corporate strategy development team structure in the HR function, where he has a strategy steering group which includes business people. One of his concerns is that HR should adopt a perspective of looking from the 'client-in' rather than 'HR-out'. The business strategy creates a framework for HR, which is summarised in four key themes.

HR strategic framework - four themes

- Shaping the future through brand, values and cultural transformation.
- Developing exceptional people through investing in people: skills, technical, development and leadership.
- Enabling brilliant performance - through ensuring that each individual and team has the tools and competencies to deliver experience to clients.
- Right people, right skills, right place - by having the appropriate resources in each market to meet client needs and demands.

Each business unit develops their own HR T map, which sets out the people agenda in each market aligned with overall strategy. Kelly estimates that 60% of business unit HR plans are driven top-down, and 40% by local needs. Despite this, he describes HR as 'one strategy, one vision, one team' - and says he is ruthless in tackling any HR activity which is not aligned or underpins client/business needs in each market to the strategy.

"I believe in one strategy and one team. I'm ruthless about executing in line with our strategy and am quite unforgiving if business areas do things that aren't aligned to strategy. However, we must also accept that, as an international business, execution may have to be different in some markets. Providing it is aligned within the four themes, we do not object. Ultimately, we have to trust that our business leaders make the right judgement calls."

6.2

IBM - five-stage process

The rise in social media, the proliferation of workforce collaboration and the changing geographic spread of employees mean that IBM's workplace has changed considerably in recent times. The company undertook a major review of HR strategy in 2010, focusing on the future of work and making sure that employment practices reflected the changing nature of the work climate.

A key consideration in developing HR strategy was the impact of social media. Jonathan Ferrar, Vice President HR, Workforce Analytics, described how IBM used social media tools to drive the collaborative, systematic process described below, which aimed to engage 6,000 people over ten months around the strategy. It had five stages.

Stage 1

IBM HR ran two-hour workshops in four cities globally, to explore the key themes of the new HR strategy. Live streaming allowed 6,000 people to participate, including employees from both HR and the business, together with customers, external experts and academics.

Stage 2

A three day 'jam' immediately followed Stage 1. This was a continuous series of online discussions with participants, which allowed ideas to be explored in more depth. IBM's CEO, Head of Corporate Strategy and some general managers also took part.

Stage 3

A series of HR leadership team workshops analysed in depth both internal and external data, and the outcomes of the 'jam' sessions. Finally, five key themes of the HR strategy were identified.

Stage 4

A task force of 40 people from the HR organisation was given an eight-week project to develop the five themes and define how each might look in 20 years' time. Each team member was free to talk to anyone they wanted, either internally or externally, in order to explore ideas.

Stage 5

Ferrar's team consolidated the outputs and, working with the corporate brand and strategy teams, finalised the HR strategy. The whole process took ten months from start to finish.

A key part of the strategy was to educate the HR community in thinking strategically, and to help them reflect on how the world of work was developing and how people practices needed to evolve. A premise was that the strategy was well-understood within the HR community. As well as using traditional print materials, Ferrar's team developed extensive online methods including videos and a two-day workshop designed to educate 400 'ambassadors' and prepare them to communicate the strategy across the whole HR function.

6.3 National Grid - strategy contributions at the top

Mike Westcott, Global HR Director at National Grid, participates in strategy development as a member of the executive team. Examples of the contribution he makes include the following.

- The executive team has four, two-day off-sites annually. Discussions on core capabilities to support strategy and the people implications take up one day at each session.
- When National Grid is considering entering a new market, he helps diagnose what current capabilities there are, where gaps exist, and how they can be closed. One example would be to develop skills in setting up and managing JVs and partnerships in new markets.

Developing HR strategy is a top-down process. Westcott's team takes the company's strategic priorities and translates them into five or six priorities for HR.

Achieving line of sight between business strategy and HR actions is a key concern. To enable this, he has developed a line of sight document for HR which succinctly sets out the company's strategic objectives, HR's priorities, the priorities of the HR team, and individual objectives.

CONCLUSION AND RECOMMENDATIONS

Topics covered		Introduction
7.1 Report overview	41	In this chapter, we reflect briefly on the many issues and opportunities arising from our research - and the wider debate - on developing an effective HR strategy. Here is our overview along with recommendations.
7.2 Recommendations	41	

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

7.1

Report overview

The short answer to the question how to develop an effective HR strategy is to have a well-defined and well-understood business strategy with a clear line of sight to the people strategy and HR plans. HR today seems to be well-placed to contribute to business strategy - providing the function continues to develop credibility and business awareness. In conclusion:

- most HRDs of leading organisations are involved in helping the executive committee develop corporate strategy
- the HRD's role in strategy development varies in scope and depth
- the overall strategic planning process in most organisations could be improved - in particular, by increasing flexibility to deal with 'emergent strategy'
- HR's involvement in strategy formulation appears not to have changed substantially in the time allocated - but it may have changed in quality
- while outstanding examples of HR involvement in strategy determination are evident, most HRDs could do more and better - specifically in information provision, talent and succession management, communication and evaluation.

7.2

Recommendations

- In developing people strategy, HR should make sure it understands how the organisation's people enable business success and that strategic priorities support this.
 - There are opportunities for HR to support the development of 'emergent strategy' by ensuring there are mechanisms for identifying and sharing customer and business insights. HR can find ways of developing front-line staff and line managers with strategic thinking and awareness skills - which may allow ideas from grass-roots level to be considered in strategy dialogues.
- Building on the 'facilitator' role identified in this research, HR can help the executive team identify where its strengths and weaknesses are in strategy development - and also tailor the process to suit the organisation's culture and context.
- HRDs can use Marcus Alexander's Lizard Model to diagnose their individual contribution at each stage of strategy development, and identify how they can improve their input to business strategy.

- Succession and talent management are key areas where CEOs expect HR to contribute to strategy. It is critical for HR to have robust processes in this area and to get this right.
- As HR systems improve, and the quality of analytics and data increases, HR can use the better quality of information available to provide insights for business strategy that are fact-based - rather than opinion-driven. This will increasingly put HR on an equal footing with finance and marketing.
- HR can introduce a fresh perspective on the world outside the organisation by developing a good understanding of demographic developments and changes in society. This should help understand the implications for the workforce, but also identify how customer needs might change over time. It would be of particular benefit when the organisation is considering entering new markets, as HR can diagnose what is required from a people perspective for successful market entry.
- HR should review its role in communicating and evaluating strategy, to identify whether the strategy is well-understood and applied day-to-day - and whether the organisation has adequate feedback mechanisms to ascertain that the right strategies have been selected and implemented.
- **HR should keep its core focus on knowing the business and its people.**

PARTICIPANTS AND READING LIST

Participants in the research

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