

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

Gillian Pillans

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**Christopher Johnson**  
Senior Partner, Mercer

## Foreword

We have spent many years discussing how HR needs to become a strategic business partner. Most of us are now weary of the debate, and some are even predicting the demise of HR itself.

The pace of change we anticipate in 2017 and beyond provides opportunity as well as challenge for HR. The big themes of automation, digitisation and globalisation mean new ways of engaging, developing and enabling talent to thrive are demanded. *Mercer's 2017 Global Talent Trends Study* finds that business leaders are looking to HR to build the foundations for the future of work by building more agile, empowered, and change-enabled organisations, and developing innovative relationships with employees. But some business leaders find HR struggles to answer these strategic challenges. HR needs to focus on what will make the business successful in an uncertain future, rather than just improving what works today. Being aligned with business strategy and commercial imperatives is a prerequisite for HR.

For many, investing in technology is the answer. The reality is that technology is a critical enabler of success, but it is only needed to play; it is not sufficient to win. Raising expectations, building skills and holding a mindset of bringing the "outside in" are key elements of how to win.

This CRF report makes a welcome contribution to the discussion of how HR needs to rethink its role and upskill in order to be a key player in delivering business objectives. It sets out what HR leaders can do to align the function with strategic imperatives, and to promote understanding of how HR can contribute to business success.

I can think of few, if any, better times to work in HR: old certainties are disappearing and new freedoms to re-shape HR are emerging. We can rise to the challenge of enabling our people and organisations to thrive and thereby play a critical role in making our businesses thrive – this is the essence of being the strategic partner.

**Christopher Johnson**  
Senior Partner, Mercer



Gillian Pillans

## About the author

### Gillian Pillans

Gillian Pillans has worked as a senior HR practitioner and OD specialist for several organisations including Swiss Re, Vodafone and BAA. Prior to her HR career, she was a management consultant with Deloitte Consulting and is also a qualified solicitor. Gillian has written various CRF reports on subjects including HR strategy, organisation design and development, leadership development, talent management, coaching and diversity.

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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 190 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.

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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.

# 1

## THE CASE FOR BUSINESS-RELEVANT HR IN A RAPIDLY CHANGING CONTEXT

### Topics covered

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### Introduction

In this chapter we examine the current state of the HR function and highlight some key challenges the HR function needs to address in order to increase its impact and become more business-relevant.

“We have a habit in HR of jumping on to the next new thing, regardless of whether it’s actually what the business needs.” **Sandy Begbie, Chief People Officer, Standard Life**

## 1.1

### What’s the issue?

The nature of work and organisational life is being transformed by globalisation and digitalisation. This has profound implications for organisational leaders, employees and political leaders alike. However, despite the momentous change, the basic ingredients of commercial and organisational success remain the same. Organisations must attract, retain and optimise the contribution of talented people, remain resilient through times of transition and have the capacity to continuously innovate and renew themselves. For this reason, we believe that rhetoric around the ‘end of HR’ is overblown. Nevertheless, HR will need to adapt, professionalise and build strategic and commercial capability if it is to have high impact. In today’s fast-changing world, a business-relevant, professional HR function has never been more important. However, the reality for too many organisations is that the role HR plays in developing and executing the business strategy is unclear and HR plans and actions are sometimes disconnected from the organisation’s business priorities.

CRF has been researching the field of HR, and turning its research into actionable recommendations, for over 20 years. The rich flow of insight from our members across every major industry, from academia and other leading thinkers, has helped us to understand how the function has evolved, what works and what doesn’t work, and in what circumstances. We have also witnessed HR’s fluctuating reputation and HR fads that have come and gone (*see column*). While in many ways the employment environment has improved over recent decades, often this is as a result of changing attitudes within society about how the workforce should be treated, rather than specific HR actions. In areas like talent management and leadership development, for example, practices are often less robust and sophisticated today than they were several decades ago. This is exacerbated by a lack of investment in developing the HR function, and in recruiting high quality people to work there.

In this report we explore what HR should be for, how it can add value to the organisation, how it should determine where to focus, and how it should assess its impact on business results. We emphasise the critical importance of establishing a clear line of sight between business strategy and people plans, and of rooting HR actions in evidence and the principles of social science.

In preparing this report, we have sought the views of HR and business leaders and academics, as well as drawing on the insights CRF has accumulated over 20 years of research.

#### Avoiding fads

CRF was set up over twenty years ago to cut through the fads and fashions that afflict the practice of HR. So what are fads?

- Ideas identified as ‘best practice’. Best practice does not exist, only good practice applied in the right organisation context.
- Ideas which are implemented without a specific business need being identified.
- Ideas which may intuitively feel ‘right’, but which lack a solid evidence base or a robust underpinning theoretical base.
- Generic ideas which are not adapted or contextualised to the bespoke needs of individual organisations.

“Is HR a strategic function? Absolutely! HR looks further ahead than many other functions to anticipate how the business is changing, and to facilitate the organisation’s response to that.”  
**John Whelan, UK HR Director, BAE Systems**

## 1.2

### Our changing, challenging world

The truism that 'the only constant in life is change' was first expressed over two and half millennia ago by the Greek philosopher Heraclitus. It may be another truism, but these days change is bigger, faster and more global than it's ever been. A confluence of megatrends will continue to challenge and shape the purpose, strategies and operations of the organisations we serve. Globalisation, demographic shifts, rising populism, technology, and new business and workforce models are just some of the macro forces that modern organisations have to contend with.

Organisations have to stay abreast of these developments in order to prepare for their potential impact and help future-proof the organisation. If organisations are to prosper over the longer term and maintain competitive advantage, we believe they need to have the following things.

- **Environmental scanning** and bringing the outside in are needed like never before. We need to be better at detecting and responding to trends.
- **Clarity of purpose.** Organisations must be clear on what they stand for, and a clear expression of purpose, strategy and values is essential. We need vision, clear direction and leadership to ensure we are as efficient and effective as possible. What are we going to do and how?
- **Innovation.** We have to invent or improve products and services faster than our competitors – today's 'good enough' will be 'not good enough' tomorrow.
- **Speed to market.** Getting to market faster than the competition, with no sacrifice of quality, is essential to survive and thrive. Procrastination costs money.
- **Quality of products and services.** Organisations that consistently deliver to specification and on time will outperform those that don't.
- **Excellent customer experience.** Satisfied customers, whether of private, public or not-for-profit organisations, are key. Reputations can be destroyed overnight, and customers have ever more choice.
- **Cost and efficiency.** Organisations must deliver good service at a competitive price, despite the enormous cost pressures they face. Process efficiency is therefore essential.
- **A commercial mindset.** Investing, designing, pricing, negotiating and selling effectively are core skills for everyone in every organisation.
- **Building capability creatively.** Building skills through acquisitions, partnerships, new ways of connecting with the workforce, new ways of attracting, deploying and developing talent, and new ways of designing organisations and supporting cultures, is a key differentiator of successful organisations.
- **Developing mastery in data management.** The ability to use data to understand customer and employee behaviour, build insights, test hypotheses and predict outcomes, is becoming an increasingly significant competitive differentiator.
- **Managing risk.** In a rapidly shifting and increasingly networked environment, with ever bigger and more varied threats, seizing opportunities while avoiding dangers is both more challenging and more critical.
- **Agility.** Building organisations that can respond quickly to changing circumstances is a prerequisite of survival.

“As HRD, you are a member of the leadership team, and leadership has a collective responsibility to develop strategy. You should be integral to that, not just in terms of the people elements of the strategy, but by contributing to the debate about strategic options. You need to be at the very least as connected to the outside world, in terms of what the competition’s up to, trends in the sector, industry generally, and society, as other members of the leadership team.” **Geoff Tranfield, Group HR Director, IMI**

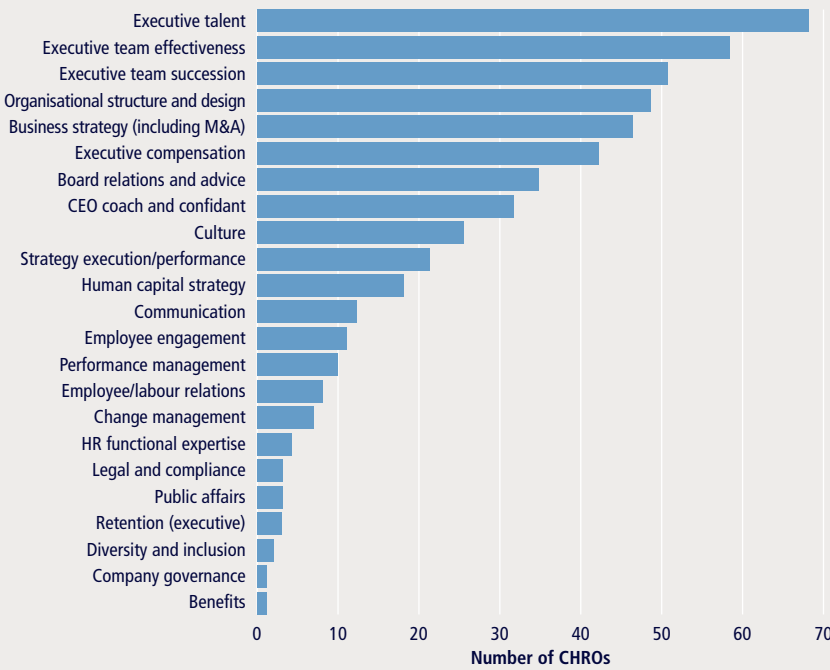
### 1.3

#### The state of HR

The HR function can play a critical role in helping organisations develop the capabilities required to build sustainable, resilient organisations in our increasingly complex and interconnected world. But to do this HR people have to be first and foremost business leaders, able to influence the strategic direction of the organisation, in addition to focusing on HR activities that advance the business agenda. The good news is that CEOs want and expect HR to take on a more central, strategic role, especially when it comes to planning future talent for the organisation. The bad news is that HR often fails to live up to these expectations, and is disconnected from the business. Mercer’s 2016 Global Talent Trends Study found that only 4% of HR professionals surveyed believe that HR in their organisation is viewed as a strategic business partner.

Our own research and many other sources suggest that organisations’ ability to develop the talent they need to grow in new markets, to plan for smooth leadership succession, and even to survive in a fast-changing business context, is disappointing. Indeed, 85% of organisations surveyed in Mercer’s 2016 Global Talent Trends Study said their talent management practices need an overhaul.

Figure 1: Areas the CHRO Gives the CEO Advice



Source: Center for Executive Succession, 2016

We regularly hear from HR that it wants to get more involved in strategy development, to have a ‘seat at the table’. CEOs appear to share this desire. In a 2012 Economist Intelligence Unit survey of 235 CEOs and senior executives, 70% said they wanted HR to play a key role in strategic planning (see Figure 2).

#### What do CEOs want from HR?

Developing talent has ranked consistently among CEOs’ greatest concerns for a number of years. This is a massive opportunity for HR. Indeed, research by the Center for Executive Succession at the Darla Moore School of Business at the University of South Carolina in the US found that the key areas where CHROs give CEOs advice are executive talent, executive team effectiveness and succession and organisation design. However, advice on business strategy came fifth (see Figure 1).

“The best HR people get engaged in issues outside their function, for example having a say on planning or marketing, sharing their opinion. I value that. It’s about being proactive, contributing to overall business performance.” **Nicolai Moresco, Executive Director, EMEA Partner Strategy, Dell**

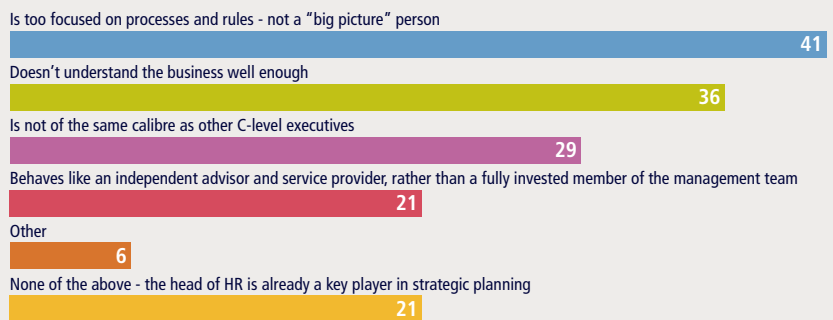
**Figure 2: Wanted - CHRO to take a seat at the table**  
(% CEO respondents)



Source: EIU, 2012

However, CEOs report that the principal obstacles to HR playing a greater role in strategic planning include their lack of commercial nous and an over-focus on HR process administration (see Figure 3). The EIU research concluded: “Perhaps heads of HR are not being included in strategic planning because doubts linger about whether they have the requisite breadth of business knowledge to participate productively.” The survey showed that CEOs are considerably more likely to think their relationship with their head of HR is close and trusting – and to value that relationship highly – than they are to believe they play a key role in strategy. Many CEOs view their HRDs as trusted confidential advisers on people issues. The EIU research suggested that HRDs could build on this to grow their influence on strategic issues. “If that atmosphere of goodwill and trust could be fostered, it could culminate in greater strategic involvement for the HR function,” the research concluded.

**Figure 3:**  
**What are the obstacles, if any, to the head of HR taking a greater role in strategic planning?**  
(% respondents)



Source: EIU, 2012

“In order to increase its contribution to organisational effectiveness, HR must rethink its basic value proposition, structure, services, and programmes in order to address how it can add value in today’s economy with new organisational forms, business strategies, and performance demands.” **Lawler and Boudreau, 2015**

The table below summarises the findings of research that Nick Holley, Director of CRF Learning, conducted at Henley Business School. It demonstrates the common gap between what CEOs expect from HR and what they actually get.

What CEOs want from HR	What they get: common criticisms of HR
<ul style="list-style-type: none"> <li>Help orchestrate the business strategy, not just execute HR processes. Challenge the strategy around capability, culture and ethical issues in particular.</li> </ul>	<ul style="list-style-type: none"> <li>HR is disconnected from the commercial realities of the business.</li> </ul>
<ul style="list-style-type: none"> <li>HRD to lead the leadership team through the people and organisational elements of the business strategy, and help build the people and organisational capability to deliver the strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Provides solutions to problems people don't even know they have: driving an HR rather than a business agenda.</li> </ul>
<ul style="list-style-type: none"> <li>Deliver core HR processes really well. CEOs don't care about these processes beyond the fact that they're done, and will only get involved when there's 'noise' in the system.</li> </ul>	<ul style="list-style-type: none"> <li>Sideline when important decisions are made, which runs the risk that people issues are not taken into account and come back to haunt the organisation later.</li> </ul>
<ul style="list-style-type: none"> <li>Functional expertise is important, but above all the HRD needs to act as a 'corporate director'. CEOs don't want silence until a people-related issue is raised. They want HR to hold others to account around ethical and long-term sustainability issues.</li> </ul>	<ul style="list-style-type: none"> <li>Lacks political acumen: who the movers and shakers are, their motivations, and how to influence and gain credibility with them.</li> </ul>
<ul style="list-style-type: none"> <li>Be jointly accountable with other directors for the performance of the business and delivery of the strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Doesn't get out and meet customers so lacks business understanding.</li> </ul>
<ul style="list-style-type: none"> <li>Make a contribution beyond HR, taking a business – rather than an HR-centric view.</li> </ul>	<ul style="list-style-type: none"> <li>Doesn't have a sufficiently strong grasp of numbers and performance data.</li> </ul>
	<ul style="list-style-type: none"> <li>HR plan doesn't address what's required to deliver the business strategy, or deal with the issues, risks and implications of the business strategy.</li> </ul>

These views were reinforced by discussions we had with business leaders in the course of writing this report. Nicolai Moresco, Executive Director EMEA Partner Strategy at Dell, said: “I'd like HR to be more engaged in strategic discussions overall. They should take on a more active, leading role around transformation: how can we design a more effective organisation, for example? These ideas tend to be initiated in the business, but HR should be playing a greater role here. HR should be as proactive as functions like Finance and Marketing, not just on talent but also on organisational issues.”

“Sometimes HR paints itself into a corner. It’s the worst thing we can do, given the macro challenges we face over the next few years. HR is well placed to bring new insights into the organisation, but needs to be comfortable with the ambiguity that comes with new ideas.” **Louise Smalley, Group HR Director, Whitbread**

**CRF’s view of where HR is falling short**

Our experience suggests the following key areas where HR is falling short.

1. **HR isn’t closely enough attuned to the organisations it serves.** HR often chooses to work inwardly on HR issues rather than aligning itself with the commercial direction of the organisation. This can lead to HR starting with ‘best practice’, rather than business goals. At worst HR lands on a product to push and then seeks an application for it. Many of HR’s traditional ‘products’ are of uncertain benefit, and should be subject to rigorous scrutiny before implementation. The literacy of HR people around the basic language of business falls short, and it lacks understanding of the organisations, its industry and competitors. HR does not align its work sufficiently to the ‘big bets’ the organisation needs to make to assure future success.
2. **In seeking to drive effective performance, HR tends to gravitate towards developing and supporting individuals at the expense of developing the organisation.** Working on individuals is not wrong, but it’s not enough. It’s only when we address the broader context, and the extent to which the organisation design and culture support or inhibit sustained high performance, that we see substantial gains. We must not only develop and deploy good people, we must create the conditions for them to flourish.
3. **HR doesn’t bring enough of, or the right bits of, the outside world in.** One of the most valuable roles HR can play is to look outward and forward to the forces shaping the external operating environment, and raise awareness internally as to their likely impact on the organisation. The best HRDs and their teams are a source of considered judgement and insightful guidance about the political, social, technological and legal issues and trends that may affect the organisation.
4. **HR’s work is often not based on robust theory or evidence.** HR does not always adhere to the principles of social science in the execution of initiatives. This requires clear definitions, an underpinning theory, evidence, evaluation and a clear plan. ‘Is this worth doing?’ – is not a question that is heard often enough.
5. **HR can be ‘numbers-shy’ and ‘technology-shy’.** A weakness in numeracy and lack of appreciation of technology limits HR’s ability to talk in business terms and guide the organisation on necessary technology-led changes.

So what is to be done? We do not believe there is a one-size-fits-all HR model that can fix these issues. Each organisation has unique business needs and priorities. HR in turn needs to be clear about the purpose it plays, which will differ from one organisation to another, and the operating principles that describe how HR helps drive business outcomes. So rather than applying some sort of universal HR best practice, we believe that organisations need instead to craft solutions from what we know to be good practices, selected and tailored to their own individual needs. This needs to be supported by investment in hiring high quality people into the HR function, and providing them with an appropriate level of development to build commercial and business skills, and deep expertise in the technical aspects of HR. In the rest of this report, we investigate in more depth the key elements that we believe organisations need to address.



# 2

## INCREASING HR'S IMPACT THROUGH DEVELOPING STRATEGIC AND COMMERCIAL CAPABILITY

### Topics covered

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### Introduction

In this chapter, we set out actions for HR to improve its strategic contribution and build commercial acumen. We also highlight examples from practice of the different ways in which HR contributes to strategy development and execution.

“If I want to help the organisation decide what’s the most appropriate organisation structure, or where our strategic focus should be, I need to understand in depth and be able to talk knowledgeably about issues such as the value chain of our business and how we work out margin. If you don’t understand the core processes and value drivers of your business, you’ll never get beyond just turning the wheel.” **Gavin Leathem, Group HR Director, Essentra**

**What does ‘strategic’ HR mean?**

A recurring theme is that HR needs to become more ‘strategic’, but what does this actually mean? We discuss below four roles that HR can play in developing corporate strategy. However, in many organisations, even the best quality HR function does not have the technical expertise to come up with strategic options or to judge whether one particular business strategy is better than another. HR is often neither capable nor expected to play the Full Contributor role. However, when it comes to implementing strategy, HR can make an important contribution. This involves working with the line to identify what has to be in place from the people and organisation perspective to deliver the strategy, and developing plans and programmes to make this happen. For example, doing the ground work for meeting talent hiring needs prior to moving into new markets, managing the people side of offshoring or outsourcing, or developing plans and programmes to improve capability in the sales function. The key element of being ‘strategic’ is to understand what the business strategy means in people and organisational terms and making that happen in the most effective way possible.

## 2.1

### Closing the gap between HR and the organisations we support

The two most common criticisms of HR that we encounter are that it’s neither sufficiently strategic nor sufficiently commercial. So by focusing on the following two key elements the profession will go a long way towards closing the gap between what it does and what the organisations it supports actually need.

- Starting with the business strategy when determining HR actions and plans.
- Making sure HR understands and is aligned with the commercial imperatives of the business.

#### Developing a strategic HR function

A business-relevant HR function has to take the business strategy of the organisation as the point of reference for all its plans and activities. This means being able to answer the question: ‘Where are we trying to win?’ The answer provides the anchor for HR’s business analysis of what is required from the people and organisation perspective to deliver the organisation’s goals for sales and profit growth, quality, innovation, cost control, customer experience and every other strategic effort. Everything that HR does needs to be aligned to the organisation’s broader needs and ambitions. Different strategies will lead to different people-related outcomes. In the table below we illustrate how different strategic priorities might lead to substantially different approaches to HR. See also the Case Notes below for some further examples.

Strategic priority	People plan areas of focus
<b>Geographic expansion</b>	Supply, demand, cost and quality of talent in target market. Balancing local talent and deploying expatriates. Determining optimum organisation design: national vs. regional vs. global. Educating people on cultural differences. Understanding local employment legalities.
<b>Product development/ innovation</b>	Designing the organisation to allow business as usual and emerging businesses to develop in parallel. For example, developing and supporting ‘skunk works’ or task forces. Creating an employer brand to attract the talent needed for innovation. Creating a culture that supports collaboration, experimentation and learning from failure. Making sure the right people get involved in innovation. Teaching innovation skills and techniques.
<b>Customer service</b>	Designing the organisation to have maximum ‘surface area’ in contact with customers. Investment in selecting and developing talent with strong customer orientation. Training in customer service. Building feedback loops for customer insights. For example, making customer feedback part of performance and reward systems.
<b>Cost control/ margin discipline</b>	Providing services at lowest possible cost and driving efficiency. Focusing on where the ‘value’ is and removing non-value adding activities. Outsourcing and vendor management. Providing negotiation training. Building expertise in change management and process improvement. Championing continuous improvement programmes.

“One area where HR can make a unique contribution is bringing insights to the table from outside the organisation. Too many HRDs are internally- or sector-focused. They tend to benchmark against peers or competitors. And if we’ve all got it wrong, how are we going to spot that our market is being disrupted and act in time?” **Louise Smalley, Group HR Director, Whitbread**

Strategic priority	People plan areas of focus (continued)
<b>Sales orientation</b>	<ul style="list-style-type: none"> <li>Designing evidence-based incentive schemes that drive desired results.</li> <li>Creating a high-performance sales culture.</li> <li>Exploring new channels for sales.</li> <li>Sales and negotiation training.</li> <li>Putting in place great sales support and admin.</li> </ul>
<b>Quality focus</b>	<ul style="list-style-type: none"> <li>Process design and process improvement.</li> <li>Investment in continuous training improvement and quality control methodologies, such as Six Sigma.</li> <li>Certification and communication programmes.</li> </ul>
<b>Improving governance and compliance</b>	<ul style="list-style-type: none"> <li>Redesigning the organisation to promote controls and oversight.</li> <li>Building risk management capability including training all those involved.</li> <li>Taking action to improve or change those who are not compliant.</li> </ul>

**Case Notes**

The following are some examples from our interviews of actions taken by HR to support specific strategic goals.

**Driving organisational scale.** Like most organisations, Thomson Reuters wants to improve revenue growth and cash operating margin. That strategy is enabled by ongoing transformation from a portfolio of individual operating companies into an integrated enterprise. This means optimising resources and infrastructure – continuing to move closer to customers, simplifying the organisation, and leveraging scale are critical to achieving these targets. Mark Sandham, SVP and COO, Human Resources, led the debate with the Executive team around this, and more specifically how to create greater alignment to deploy common technology platforms and tools at speed across the business. As a result, the whole technology organisation has been brought under common management. Sandham said: “This was about driving performance, rather than a cost play. It’s about how you rewire the organisation to bring more resources, expertise and effective practices to our Business Units, and by extension, our customers. The HR team is uniquely placed to see the whole picture from conceptual organisational design, to appointing leaders and building teams. Leading major change has to be at the core of what we do in HR.”

**Supporting a shift from products to services.** Over the past few years, BAE Systems has developed an approach to Strategic Workforce Planning (called Long-Term Skills Analysis & Workforce Planning) that has helped the organisation look five to ten years ahead in order to identify and implement actions at an early stage to support potential changes in its business model. This begins with scanning the horizon through a PESTLE-type analysis – i.e., identifying the political, economic, social, technological, legal and environmental trends that may affect the business. After several iterations, John Whelan, UK HR Director, has found that following a formal workforce planning process that is tied to strategic business planning helps move people from having theoretical discussions about what might happen in the future, towards developing and implementing specific action plans. For example, it became clear that the confluence of two major market developments (expansion in the Middle East and the ongoing growth in Service related business) would require the company to build servicing – and not just exporting – capacity in the Middle East. As a result, BAE Systems has significantly increased the intake of its UK training pool, redefined career models to encourage people to spend time working in the Middle East, and established training schools in the region. It is also looking at how the culture needs to change to support the move towards a service-oriented business model. “The fact we had gathered more robust data through the skills analysis and workforce planning process allowed us to make the business case more clearly, and gave the business assurance that investing in capacity five years out was the right thing to do,” said Whelan.

“We are a service business, so we need first-class people to deliver the right quality of service. HR has a big influence on strategy in terms of identifying the talent we need to get where we are heading, and to secure the people we need to deliver the strategy.” **Bob Middleton, Managing Director, Mercedes-Benz Financial Services UK**

**Building sales capability in India.** Apollo Tyres set itself a strategic goal to move from the number two to the number one position in the Indian market. To support this, Chief Human Resources Officer, Martha Desmond oversaw the introduction of a sales academy to develop sales skills and product knowledge in this critical growth market. Desmond is able to measure business outcomes, in terms of overall sales results and the performance of individual sales representatives who have been through the academy, to determine the return on investment.

**Building capacity in new markets.** Geoff Tranfield, Group HR Director of engineering group IMI, described how his personal experience of working in emerging markets enabled him to shape that company’s strategy for the Far East. “It’s my role to understand the labour market dynamics in our target markets, to work out the best market entry strategy. It’s about bringing a dose of realism, so the executive team doesn’t set unattainable targets, but at the same time challenging the business to be ambitious.” Paul Chesworth, Chief People Officer at Perform Group, the digital sports media business, said his HR team played a key role in his company’s decision about whether to launch a subscription TV service in Japan. “Part of my role is to check the quality of decision-making, to make sure all options have been explored and the strengths and weaknesses of each is well understood,” he said. Similarly, Louise Smalley, Group HR Director at Whitbread, finds that HR’s insights on demographics can be a critical reality check on the feasibility of expansion plans. For example, in Germany, a key growth market for Whitbread, the workforce is shrinking due to falling birth rates and an ageing population. “If we can’t engage the people we need to deliver the growth strategy, that will stop us from achieving our plans in that market. It’s not just an HR issue; it goes to the heart of whether the corporate strategy is feasible.” Hew Evans, Vice President, Human Resources at Sony Europe, said his HR team helped save the company €0.5M per annum by providing insights on labour market dynamics to support a decision on where to locate the marketing function in one of Sony Europe’s markets.

**Supporting the integration of an acquisition.** When Sony Europe acquired Hawk-Eye Innovations – which provides technology to analyse decisions in sports such as tennis and cricket – a key challenge was how to sustain the company’s innovative culture, and retain key staff, while successfully integrating the business into Sony. Hew Evans led the respective management teams of Hawk-Eye and Sony Europe through discussions on how to integrate the business, what was the most appropriate organisation design, and how to retain, incentivise and motivate key people in a more corporate environment than they were used to. One solution was to create a flexible structure that allowed the business to be run at arm’s length. Another was to put in place a long-term incentive plan which shared profit growth between Sony Europe and the Hawk-Eye founders. Hawk-Eye has continued to deliver double-digit growth year-on-year, and has grown five-fold in the last five years. In addition, Sony Europe’s HR infrastructure in various countries has helped Hawk-Eye ramp up quickly in new markets. For example, when Hawk-Eye won a contract in Germany which required them to have 30 people in place within four weeks, Sony’s existing recruitment infrastructure was deployed to meet the contract requirements. This would have been impossible had Hawk-Eye been required to set up a legal entity and other infrastructure in Germany, in order to fulfil the contract.

“HR should be involved in suggesting the big questions the organisation needs to tackle, such as how and where do we compete and where will we find the future talent we need to implement our strategy, rather than just responding to questions posed by the C-suite.” **Christopher Johnson, Senior Partner, Mercer**

**Rebuilding the business following a corporate crisis.** Tesco has been through a well-publicised turnaround over the last two years under a new CEO. According to Alison Horner, Chief People Officer: “When Dave Lewis took over as CEO, we had a burning platform. We needed to extinguish the fire, and rebuild the business.” This meant focusing on three priorities: restoring competitiveness in the UK, rebuilding the balance sheet and regaining trust and transparency. Horner’s team took responsibility for key changes, including reshaping the pension scheme to make it affordable and sustainable, holding pay rates flat and then introducing new fairer pay structures including performance incentives for all, and reducing office headcount alongside moving the office location.

**Representing the customer at the top table.** Some interviewees said that one of the ways in which they contribute to strategic discussions is by being the voice of the customer in strategy discussions. At Whitbread, for example, the HR function correlates customer and employee data to compare how different teams are performing. Louise Smalley said: “This gives us insights into where we need to take action on team effectiveness.” Nigel Sullivan, Group HR Director at TalkTalk, described a difficult executive team meeting where he was the lone voice calling for a customer service programme to be given more support and resources. “I have a strong point of view on the TalkTalk customer experience, and I could see that if we didn’t sort out the issues we had in customer service, it would put our business under threat. At that point we were losing customers as fast as we were acquiring them. We had a programme in place but it was running late and I thought it was under-resourced. I felt that some of my executive colleagues were in denial about the position the programme was in. I had to take a brave pill, be very assertive and potentially unpopular. It was an uncomfortable meeting, but I thought it was important that I stood up for the customer programme, and in the end we agreed to tool up the programme properly.”

**Shifting from developed to developing markets.** Imperial Brands’ business is declining in mature western markets and expanding in the developing world, but when Andy Newall joined the company as Group HR Director three years ago, he found that the workforce did not reflect this change in market fundamentals. He helped to restructure the business to reduce the cost base and ensure top talent was concentrated in the areas where it would have the greatest business impact. This included reducing five divisions to two. The 163 markets where the company operates were divided into two groups based on their strategic priorities – profit maximisation in mature markets and growth focus in emerging markets. Newall is streamlining the cost base further by outsourcing transactional services – both HR and other internal functions, such as Finance – to a service centre in Eastern Europe.

### HR's strategic role

HR clearly needs to understand how business strategy is developed in order to be able to determine where and how it can add value to the strategy development process. As a minimum, this means providing information to help develop the strategy, but ideally HR should be as involved as functions like Finance and Marketing are in actively developing business strategy. For example, the availability of talent in a key growth market will be a factor in determining how feasible a particular strategy is. Similarly, HR may play a ‘devil’s advocate’ role, challenging the executive team to be more ambitious, or making sure strategy choices are in line with the organisation’s values and ethics.

“If you’re in a business where your biggest cost item is people, you would expect HR to have a significant role in strategy development and execution.” **Mark Sandham, SVP and COO, Human Resources, Thomson Reuters**

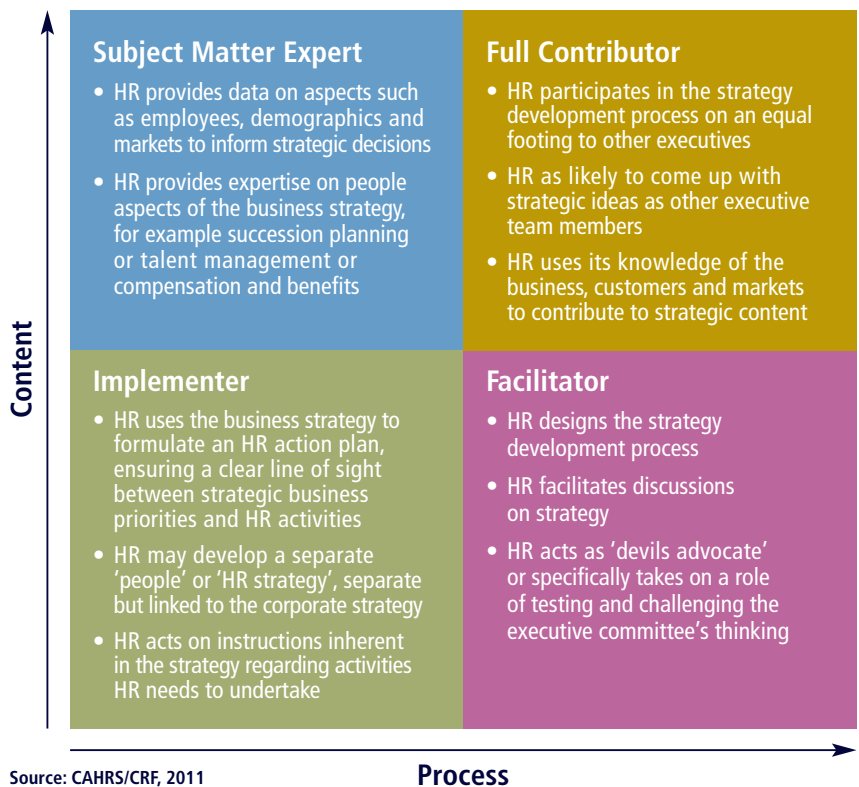
**Getting involved in strategy development**

Many of the HRDs we interviewed for this report are integral to discussions about strategy in their organisations. They have a seat at the table and there is an expectation that they are involved. However, in many cases HR struggles to make a meaningful contribution to discussions of strategy. We find there are two principal issues here.

- Many organisations are not very strategic. According to Professor Peter Cappelli of the Wharton School of Business: “One of traditional HR’s biggest difficulties has been supporting business strategy, because it’s such a moving target these days. Companies seldom have long-term plans with straightforward talent requirements. But HR is by nature a long-term play. Developing talent, heading off problems with regulations and turnover, building corporate culture, and addressing morale problems all take time. Often, leadership teams and priorities change before such initiatives have paid off.” Lawler and Boudreau have found that HR is more likely to be involved as a strategic contributor in organisations that are themselves more strategic. “An implication is that, for HR to become more strategic, organisations themselves may have to become more strategic too.”
- HR professionals lack strategic skills such as anticipating external market trends or analysing and interpreting ambiguous or conflicting information.

CRF’s 2012 research report *Developing an Effective HR Strategy* identified four roles HRDs tend to adopt when they are involved in formulating corporate strategy. These can be arranged on a two-by-two matrix, based on the depth of input to the *content* of business strategy, and the degree to which they assist in the *process* of developing strategy. An HR Director may take on more than one of these roles at different times. However, we think it is difficult for an individual to act as ‘Full Contributor’ and ‘Facilitator’ at the same time, as the latter is focused on process. HR’s role in developing strategy differs depending on the organisation and factors such as the relative power of the corporate centre and business units, the maturity of organisational processes, the nature of the business, and the preferences of the CEO.

**Figure 4: HR’s strategic roles**



So, what options are available to HR professionals who wish to be more involved in strategy development and execution?

- **Raise expectations about the contribution HR can make to strategic issues.** Andy Newall said: “Sometimes I will find myself saying: ‘If only you’d come to us earlier, we could have been much more helpful.’ For example, we can help a leader design the right organisation to support the change he’s wanting to introduce. Just bringing HR in when you go into execution mode can mean you miss a trick around how the organisation needs to be developed to support the strategy, or building the capabilities needed to sustain change.”

“Part of my job as HRD is to bring people issues to the senior management table on behalf of the organisation, to bring data and insights and raise issues that other members of the management team may not have considered, but will have an impact on our ability to execute strategy.”

**Gavin Leatham, Group HR Director, Essentra**

- **Build your understanding of the business.** Develop a point of view and test it out with others. Arrange to visit customers or suppliers to understand their challenges.
- **Think ahead.** James Purvis, Head of HR at CERN, said: “If you want to influence the business, you need to be thinking at least one step ahead. Often managers are only thinking about what they’re working on now or what’s just around the corner. You can be really helpful to them if you can anticipate and help them plan for ongoing sustainability of the organisation.” Hew Evans also suggests anticipating what sort of data the business might ask for, and coming to meetings armed with the relevant information, helps build HR’s credibility as a function that’s business-focused. “You need to have the data ready at the right time to influence strategic decisions. If you only start to look for the data after the question has been asked at the critical meeting, it’s too late,” he said.
- **Emulate other functions.** Christopher Johnson, Senior Partner, Mercer, said HR could take a leaf out of Finance’s book. “You rarely hear Finance complaining about not having a seat at the table. Finance’s most significant contribution lies in modelling what the future might look like. Not only is HR often uncomfortable with data, but the data available only describes the characteristics of the workforce today. It’s not being used to predict what might happen in future, or map out different scenarios.”
- **Identify how HR can help the organisation build capability in strategic thinking.** For example, Geoff Tranfield has used the design of leadership development to influence the strategy development process within IMI, and to build leaders’ skills in developing strategy. He also sees it as part of his role to help executives find space to think about longer-term performance, as well as optimising current business, and to give them tools to help foster a longer-term mindset.
- **Leverage existing relationships.** Many CEOs view their HRD as a trusted adviser on issues such as top team dynamics, and this can be a springboard for getting involved in broader business issues. Sandy Begbie, Chief People Officer at Standard Life, said: “The key relationship is the triumvirate of CEO, Chairman and HRD. Where you have an HRD who has the credibility to hold his own in that triangle, that’s where you can really make a difference.”
- **Be aware that strategy time horizons differ from one industry to another, and this affects HR’s role.** For example, retailers operate on much shorter time horizons than pharmaceutical companies.
- **Don’t lose sight of the importance of execution and delivery in the here and now.** Too much emphasis on the future while the business is struggling with an immediate crisis can lead to HR being alienated. Geoff Tranfield suggests it’s important to create processes that work smoothly, which frees up time and space for discretionary effort and long-term thinking.

**Thinking about your business through a commercial lens**

In considering the commercial drivers of your organisation, the following questions may be helpful in framing your thinking.

**Markets**

- 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?

**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 past 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?

**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 past 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?

“People strategy is also about shaping the culture – in particular the way in which we live the corporate values. For example, we have moved away from a hierarchical to a more team-working, collaborative culture. HR has played a critical role in defining this, holding up the mirror in terms of what other organisations do, and challenging us to improve.” **Bob Middleton, Managing Director, Mercedes-Benz Financial Services UK**

**Making business priorities central to HR plans**

Taking the following steps can help keep business priorities at the forefront when HR plans are developed.

- Be fully cognisant of the company’s business strategy, current performance and challenges, and key financial measures.
- Develop a good understanding of how the organisation’s people and capabilities enable success.
- Engage in dialogue with key stakeholders about what they need and how HR can add value, before deciding what to do.
- Ensure there is a clear ‘line of sight’ (i.e. a demonstrable connection between HR activities such as recruitment or performance management, and business outcomes such as sales or profits). Think through the company’s value chain and where HR fits. Align HR practices with customer expectations. For example, what contribution can HR make to increasing market share? Showing a ‘line of sight’ is not easy to do, but by going through the process of assessing whether HR actions genuinely add value, HR can focus resources on commercially useful activities.
- Build in measures as plans are being developed. Measure in business, not HR, terms. Get buy-in from stakeholders so that the proposed measures meet business needs. Communicate results within the HR function and to the wider business.
- Understand and talk the language of business. Make explicit the link between HR actions and business outcomes. For example, what effect will a specific initiative have on costs, sales, customer service or other key business measures?
- Spend time and effort getting close to different functions and understanding their drivers and challenges. Get out of HR silo thinking and work across functions to bring people and solutions together.

HR can be preoccupied with the perennial issue of whether it is ‘strategic or not’, and feel undervalued if it is not perceived as ‘strategic’. But how strategic HR is or needs to be depends on the circumstances, and sometimes tactical delivery can be of critical importance.

**2.2**

**Developing a commercial HR function**

Business organisations exist to make money. So if HR is to enable the delivery of the organisation’s key objectives, it needs to be commercial. But what does this mean? CRF’s 2013 report *Commercial Acumen* defined commercial acumen as: “the set of skills that enables individuals, departments, functions and teams to deliver excellent performance for a business so that its revenues or sales increase, its profitability improves, its cash generation gets better, and its shareholder value is enhanced.” Our report found that the following qualities distinguish strong commercially-oriented executives.

- The ability to **analyse a situation and work out what needs to be done** – commercial acumen is an orientation or lens through which executives approach problems and situations.
- **Foresight** – the ability to anticipate market and competitor trends to see the ‘big picture’ as well as the detail.
- Putting the **business first** and the function you work in second.
- A constant emphasis on **continuous improvement**.
- A firmness of purpose, **resilience** and follow-through once decisions have been made.
- An ability to **persuade** others that the proposed actions are ‘right’.

**How can HR build its commercial acumen?**

1. **Start with the business.** HR professionals need to be clear about the linkages between HR actions and business outcomes. Professor Pat Wright, who directs the Center for Executive Succession at the Darla Moore School of Business at the University of South Carolina, describes the experience of talking to HR leaders at GE. “Every conversation would begin with the HR leader saying: ‘Let me tell you about my business.’” Too often we see HR functions engage in interesting or ‘sexy’ projects where the impact on business results does not seem to be given sufficient consideration. This can result in the business being hamstrung by bureaucratic people procedures which do not add value. We need to ask searching questions about what we are – and should – be doing to help our organisations accomplish their objectives. We need to stop pursuing HR work as an end in itself – it should simply be a means to helping the organisation achieve its goals. *See the column.*
2. **Get business-literate.** HR needs a clear understanding of how businesses operate generally, and how its organisation creates value specifically. HR can’t influence business performance if it doesn’t understand the customer-profit chain, or the fundamentals of how the business makes money. HR can’t help improve EBITDA or other critical financial measures if it doesn’t understand what they are and the factors that influence them. HR needs a broader understanding of its business – the business context, competitive landscape, how it ranks on key metrics versus competitors, how it is differentiated. HR needs to get involved in business issues and not limit itself to HR topics. See the column on the previous page for some questions to ask to build a deeper understanding of your business.



“You need to be thinking about what your organisation is going to need. What is your CEO going to be asking about in six months, that you’re not even thinking about today? How can you be ready for that? What is your organisation going to struggle with? How can you prepare for that? What opportunities are there for restructuring? You need to lead with the talent agenda but there are other things that flow out from that.” **Scott Kelly, Chief Human Resources Officer, Hitachi Data Services**

3. **Look outwards-in rather than HR-out.** HR can be uniquely placed to bring outside thinking into the organisation, or to alert the organisation to potential threats. Contact with headhunters, insights into who is trying to poach staff, information from exit interviews and so on can provide clues to possible competitor actions before they become visible in the market. In some of the organisations we interviewed, the HRD plays a key role in board education – for example, bringing in futurologists or academics to help shape the organisation’s thinking around innovation or the impact of technology on strategy. It can be useful to cultivate networks with peers from other industries to tap into new ideas. Geoff Tranfield said: “If you’re doing your job right, you talk to a lot of people, such as recruiters, candidates, and through benchmarking. You find out lots of detail and you can bring appropriate reference points into the organisation.” Scott Kelly, Chief Human Resources Officer at Hitachi Data Services, took his CEO to visit a professional service firm’s ‘CEO Lab’, to help bring to life emerging trends that might influence the company’s strategic direction. Kelly said: “I had been seeding some ideas in his mind over a period of time. This visit helped crystallise for him what’s happening externally and how the organisation needs to respond.” Kelly also brought in some executives from a private equity firm to talk to his executive team about their views of the company’s performance relative to its market. “This helped educate the executive team about what we are up against from a competitive perspective, and also to think differently about how we could better exploit our technology,” said Kelly.
4. **Get comfortable with data and financial numbers.** HR is often criticised for being ‘numbers-shy’. The reality is that numbers are the language of business, so if HR is unable to converse in that language, it will struggle to be credible. Mark Sandham said: “The evidence base for what you do in HR has to start with understanding the numbers. Numbers are the universal language of business, and if you work in HR and can’t talk about numbers, you’re going nowhere.” Hew Evans said: “In HR, we need to move from a PowerPoint to an Excel culture. If we just show up with a pretty PowerPoint chart, we won’t be taken seriously. We have to arrive equipped with the numbers and ready to delve into the detail. That means having data and processes sorted out at the back end so we can step up at the front end and participate in strategic discussions.” Professor Pat Wright has worked with several senior HR executives who have hired former CFOs to tutor them in what they need to know about finance in order to hold their own in executive team discussions.
5. **Focus on outcomes, not input or process.** HR has to be really clear about how each of the actions in the people plan will help deliver the desired business results. If the business benefit is not clear, you may need to relegate the activity to the ‘nice-to-have’ category.
6. **Be prepared to question and challenge.** HR can play a useful role as an objective challenger of received wisdom in management teams, thus helping to prevent ‘group think’. However, this requires preparation, confidence and the courage to take others on. Mark Sandham said: “You need to have the confidence to hold up the mirror and challenge the business in a thoughtful way. You need to be robust enough to take on senior people. You also need to be able to back up your argument with evidence.” Nigel Sullivan, said: “Sometimes you have to speak truth to power, especially when it comes to standing up for the customer. It can be very uncomfortable, and people might expect you to stick to your area of functional expertise. But we have collective responsibility as a management team, and even if my colleagues disagree, I have to stick my neck out if I think it’s right for the business.”

**Bringing the outside in**

HR has a key role to play in helping the organisation understand the demographic, social, political, legal and technological challenges it may face in the near and more distant future and help develop people plans to address these challenges. This role might include the following activities.

- Developing networks with external academics, consultants, headhunters and specialists in demographic, social, legal and technological change to help the organisation anticipate trends that might affect its business and workforce. These people often run free seminars, which are an ideal opportunity to keep up to date and develop your network.
- Understanding the population pyramids of the markets where the company currently operates and/or may wish to operate in the future, in order to identify trends and potential talent pinch points. Gathering and disseminating population data and trends in key current and future markets.
- Identifying key skills and talent gaps in different markets and developing plans for how to tackle impending difficulties.
- Developing profiles of the current and future workforce to identify, for example, where hard-to-train skills are likely to be lost in the medium-term through retirement.
- Thinking through the impact of new technologies such as social media, blockchain or cloud computing on HR systems, development needs and costs.

Professor Pat Wright points out that HR also has to engage with other parts of the business. “Outside-in means both bringing in trends from outside the organisation and understanding what’s going on outside the HR function.”

# 3

## A FRAMEWORK FOR HIGH IMPACT HR

### Topics covered

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### Introduction

In this chapter we consider the key elements that need to be in place for high impact HR, and set out a framework HR can use to assess its current capability and gaps.

“For us, the purpose of HR is to enable the business to deliver its commercial objectives. That doesn’t change over time, although the specifics will be determined by the needs of different markets and where we are in the business cycle.” **Mark Sandham, SVP and COO, Human Resources, Thomson Reuters**

Chapter 2 highlights the role corporate strategy plays in determining what HR should do, and how the organisation’s commercial objectives drive HR actions. This chapter looks at how HR needs to define itself as a function, and sets out the critical elements of an operating framework for high impact HR.

### 3.1

#### Defining the purpose of HR

We believe it is critical that everyone is clear about the purpose of HR within the organisation. Having a clear purpose allows the function to

- set priorities
- define objectives and plans
- educate the organisation about what to expect
- establish measures against which to assess its performance.

Fundamentally, the purpose of HR is to help the business build the capability to deliver the strategy, achieve its objectives, and create value for key stakeholders. It’s not about doing HR for its own sake. Therefore HR’s purpose should flow directly from business strategy. Alison Horner said: “The people team’s purpose is to connect to the business’s purpose and values. Tesco’s purpose is to serve shoppers a little better every day. We do this through every action of every colleague as they work on behalf of customers, so the people agenda starts there. This means everything from our Employer brand, our leadership skills, to how we hire, train and reward colleagues flows from our purpose.”

Our work has identified four key areas of HR delivery.

**Core operational services** must be delivered both effectively and efficiently. This has been HR’s traditional ‘ticket to the game’ and in many cases is delivered in an exemplary manner. HR has worked hard to bring down costs, automate and speed up processes, and is building capability in data and analytics. However, we find that the most effective HR functions do not stop here. They see their role not only to support individuals within the organisation, but also to develop the organisation overall to achieve its objectives.

**Creating a high performance work environment.** Where HR can really make a difference to business performance is in creating the context, culture and conditions for high performance. To this end, we believe HR should be tackling questions such as the following.

- What would it mean, in people and organisational terms, to be more customer focused or efficiently organised?
- Do we know the difference between individual and organisational performance improvement?
- How do we create an environment where people want to come and make a full contribution?
- How can we create high performance work systems that minimise bureaucracy, create clear accountability, remove duplication, and lead to an empowered workforce?

“The HRD needs to make the time to get involved in more strategic issues. This means not being distracted by day-to-day issues, and so requires HR to have high quality, well-run centres of expertise, led by deep experts, so the HRD can delegate effectively.” **Christopher Johnson, Senior Partner, Mercer**

**Examples of HR operating models**

**BAE Systems**

HR at BAE Systems describes its operating model – how it contributes to business success – as a pyramid with three layers.

- At the base are **Core People Processes and Risk Management**: delivering core activities such as recruitment and remuneration, ensuring they're both effective and efficient.
- The middle layer is **People, Culture, and Performance**: providing integrated solutions (such as talent development) that enhance employee, team and business performance.
- At the top of the pyramid is **Strategic Health**: developing and deploying solutions to enable sustainable long-term business performance – for example, strategic workforce planning, and shifting the organisation culture.

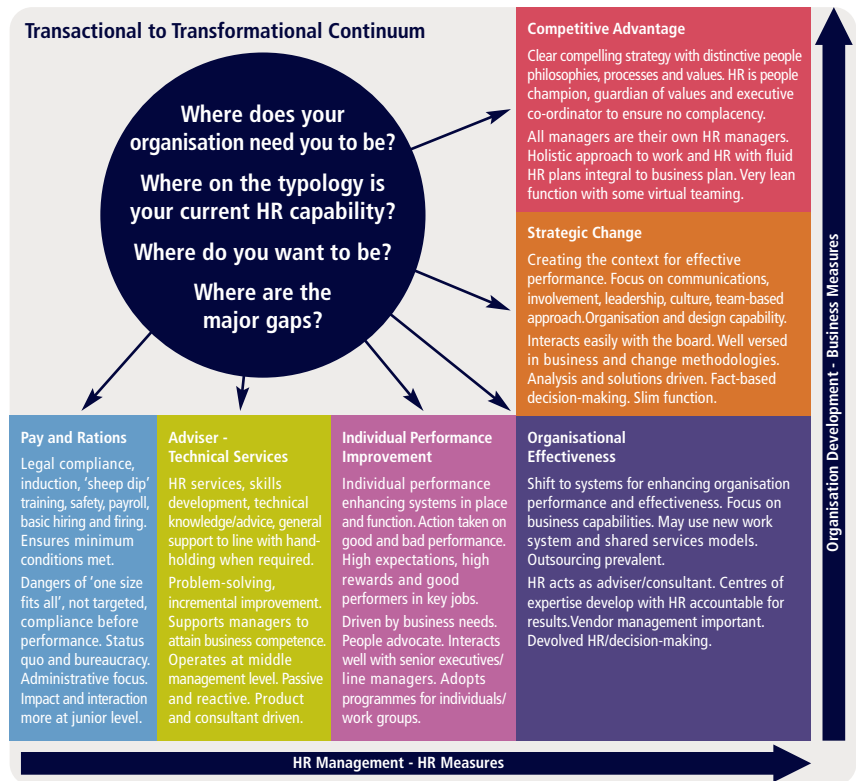
John Whelan said HR has to balance its focus across all three domains. “Although sometimes our line colleagues may not see us as making a difference to long-term strategic health, it’s important we play that role. The line can get so immersed in day-to-day activities and governance, you need to have someone in the organisation who’s looking further ahead.” HR uses the model to discuss with senior colleagues what HR is there to do. “Sometimes line colleagues get anxious about HR getting involved in more organisational and strategic issues – they think it’s their job, not ours. This helps us show our commitment to doing what’s needed to help the business succeed, and it helps us take people with us,” said Whelan.

**Managing Talent.** In addition to building the right culture, HR must get the most suitable people into critical roles. It is about finding, developing, keeping, motivating and helping them to perform. Managing talent requires a systems-driven approach which starts with business need.

**Improving performance.** HR needs to focus on improving performance at both the *individual* and *organisational* level. At an *individual* level, people need to understand clearly the organisation’s direction of travel, and be aligned and motivated to deliver against that. They need to know what is important, how they are performing, and be helped to improve their ability to contribute through coaching, training and communication. At the *organisation* level, it is important to be clear about how the organisation creates value and how that is measured.

Figure 5 shows where different HR functions tend to sit on a continuum, from providing basic transactional HR services at one end to the types of interventions that enable the organisation to build competitive advantage at the other. There may be organisations where basic ‘pay and rations’ is all that’s required, but we argue that if your organisation is looking to achieve competitive advantage in a world-class field, it needs an HR function with organisation capabilities that are commensurate with its ambitions.

**Figure 5: HR Typology**



“The transactional side of HR is 95% of what most people see every day. You have to get that right.”  
Paul Chesworth, Chief People Officer, Perform Group

### 3.2

#### Adopting a set of operating principles: how do we do things?

As noted above, it’s important that there’s a clear line of sight between what the business needs and what HR does. More than this, HR practice needs to be rooted in a robust theoretical framework. We have seen many management fads and fashions come and go over the years. It is easy to be seduced by ‘shiny new objects’, but unless these have a solid scientific foundation and are appropriate for the organisation’s particular business context, they can easily become an unnecessary distraction from the critical task of delivering value to that organisation.

We believe organisations need to address the following key elements when thinking about the operating principles that underpin HR.

- |                                 |                                     |
|---------------------------------|-------------------------------------|
| 1. Analysis before action       | 5. Delivery against a clear HR plan |
| 2. Definition of terms          | 6. Evidence                         |
| 3. A robust underpinning theory | 7. Evaluation.                      |
| 4. A sound business case        |                                     |

- 1. Analysis before action.** This means being clear about the problem that’s to be fixed. What are the causes of the issues? In what ways might the proposed course of action address those problems?
- 2. Definition of terms.** Many HR and management terms are vague. What do terms such as performance, talent, leadership, engagement etc. mean, and what organisational issues do they address? Working on issues where definitions are unclear creates confusion and makes it impossible to set objectives for improvement.
- 3. A robust underpinning theory.** HR initiatives need to be founded in the principles of social science, such as determining cause and effect, establishing validity, and designing experiments. This is just as important as conducting a situational analysis and agreeing clearly defined business objectives. See the column for some examples.
- 4. A sound business case.** The returns on HR efforts are not necessarily all financial, but it is important to give consideration to both financial and non-financial returns on HR activities. Questions to consider include:
  - Does the case stand up to challenge and scrutiny?
  - What improvements will the proposed actions deliver? Are there alternatives that can deliver similar benefits at lower costs?
  - What are the costs (both financial and in time spent) and what outcomes do we expect as a result? Are the benefits worth the investment?
  - What will we stop doing to free up time to do this?
  - Who should approve the business case?
- 5. Delivery against a clear HR plan.** HR needs to have a written-down people plan that describes what it is committed to doing, how that connects to overall business objectives, and how its performance will be evaluated. Given the pressure on HR resources, the function needs to prioritise important tasks above urgent or fashionable ones. Critically

#### Examples of HR operating models (continued)

##### Perform Group

Paul Chesworth described the six-factor model that underpins everything HR does and drives the people plan. “When I joined Perform Group, one of the first things I did was to talk to as many stakeholders as I could about their expectations, so I could understand what they expected and build trust. It was important to find a language to describe HR’s purpose that would resonate with the culture of the business.” At Vodafone, where Chesworth worked previously, this meant linking people and customer strategy. At Perform Group, the hook that worked was to draw a parallel between people and football management. Based on his stakeholder discussions as well as external evidence and experience from other organisations, Chesworth developed a six-factor model – the ‘6 Areas of Attack’. Each element has associated football iconography. Chesworth uses the model to communicate the purpose and goals of HR within the business, set the people plan every year, establish objectives for the function, and evaluate HR’s performance. Specific areas of focus will change from year to year, but the underlying framework remains the same.

- 1. Organisation and culture.** Getting the organisation set-up right, with the right structure and culture to deliver what the business needs. The icon is the team formation that a football manager would use for a dressing room team talk.
- 2. Talent and resourcing.** Having the right people in roles to deliver what the business needs. The icon is three football shirts – Messi, Ronaldo and Bale.

“HR needs to be operating at a systemic level, identifying and fulfilling future organisational needs driven by the strategy. We need to work on developing the organisation rather than just focusing on individuals.” **John Whelan, UK HR Director, BAE Systems**

Examples of HR operating models (continued)

3. **Communications and involvement.**

Making sure people are clear about what they are expected to do, with ongoing dialogue between team and manager. The associated icon of the football manager communicating with players from the touchline reinforces the concept of constant engagement between manager and team about performance.

4. **Learning.** Success is not just about having the best organisation and players, but also about developing the skills needed to succeed in your role. The icon is a training bib.

5. **Workplace.** Providing a working environment that stimulates performance and promotes wellbeing. The icon is an outline of Wembley stadium.

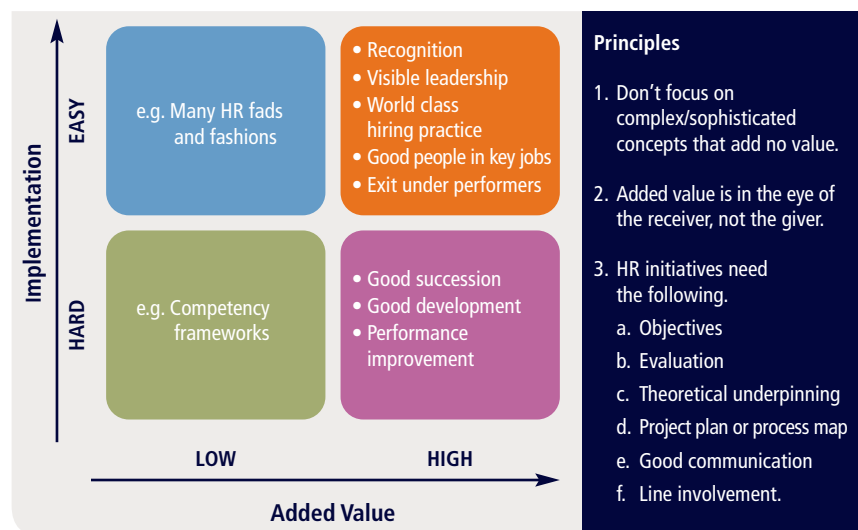
6. **Reward and recognition.** This encompasses financial and non-financial rewards. The icon is the FIFA World Cup.

Chesworth said: “You need a framework to communicate people strategy. It helps to unite people around a common agenda, and to measure results. It needs to be adapted to the context of the business you’re in and what will fly. You need to use concepts and language that resonate with your people and the organisation culture.”

Evaluating all HR activities using the matrix below can help you determine priorities. Focus on activities that sit on the right hand side of the chart, and stop activities that are interesting but may not make a difference to the business. Further consideration should be given to how this is communicated throughout the organisation and who gets a copy. Is it the executive committee, the senior management team, or even in some cases, all employees? Effective people strategies have the following features.

- They start by understanding the business needs before deciding what to do.
- HR understands how the organisation’s people and capabilities enable success, and how those capabilities need to be developed to execute future strategies.
- Clear linkages between HR actions and business outcomes.
- Involvement, socialisation and buy-in of the business to HR’s agenda and action plan.
- Clarity around the respective roles of HR and line managers in delivering the people plan.
- Close alignment of expert and generalist HR activities focusing on a common purpose.
- Tracking and communicating performance against metrics.
- Good change management capability and the ability to manage complex projects and deliver results.
- A feedback loop for evaluating the effectiveness of strategy and plans.

Figure 6: HR’s Priorities - How do we focus on the important?



6. Evidence

We believe that, as far as possible, decisions about HR actions and priorities should be based on evidence. But what do we mean by ‘evidence’? It is essentially an approach to decision-making that involves applying logic, searching systematically for the best available evidence (both inside and outside the organisation), appraising it critically and acting on it. Understanding the organisation context and the needs of stakeholders is an element of an evidence-based approach. According to Pfeffer and Sutton, evidence-based management requires three behaviours.

“The notion seems to be that since business will never be understood with the precision of the natural sciences, it’s best understood as a sort of humanity, a realm where the logic of scientific enquiry doesn’t apply. ... It may be true that business cannot be studied with the rigour of chemistry or geology, but that doesn’t mean that all we have is intuition and gut feel.” **Phil Rosenzweig, Professor of Strategy and International Business, IMD**

- Making decisions based on the facts and what we know to be true.
- A commitment to hearing the truth, obtaining the data and acting on it.
- Treating the organisation as an unfinished prototype – running experiments and constantly learning.

Phil Rosenzweig, Professor of Strategy and International Business at IMD, cautions in particular against making decisions based on studies purporting to show that certain management practices lead to higher performance. The results of such studies tend to be influenced by the ‘halo effect’. “We need to be clear about the difference between causation and correlation. There may be correlation in some organisations between good people practices and better performance, but we don’t know which way that runs. Do better people practices lead to higher performance, or is it that better performing organisations can afford to invest in better management practices? We simply don’t know.” Rosenzweig suggests we need to work out how to measure impact in ways that are not prone to bias. “This means looking for specific outcomes or behaviours that are not shaped by perceptions of performance,” he said. These might include

- for anything you are looking to measure, being clear about what you are trying to achieve by asking a particular question
- focusing on trends over time or comparing patterns across different parts of the organisation, rather than trying to correlate different sets of data that may not actually be connected to each other, such as employee engagement and organisational performance
- carefully framing the hypotheses to be tested
- triangulating different data sources to establish whether there is a consistent pattern.

Organisations are increasingly data-driven, which raises expectations about the HR function's ability to gather, analyse and interpret data. Expertise in data and evidence is an increasingly important skill for HR.

## 7. Evaluation

An effective HR operating model needs a feedback loop to identify what has and hasn't worked and why, and to work out what needs to be improved. Advances in HR systems and analytics capabilities mean that in many cases HR now has better tools to make data-driven decisions and to measure the effectiveness of the function. However, evaluation remains a difficult issue for HR. Data are often poor quality, and the function is criticised for being ‘numbers shy’. There are many measures that HR could deploy, but these are often measures of activity or input rather than anything that provides a meaningful assessment of HR's contribution to business outcomes.

We think it’s important to distinguish between evaluation and measurement. Not everything can be measured, and not all measures are meaningful, but most things can be evaluated. For example, how would you measure Van Gogh’s Sunflowers? You could measure the canvas or the amount of paint used, but neither measurement conveys any sense of the painting’s beauty, value or artistic merit: these are subjectively ‘evaluated’ by the people who view the painting, not the artist who created it. In the same way, no organisation can meaningfully evaluate HR’s contribution without input from the customers and stakeholders who HR serves.

“[HR] performance should be measured by outputs that are more closely linked to revenue, profit margin, brand recognition, or market share.” Charan et al, 2015

**HR analytics**

We are experiencing the emergence of predictive analytics: predicting future outcomes based on analysis of past data and trends. For example, Scott Kelly’s team at Hitachi Data Services analysed sales commission data to determine not only who was selling what to whom, but also who was selling the highest margin products in the product portfolio. This allowed the company to tailor commission structures so sales of higher margin products led to higher commission. The company also flagged up that recently hired sales staff had higher rates of employee turnover than longer serving sales staff. By analysing the customers new hires were assigned to and the quotas they were set, and overlaying this with employee engagement data, exit interviews and information from external sources such as Glassdoor, meant the company could discover what was driving higher turnover. “We are now able to put together hypotheses which we can test to determine what works, where and why,” said Kelly. Concrete examples of business outcomes being influenced by HR decisions taken as a result of such predictions are currently few and far between. Nevertheless, we are intrigued by the possibilities afforded by analytics tools and techniques.

While we are beginning to see HR functions develop their own capabilities in data science, we think it’s also important for HR to get close to internal business analytics functions, to find out how HR data can be correlated with business data to discern trends. Louise Smalley, Group HR Director at Whitbread, said: “We’ve been able to piggyback on the expertise of business analysts in the Finance team, who’ve helped us build and execute models to analyse people data. So we don’t have to rely on building the capacity within HR.”

In thinking about how to evaluate the HR function, we suggest HR professionals consider the following points.

- Effective evaluation is about more than simply defining HR measures. It begins with being clear about what HR is there to deliver and why that’s important for the business.
- The starting point, therefore, is the organisation’s strategic priorities. What does HR need to deliver to support execution of the business strategy? How can you measure HR’s contribution against these priorities? How can you connect HR measures to revenue and profit?
- It’s also important to understand who HR’s key stakeholders are, what they want, and how satisfied they are. Involve stakeholders in developing and socialising the people plan, and in deciding how to evaluate performance against the plan and the results. Andy Newall said: “We put together our people manifesto with broad representation from key markets, internal customers such as manufacturing, the board and so on. We ask whether what we are proposing to do meets their needs. It helps to get buy-in from our internal customers as to what our priorities and focus should be.” Hew Evans at Sony Europe asks 40 key stakeholders to rate HR’s performance twice annually. “I follow up where scores are low, and ask people what it will take to get a higher rating. I meet all key customers regularly face to face to understand what they need, and this has helped me rethink how HR is structured to deliver what the business needs. For example, feedback showed that our quality of hires was good, but time to hire could improve, so we worked on improving that.”
- Decide how you will evaluate performance against the plan while you are putting it together, not as an afterthought. Focus on outcomes, not activity or inputs. Measuring HR for its own sake is meaningless. Alison Horner said: “At Tesco we’ve changed our main people measures to be how colleagues feel about shopping and working here. This is one of our Big Six turnaround KPIs alongside financial, customer and supplier measures. Meeting HR-specific input targets may be a good thing to do, but only if directly linked to value creation.” The introduction of HR systems such as Workday means the quality of data available to HR is improving. However, in practice some things are extremely hard to measure effectively – ROI on training programmes, for example.
- Set a performance baseline against which to measure progress.
- Work out what data you need and what you have, both in terms of data quantity and quality, and how to address any gaps.
- Triangulate as many data points as possible, both business and HR measures.
- Communicate results both formally and informally to the business.
- Build in feedback loops to identify opportunities for continuous improvement.

Professor Pat Wright identifies the difficulty HR has to overcome in developing meaningful measures. “In theory, it’s right to evaluate HR based on business outcomes: if the company fails, HR has failed, and it makes sense to hold HR accountable. At the same time, that can be too distilled a metric – the company could be doing well in spite of poor HR thanks to good products or a good business model. Because HR actions are largely executed by line managers, the outcomes are not necessarily under HR’s control.”



“For me, the link between HR activity and business outcomes is not always clear. The measures HR tracks and business measures aren’t always as well connected as they could be. The things HR measures need to relate directly to the key strategic priorities we have identified as a business.”  
**Nicolai Moresco, Executive Director, EMEA Partner Strategy, Dell**

### Case Notes

Our interviews with HRDs revealed the following themes around how they evaluate the performance of HR.

- **Some HRDs are held accountable for specific core business metrics, even though they may not have direct control over all the variables.** For example, Alison Horner at Tesco was accountable for keeping the company’s staff costs within target, even though the vast majority of the headcount sat within the businesses. Horner also had joint accountability with the head of Finance for closing the pension scheme in 2015, and is jointly accountable with the head of Property for moving the company’s head office. Similarly, Geoff Tranfield at IMI is the designated lead on several of the 20 key business measures the management team is measured on. Paul Chesworth at Perform Group has a personal target for organisation effectiveness, and he is measured on staff cost as a percentage of revenue. “If staff costs are higher than plan, it’s me who the CEO looks to,” he said.
- **The metrics against which HR is assessed depend on the business strategy.** For example, Whitbread’s growth strategy means measures such as time to hire, performance rates of new hires, the bench strength of talent coming through the organisation, and capability building in new markets, are important measures. This is in addition to core measures such as retention, turnover and employee engagement, which Smalley describes as the “ticket to the game” for HR.
- **Basic measures are important but need to be tailored to the needs of the business.** For example, a dotcom client of Christopher Johnson at Mercer has average staff tenure of 12-14 months. Instead of seeing this as a problem, the company has accepted it can do little to change it, and focuses instead on ensuring employees are good brand representatives while they are with the organisation. Metrics such as Net Promoter Score, which is measured through the staff survey, are more meaningful than staff turnover.
- **It’s often a combination of quantitative and qualitative measures.** For example, Whitbread runs a biennial customer assessment, which it supplements with a deep-dive qualitative survey that asks stakeholders for their views on HR’s contribution and what it needs to work on over a five-year planning cycle. Martha Desmond has introduced a Net Promoter Score for HR at Apollo Tyres as a way of soliciting feedback from the business on HR’s service quality, brand and reputation. Employees are asked whether they would recommend the products and services they get from HR to a colleague. “The first time, it set the baseline. Now, we are revisiting on a quarterly basis to test the impact of transformation within HR,” said Desmond. Christopher Johnson said: “This is the killer question for me: can the CEO or executive team say that, if they are discussing important business issues, it would be inconceivable to have that discussion without involving HR?”
- Where HR is involved in change programmes such as investment in new IT systems, **key measures include tracking performance against an agreed business case**, including quality measures and projected cost savings.
- **Use of benchmarking.** For example, Whitbread works with Mercer to benchmark its performance against other organisations.
- **Subjecting HR to the same rigours as other parts of the business.** John Whelan at BAE Systems, said: “We now deliberately subject ourselves to regular interrogation by the business. We set out our HR plans in response to the business planning process each year and review these individually with each of the senior Managing Directors. We then review progress and outcomes on a quarterly basis in rhythm with the drum beat of the business’s quarterly review cycle. Larger HR projects are also managed using the Company’s project review framework, focussing on issues such as risk and opportunity management and demonstrating that the planned financial benefits are being delivered. The discipline of going through this analysis helps us think harder about coming up with creative solutions that meet the business needs in a more cost-effective way.”
- **The quality of HR can also be evaluated by the meetings it is invited to attend**, and the degree of respect and influence it commands in business-related discussions. Geoff Tranfield said: “When I sit in on divisional business review sessions, it’s clear to me how wired-in HR is to each business unit by the degree to which people-related issues are prominent in the information that’s presented. Clearly, the focus of these presentations is financial and market information, but if there is not also information about people priorities for the upcoming period, etc., it suggests to me that HR doesn’t have enough influence in that business.” When Randy McDonald, formerly Chief Human Resources Officer at IBM, made site visits, he would ask line leaders: “When was the last time your HR person really challenged your thinking?” It was his way of checking his HR people were being proactive and business-focused.

“HR leaders need to have curiosity. It enables you to go and broaden your horizons, and it adds value strategically.” **Louise Smalley, Group HR Director, Whitbread**

**Areas where HR needs to build functional mastery**

If HR professionals wish to make a wider commercial contribution, they need expertise and credibility in their own field in order to apply that knowledge to the commercial challenges of the business. As a minimum, we would highlight the following.

- Organisation design and development, including supporting strategic change – 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.
- Consulting and diagnostic skills – a toolkit to assist the HR professional in diagnosing organisational problems and designing solutions.
- Employment legislation – key rules and regulations and emerging trends.

Specific business strategies – for example, entry into a new country – may require HR professionals to develop or acquire more specific expertise.

**3.3**

**Developing our people appropriately**

What are the characteristics of business-focused HR people? And how can we help HR people build their business skills? We find there are two issues at play here.

- We need to attract people into the HR function who have the right characteristics, capabilities and motivation.
- We need to offer our HR people opportunities to develop and practise the skills they need to diagnose business needs effectively, and design and implement business-relevant solutions.

The following characteristics of business-focused HR people came up repeatedly in our interviews.

- **Deep functional mastery** - it is critical that HR leaders have deep expertise in the tools and techniques of HR, and understand how to apply them correctly to business challenges. We are sometimes concerned to see senior executives being brought in from other functions, who lack sufficient grounding in the practice of HR. The function can suffer from a perception that much of what it does is ‘common sense’ or that anyone can easily understand how to develop human capital – a perception that devalues HR’s contribution. But some HR professionals do themselves no favours: they can display a surprising lack of knowledge of and expertise in key aspects of their role. There are areas where HR can apply technical expertise in a commercial way to improve business outcomes. But to do this, they need full mastery of their own area. In the column we set out the key areas where HR needs to build expertise.
- **Analytical and thinking capability** - systems thinking capability to spot emerging patterns and links in data.
- **Intellectual curiosity** - about the business world in general, what’s going on in the organisation, and developments and emerging ideas in the wider world that may affect the organisation, such as geopolitical developments or the future of work. Geoff Tranfield said: “Curiosity helps you build the insight to respond appropriately to situations outside your comfort zone. For example, I’ve pushed myself to learn in depth about sales and marketing, as it’s really important in my business context.”
- **Confidence** - to express your opinion in meetings involving people from outside the HR function, to push for what you think is right, and to be ready to back up your position with facts and evidence. “We need to get more confident as a function in our ability to make a business contribution. You don’t generally see Finance having the same hang-ups about the role they play in the business. They just get on with it,” said Tranfield.
- **Consulting skills** – the ability to diagnose situations, ask good questions, contract effectively, and manage projects.
- **Political nous** – much of HR’s contribution can take place outside formal meetings, so expertise in stakeholder management, ability to read the political situation within the organisation, and being comfortable working with politics to achieve the right ends, are important skills. Professor Pat Wright said: “Sometimes HR’s influence really comes into its own outside formal ExCo meetings, through one-on-one conversations with the CEO or members of the senior team. It can be subtle, getting people to think differently about things.”
- **Focused on delivery, learning and continuous improvement** – strong execution orientation, prepared to push themselves to get things done, and see things through. Not just settling for ‘good enough’.

“When I recruit HR people, I always ask people to tell me about the business they work in. The answer gives me a really good view of the commercial orientation of that person. Unless they can tell me about the performance criteria of their business, they’re not the right person for me.” **Paul Chesworth, Chief People Officer, Perform Group**

We would caution against being tempted to think that the solution to building more business-relevant HR is to parachute successful line executives into senior HR roles. Time and time again we have seen this end in failure. HR is nuanced and specialist work requiring deep functional expertise. Some concepts may appear to be intuitively correct or have high ‘face validity’, but can go wrong if incorrectly applied. Our experience suggests it is preferable to invest in helping effective HR people develop stronger commercial skills.

There are many ways to build commercial experience without taking on a line role.

- Being put in charge of critical business or change projects.
- Getting close to customers – accompanying sales people on calls, spending time with front-line employees, riding with delivery drivers, etc.
- Taking on business responsibilities in addition to the HR functional role. For example, Sandy Begbie at Standard Life is responsible for the company’s business in China as well as having overall responsibility for HR.

The HR function needs to invest in developing its own talent in the same way that it supports the business in identifying and developing talent more generally. This means knowing what talent exists in HR, providing relevant training and development opportunities to build business skills, and ensuring HR professionals are able to develop commercial experience on-the-job.

**Developing business-focused HR people**

We think there are two essential elements to developing business-oriented HR people: investing in education and giving people opportunities to develop commercial experience. You need to plan for both.

Sadly, HR often suffers from the ‘cobbler’s children’ syndrome when it comes to investment in formal development. Mercer’s 2016 Global Talent Trends Study found that only 13% of the organisations it surveyed had a systematic curriculum in place to develop HR professionals. Our interviewees also expressed frustration at the quality of HR education available outside the organisation. Christopher Johnson said: “There’s not much development available to help deep subject matter experts build the strategic, business and political skills needed to broaden into a C-suite role. Also, the prevalence of HR degrees is not necessarily equipping people with key skills that are hard to develop, such as an ability to analyse situations, communication, influencing and interpersonal skills.” Ram Charan suggests all new recruits into HR should go through rigorous training in business analysis, and we would add that this should be regularly refreshed throughout an HR professional’s career.

HR professionals also need to build commercial experience over the course of their career. Our interviewees differed as to whether it is necessary for HR leaders to have gained experience in a line role outside of the function, but this can be an advantage. Christopher Johnson said: “The HRDs I encounter who have had recent business or P&L responsibility tend to have deeper insight and empathy with what the C-suite is trying to do from a strategic and commercial perspective.” Research by Professor Pat Wright at the Center for Executive Succession found that 60% of CHROs had worked outside HR, most frequently in operations or manufacturing. However, experience outside the function is not seen as essential. “You can learn the business skills you need inside the function, provided you have the right mindset and motivation,” said Wright.

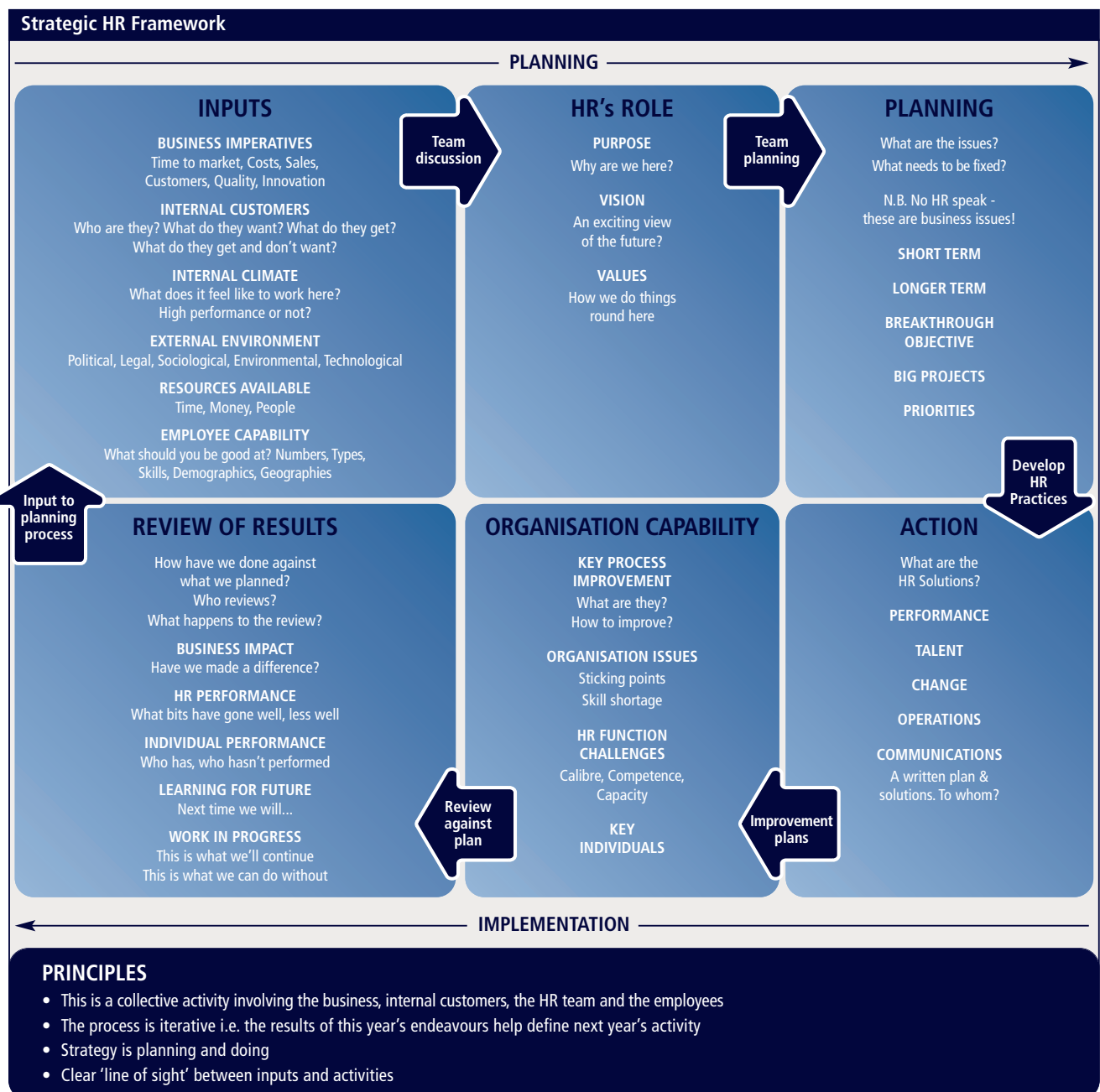
“In HR we’re facing a perfect storm. At the administrative end, enabling technology such as artificial intelligence and outsourcing is leading to a much lower requirement for staff. At the top end, there’s huge demand for business-focused HR people who can help their businesses develop a coherent view of the future and build organisational and people capability to respond rapidly to market opportunities. In this environment, there are fewer jobs available and those that do exist are only open to the very best people.”

**Scott Kelly, Chief Human Resources Officer, Hitachi Data Services**

### 3.4

#### Bringing it all together: A strategic HR framework

CRF’s strategic HR framework provides a model for taking the principles that underpin business-relevant HR discussed throughout this report and translating them into a systematic process for thinking about how to plan, implement and review HR’s activities.



# 4

## CONCLUSIONS AND ACTION POINTS

### Topics covered

**4.1** Conclusions

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**4.2** Key action points

39

### Introduction

This chapter summarises the key conclusions of this report and sets out some actions for building a business-relevant HR function.

“The core purpose of HR is to impact the business. I think that’s becoming increasingly true, but it’s not yet universal. HR functions shouldn’t just exist to do HR work. They need to focus on activities that drive the business forward.” **Professor Pat Wright, Director, Center for Executive Succession, Darla Moore School of Business, University of South Carolina**

## 4.1

### Conclusions

Some commentators suggest that the changing nature of organisations and of work means we will soon see the end of HR as a core business function. Our research suggests this is fundamentally wrong. For most organisations, the enduring business imperative to be competitive in a global marketplace means the quality of human resources will remain a key element of competitive advantage. The intellectual input and emotional intelligence of HR people will be required to help others find meaning in work and bring energy, imagination and commitment to it. There are significant opportunities for strategic and commercially-oriented HR. However, HR can sometimes forget that it doesn’t exist to serve HR – it is only relevant to the extent it meets the strategic needs of the business.

- Being business-relevant has to begin with aligning HR’s actions to the corporate strategy. In some organisations, HR has significant influence on defining strategic direction, but that is not true of all. In most organisations, HR could do more to identify how it can add value to strategy development and execution.
- HR needs to develop a more commercial mindset. This means building a deep understanding of business in general, and the strategy, commercial dynamics and business challenges of their organisation. HR people need to think of themselves as business people first and HR people second. If it is to have broader strategic influence, HR also needs to get comfortable with numbers and the language of finance.
- It is important to be clear about the purpose of HR within the organisation. For us, that means building the business’s capability to deliver its strategy, achieve its objectives, and create value for key stakeholders. HR should view its role not just as supporting individuals who work for the organisation, but also about building an organisation capable of delivering sustained high performance, and creating the culture and conditions for good people to flourish.
- At the most basic level, HR cannot expect to gain a ‘seat at the table’ if it is not delivering the core services the business needs – such as recruitment, payroll and training – to a high quality standard.
- It is important to remember that ‘best practice’ does not exist, merely good practices applied within the specific context of an individual organisation. The focus should be on activities that add value to the organisation. Decisions about what actions to take should be backed up by evidence and underpinned by a strong understanding of the theory and practice of people management. There should be clear processes in place for evaluating outcomes and getting stakeholder feedback.
- In many cases, developing a high impact HR function will required investment in the people who work in HR and the systems that support the function. Organisations are demanding more data-driven decision-making, and HR has to respond by improving the quality of its data and building analytical skills. HR should be populated by confident business leaders who understand their organisation and have deep grounding in the principles that underpin HR work.

For HR functions that fully embrace the business agenda and maintain focus on pursuing business critical objectives, the issue of having a ‘seat at the table’ is likely to disappear. Our vision is that the relevance and influence shown by the best HR leaders becomes the norm across all organisations.

“If the business doesn’t have high expectations of what HR can deliver, you need to create an appetite for good, business-focused HR. This takes continuous communication, to help people understand what’s possible, and consistent delivery of quality services to build credibility.”

**Martha Desmond, Chief Human Resources Officer, Apollo Tyres**

## 4.2

### Key action points

1. **Understanding your business.** How well do you understand your business, your customers and their needs and why they choose to do business with you? Are you clear about how your company makes money and where its competitive advantage lies? Can you articulate the business strategy and identify how it is different to your competitors? Who are your competitors, both today and potential future disruptors? Which other key stakeholders have significant influence on how your business operates? What are your key business metrics and how does HR impact them?
2. **Bringing the outside in.** How do you keep up-to-date with developments in your industry sector, political, economic, technological and demographic trends? What societal changes may have an impact on your organisation and the workforce and how are you preparing for these? Can HR play a greater role in educating the senior management team about these issues or helping them create space to think about their potential impact, rather than just focusing on current operations?
3. **HR’s purpose.** How clear is the purpose of HR within your organisation? Is it well understood, both within the HR function and across the business? Are you clear about how HR contributes to execution of the business strategy? If you look at how HR spends its time, is the balance right between developing and supporting individuals and developing the organisation to create a high performance work environment? Do you need to focus more on the latter?
4. **The HR plan.** Do you have a written HR plan? Is it tailored to the strategy of your organisation? If you removed the logo, would it be clear that it was written for your business, or could it apply to any organisation? Who are the key stakeholders for the HR plan? Are/should they be involved in putting it together? How do you communicate the content of the plan to key stakeholders? How and to whom do you communicate results achieved against the plan?
5. **HR’s operating model.** Is your HR plan based on clear operating principles? Do your plans begin with analysis to understand the situation, needs, and possible solutions, before you go into delivery mode? Are you clear about what key terms such as ‘performance’, ‘leadership development’ and ‘talent management’ mean within the context of your organisation? Are the actions you take within HR based on sound principles of social science, and supported by a business case? What role does evidence play in helping you decide what to do? Do you have a clear process for evaluating the performance of the HR function, its processes and programmes?
6. **HR’s priorities and performance.** If you were to appraise the performance of your HR function critically, where would you score well and where do you need to improve? Given the business strategy and priorities, are HR’s key actions aligned to those, or are you focusing on things that may appear to be sophisticated but do not add value to key business objectives? Is time, effort and cost focused on the highest priority activities? Are there activities you should reduce or stop as they are not adding sufficient value to the business? How do you know if the business is getting what it wants/needs from HR?
7. **HR’s commercial acumen.** How commercial is your HR team? What investments do you need to make in improving your own business skills and those of your team? What sources of high quality HR and business skills development do you have? How effective are you at planning and managing projects or building a business case?
8. **HR’s functional mastery.** Is the HR team fit for purpose? How do you know? How deep is the technical expertise of your HR function in each of the following areas: organisation design and development, talent, reward, performance management, development, and employee relations? Given that talent management is the principal area where CEOs expect a strategic contribution from HR, how effective are your talent identification and development processes? See CRF’s research report *Rethinking Talent Management*, for practical advice on how to build talent management processes that are more closely connected to business priorities.

# 5

## APPENDIX

### References and Reading List

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