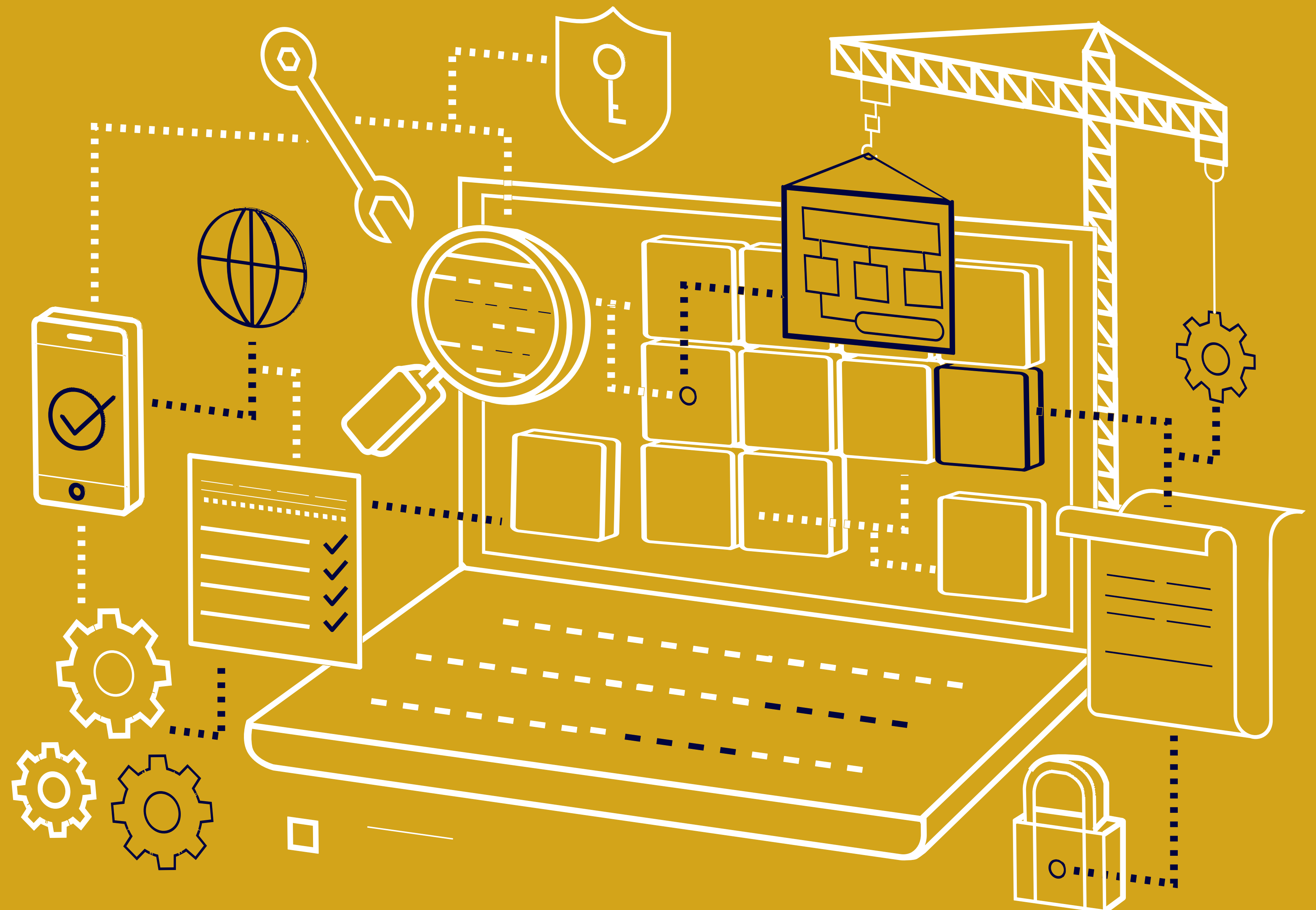


HR'S AGENDA IN THE ORGANISATION OF THE FUTURE

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Gillian Pillans

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[Natalie Jacquemin](#) and [Armin von Rohrscheidt](#), Mercer's Workforce and HR Transformation Practice Leaders

COMMENTARY

Although we were excited about this research from its conception, we could not have predicted how the events of 2020 would further increase its relevance. The HR function has done a phenomenal job at buffering the impact of the health and economic crises that continue to affect the global workforce. The pandemic served as an accelerator, forcing a digitalisation of the employee experience overnight – and HR has risen to the challenge.

The HR function now has an unprecedented opportunity to drive [sustainable workforce transformation](#) with the full weight of the business behind it, as the people agenda becomes one of the highest priorities for executive teams across industries.

However, as 2020 draws to a close, you are likely wondering how you can sustain new pandemic-era processes. According to Mercer's latest [Global Talent Trends](#) data, the biggest challenges HR foresees in driving transformation in the year ahead are "too many distracting priorities" and "employee exhaustion". Employees are burnt out and less motivated, executives are worried about the divergence between those who continue to work from home and others already getting back into action, while HR frets that newly installed processes are working "ok" but won't survive the next couple of years. Overworked HR is tired of new urgent curveballs, and worrying about the long-term implications of virtual and hybrid working on productivity, sustainability and mental health. We wish we had more time to redesign for resilience and [capture the opportunity of the moment](#).

Yet while many of us are exhausted, we remain excited about the [opportunity for long-term change](#). These conflicting feelings stem from a convergence of three huge challenges. We must *stabilise* the organisation by determining how we're getting out of the crisis, identifying which pandemic-driven operations are here to stay, and settling talent back to BAU. We must act with *speed* to navigate the business through a recession while also protecting key talent from burnout. Finally, we must *steer* towards our end state and identify what must change to get there.

As we prepare for the year ahead, the HR function has to make smart choices about the trade-offs required in a tough economy, and bring a new perspective on [how the function can set itself up for success](#). [Accelerating HR transformation](#) through digitalisation is needed, but so are businesses' cost containment measures. Which investments in HR transformation are priorities, and which HR efforts can be paused without detriment to the business' ability to rebound and [reinvent](#)? A peek into Mercer's *2021 Global Talent Trends Study* reveals where HR is planning to focus: accelerating programmes and policies that enable employees to adapt to new ways of working, transforming the HR operating model to be more agile, and speeding up HR's digital transformation top 2021 priority lists.

We are grateful to CRF for providing this excellent report and platform to enable learning from those companies that have already made progress. What we see leaves us in no doubt that HR will be the corporate hero of this crisis – but you must be bold.



Rupert Morrison,
CEO, orgvue

COMMENTARY

2020 has seen business transformation and organisational agility rise to the very top of the executive agenda. As such this report is perfectly timed with the renewed energy for HR transformation. The global pandemic has been a catalyst for extraordinary change and HR has been at the forefront of the organisation's response. But, as this report explores, current HR operating models are not entirely fit for purpose.

Out of the constant disruption comes the need to continuously adjust work, the workplace and the workforce. Meaning, in addition to focussing on people challenges through a crisis, HR has been pushed to redesign the organisational eco-system within which people operate to better serve the market as it shifts. Whether that's designing the hybrid workplace, moving to a digital operating model, planning the blended workforce or improving team productivity and performance, all while keeping an eye on future skills gaps and talent risks. There's plenty that HR needs to get its arms around in service of the business as CEOs expect.

What hasn't changed, despite the chaos and uncertainty, is HR's core mandate: getting the right people, with the right skills, in the right place, doing purposeful work that's aligned to the goals of the business. Businesses succeed because their people do, and never has there been a greater need for HR to be the champions of the organisation, ensuring it can flex and adapt as the business demands. This will require direction and confidence and that in large part comes from having the right information available, being flexible and acting fast as the world around us changes.



Cathy Geerts,

Chief Human
Resources Officer,
SD Worx

COMMENTARY

2020 saw a world that has been spinning at full tilt for years, come to a sudden standstill. Organisations were required to make a series of far-reaching decisions in Spring, while uncertainty and disbelief continued to spread. With alarm bells set to keep ringing beyond Christmas, enter the never normal.

Amid this period of disruption, HR was undeniably upgraded, given that it deals with a company's most important resource: its people. Indeed, changes in the workplace due to Covid-19 have been so drastic and sudden that they have placed HR at centre stage – right where it should be. The change agent potential of HR has been underestimated for long enough.

Shift to more strategic role

Right from the outset of the global pandemic, HR showed its value. Initially, this was by getting the basics right, with flawless payroll calculation and payment the number one priority. HR then had to deal with the new day-to-day reality, from widespread teleworking to strict sanitary guidelines. However, ultimately – and most noteworthy – HR started playing a more central role in business decision making.

Organisations asked their HR departments to provide them with insights to make strategic decisions. Why? Many of the key issues regarding business continuity involve the workforce: employee well-being, sustained engagement, remote working policies and upskilling, to name just a few. HR has the necessary employee intel to promote itself as a trustworthy business partner in redefining the workplace. Not every organisation was aware of this, but now that it's been exposed, there's no way back.

It's all about the data

HR's revitalised role as a business partner can help organisations to thrive beyond the crisis. After all, the key to success will be to turn ad hoc measures, such as remote working, workforce flexibility and more use of technology, into sustainable, value-adding solutions. Moreover, this CRF report shows that business leaders increasingly expect HR to boost the employee experience, obtain employee buy-in for transformation, organise meaningful work and facilitate sustainable leadership.

Succeeding in this complex mission implies that companies possess the necessary data for every component of the employee lifecycle. For example, not only basic payroll-related data, but also data concerning productivity and performance. If possible, this data-gathering should be highly automated, enabling your HR personnel to focus on the bigger picture. The goal: using people analytics to make futureproof, evidence-based business decisions.

AUTHOR



Gillian Pillans has worked as a senior HR practitioner and OD specialist. Prior to her HR career, she was a management consultant and is also a qualified solicitor. As Research Director, Gillian has written various CRF reports on subjects including HR strategy, organisation design and development, leadership development, talent management, coaching and diversity.

ACKNOWLEDGEMENTS

The author would like to thank all the research participants, who generously gave their time and shared their insights.

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ABOUT CRF

Founded in 1994, Corporate Research Forum (CRF) is a membership organisation whose purpose is to increase the effectiveness of the HR function, in order to drive sustained organisational performance, through developing the capability of HR professionals. Through more than twenty years of research and the expertise of our team, we have developed a deep understanding of the ways HR can contribute to business outcomes, what works, what doesn't, and in what circumstances. With a network of over 200 leading organisations, we continue to grow as the respected focal point and knowledge source for improving corporate and individual performance.

We support our members in enhancing their personal capabilities and building organisational effectiveness, guiding them through topics relevant to success, identifying actionable insights and practical recommendations, and facilitating networking opportunities. Our work helps organisations and the HR function make sense of the environment in which they operate, and develop capacity to deal with continuous uncertainty.

We explore topics through an evidence-based lens, highlighting practices that enable the function to deliver business value, and sometimes critiquing existing practices. Our approach is rooted in the principle that adults learn best through action, experimentation, discussion, reflection and interaction with others.

For more details on how your organisation can benefit from CRF membership please contact Richard Hargreaves, Commercial Director, on +44 (0) 20 3457 2640 or at richard@crforum.co.uk. Alternatively, please visit our website at www.crforum.co.uk.

EXECUTIVE SUMMARY KEY TAKEAWAYS

The business context for organisations today is ever more challenging, characterised by disruption on an unprecedented scale, fast-paced technology-driven change and social, political and demographic upheaval. It is in this context that we investigate how HR can define its future agenda, purpose and focus.

The Covid-19 pandemic has accelerated changes we were already experiencing, forcing organisations to rethink their strategies, reconfigure their operations and change working practices at speed. It has allowed HR to play a central role in shaping the response and demonstrate its essential contribution to business success.



2 The core purpose of HR – to support the business in building the people and organisation capability to deliver its strategy and create sustainable value for its stakeholders – remains constant.

However, HR's agenda needs to reflect the business and wider social and political environment. Significant factors include increased competition, the impact of massive technological change, demographic shifts, the drive to sustainability and the changing role of the organisation in society, all of which present opportunities and risks for HR.



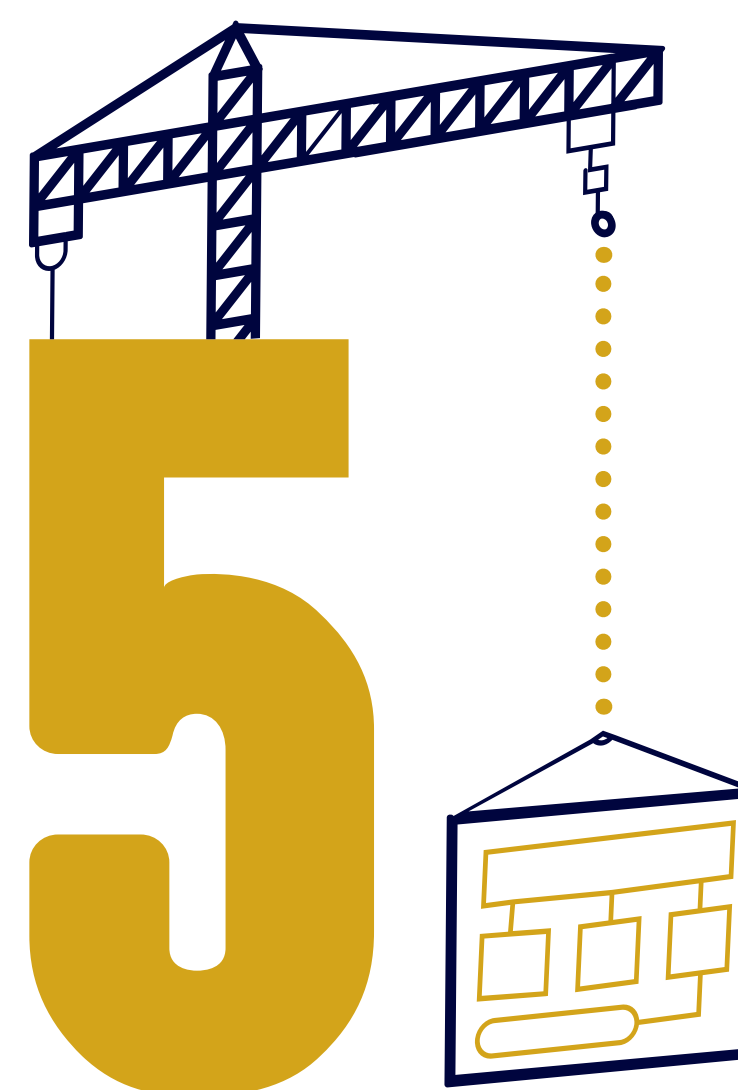
CEOs expect HR leaders to act first and foremost as business leaders. They should play a critical role in preparing the organisation for business transformation and developing leadership capability, focus on organisational effectiveness, productivity and performance, and develop capabilities to support new business strategies and drive innovation.

However, in practice many HR functions fall short of this ideal. Often, HR is insufficiently engaged in the commercial realities of the business, pursuing an HR-driven rather than a business-focused agenda.



HR should be at the heart of strategic thinking and decision making.

While it may not mean HR always has to be instrumental in deciding which strategies to pursue, it does mean that HR should influence strategy development, provide information to the executive team and the board to shape strategy discussions, build a deep understanding of what the strategy is, and make sure the people strategy is anchored to that of the business. HR can be particularly instrumental in bringing a cross-enterprise perspective to strategy discussions and assessing the feasibility of strategic options.



Delivering competitive advantage requires not only a compelling strategy, but a high-performance organisation.

One that has a winning culture and a capable, motivated and engaged workforce. HR needs to work on both developing the organisation and the people who work there. Developing the people without improving the environment within which they work is likely to lead to sub-optimal results. HR needs to become expert in organisation design and development and use these skills to build the organisation's capacity for innovation, agility and managing change.


HR's core deliverables around attracting, retaining and developing talent, managing and improving performance, developing leaders and delivering core operational services, remain the main focus.

However, HR's role is also being shaped by changing expectations around the role of the organisation in society. Debates related to purpose, identity and inclusion, concerns for mental wellbeing, sustainability and ethics are determining the purpose and role of HR.



HR technology is changing at a rapid pace, becoming more intuitive and user-friendly, and enabling people functions to offer a cohesive end-to-end employee experience.

In a competitive talent market, employers are increasingly looking to differentiate their employer brand. They are deploying techniques such as design thinking and human-centred design to bring rigour and customer-centricity into the design of the employee experience.



8

The changing shape of the workforce is bringing new challenges for HR.

Working out how to effectively manage a remote workforce, reskill employees whose roles are displaced by technology, balance 'gig' and permanent workers, and prepare for a future where humans and robots work together, are all questions HR needs to be equipped to resolve.

HR's operating model will need to adjust as its role, contribution to the business, and use of technology evolves.

While the prevailing model in most large organisations has to date delivered benefits in terms of efficiency, HR will need to explore new ways of organising with agility to meet the changing needs of the business. HR should continue to upskill in business acumen, strategic consulting skills and project and change management.



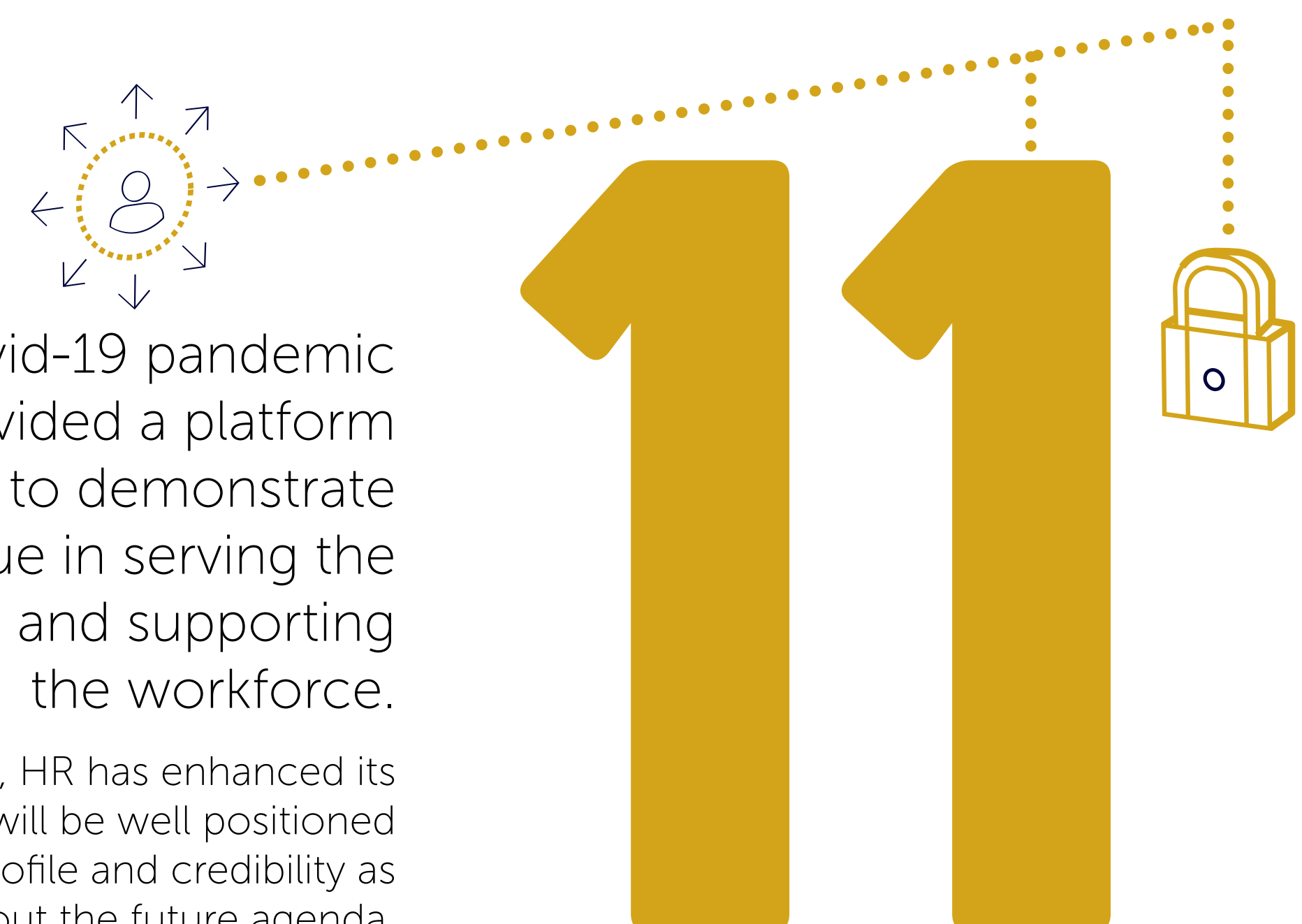
There is a tendency for HR to be attracted by the latest thinking or 'best practice', or to over-engineer solutions which are of uncertain commercial benefit.


As HR maps out its future role and agenda post-Covid, it's essential to focus on the 'important' rather than the 'interesting' and to subject initiatives to rigorous scrutiny before implementation.



The Covid-19 pandemic has provided a platform for HR to demonstrate its value in serving the business and supporting the workforce.

In many cases, HR has enhanced its standing and will be well positioned to build its profile and credibility as it maps out the future agenda.





INTRODUCTION – THE CONTEXT FOR HR IN THE ORGANISATION OF THE FUTURE

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“There’s never been a better time to be in HR from a strategic point of view. We are the function that leaders are turning to now, and our ability to influence and lead the business has never been greater.”

Caroline Fanning, CHRO, Avanade

The year 2020 has seen perhaps the most significant disruption any of us have witnessed in our lifetimes. With substantial parts of the global economy either shut down or operating at a fraction of normal capacity, companies have had to respond at speed to a radically different business context. While we have been talking about disruption for some time, 2020 made it real for all of us.

When we embarked on this research into HR’s Agenda in the Organisation of the Future, our aim was to first identify the macro trends driving the business, economic, social, environmental and political context shaping our organisations. We then set out to explore what this means for the purpose of and priorities for HR, and to highlight the practical implications for the function, to assist in planning and preparing for the future.

What we have found is that, while the factors affecting the future of HR are largely unchanged, the pace at which they are impacting our organisations has accelerated. Developing adaptable, responsive, high performing organisations, having the right talent and leadership to drive business success, being a responsible corporate citizen and acting in line with the changing needs of the workforce have all become more pressing priorities.

This research set out to answer the following questions:

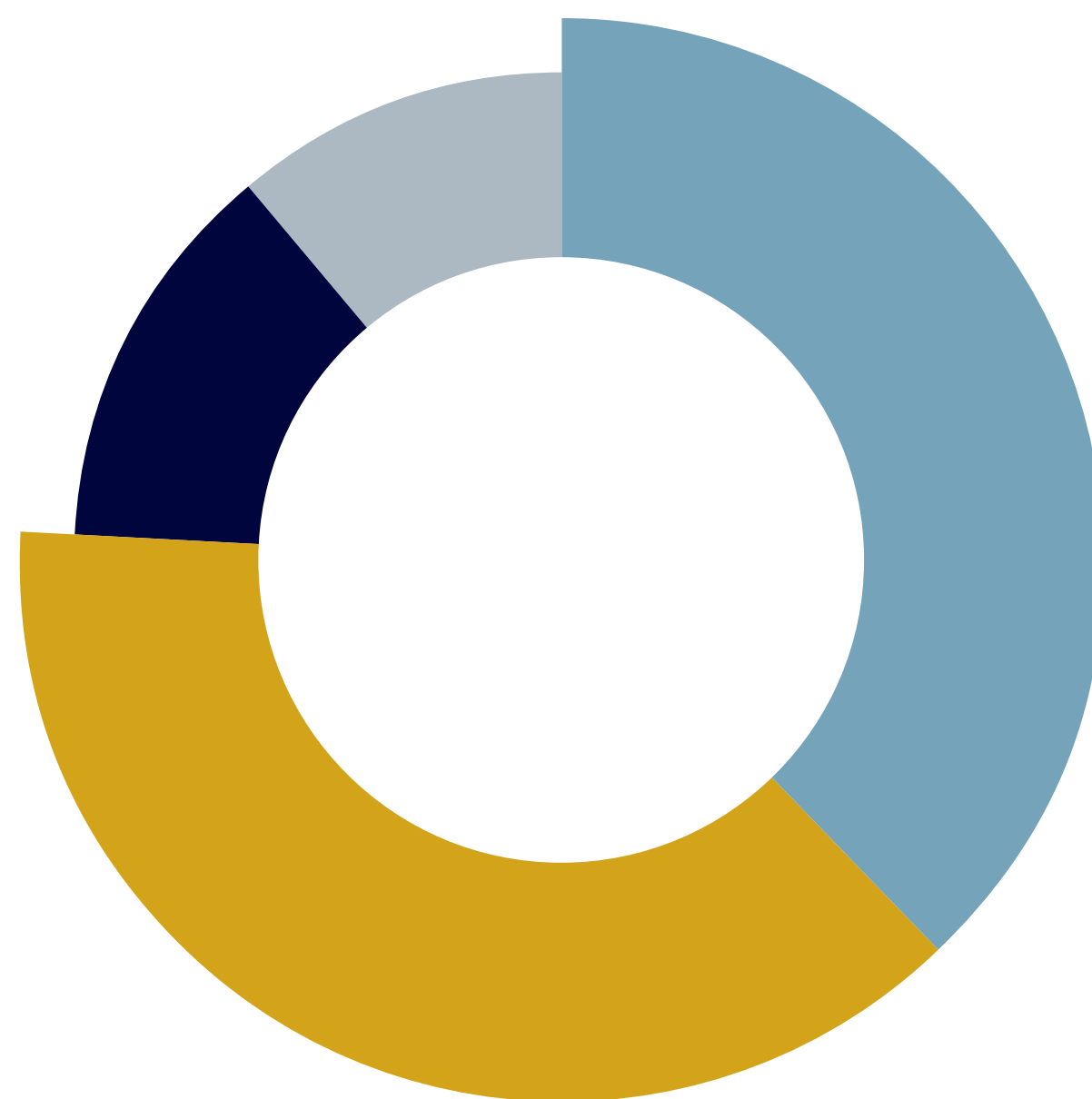
- What are the principal features of the context within which our organisations operate, which in turn determine the agenda for HR?
- How is HR’s purpose and focus evolving in response?
- What contribution can HR make to shaping and executing the organisation’s strategy in a highly dynamic context?
- What role should HR play in setting up the organisation and the workforce for success?
- What does this mean for HR’s operating model and capabilities?

In preparing this research, we interviewed CEOs, CHROs, academics and other experts, and we held focus groups with CHROs in Europe and the US. We conducted a survey of 60 CHROs of large companies in the UK, US and Europe, and we reviewed the relevant literature.

We conclude that, while the Covid-19 pandemic has been extremely challenging for individuals, families, organisations and societies, it has also created a platform for HR to demonstrate its value in serving the business and the workforce. HR functions have been called on as never before to help the business adapt, and support the performance and wellbeing of the workforce. In many organisations, HR has enhanced its standing and will be well positioned to build its profile and credibility as it maps out its future agenda.

FIGURE 1

Looking at your organisation's business model (*how you create value, the products and services, revenue streams, target markets, customers, competitors, partners and suppliers*) to what degree is it different today to five years ago?



38% Fundamentally different and significantly different

38% Fairly different

13% Minor differences

11% Essentially the same

0% My organisation **didn't exist** five years ago

1.1

THE CONTEXT FOR THE ORGANISATION OF THE FUTURE

HR does not operate in a vacuum. Its actions are determined by the business, economic and wider social, technical and environmental situation. While the circumstances of each individual business will be different, we can map out some broad contours shaping the landscape.

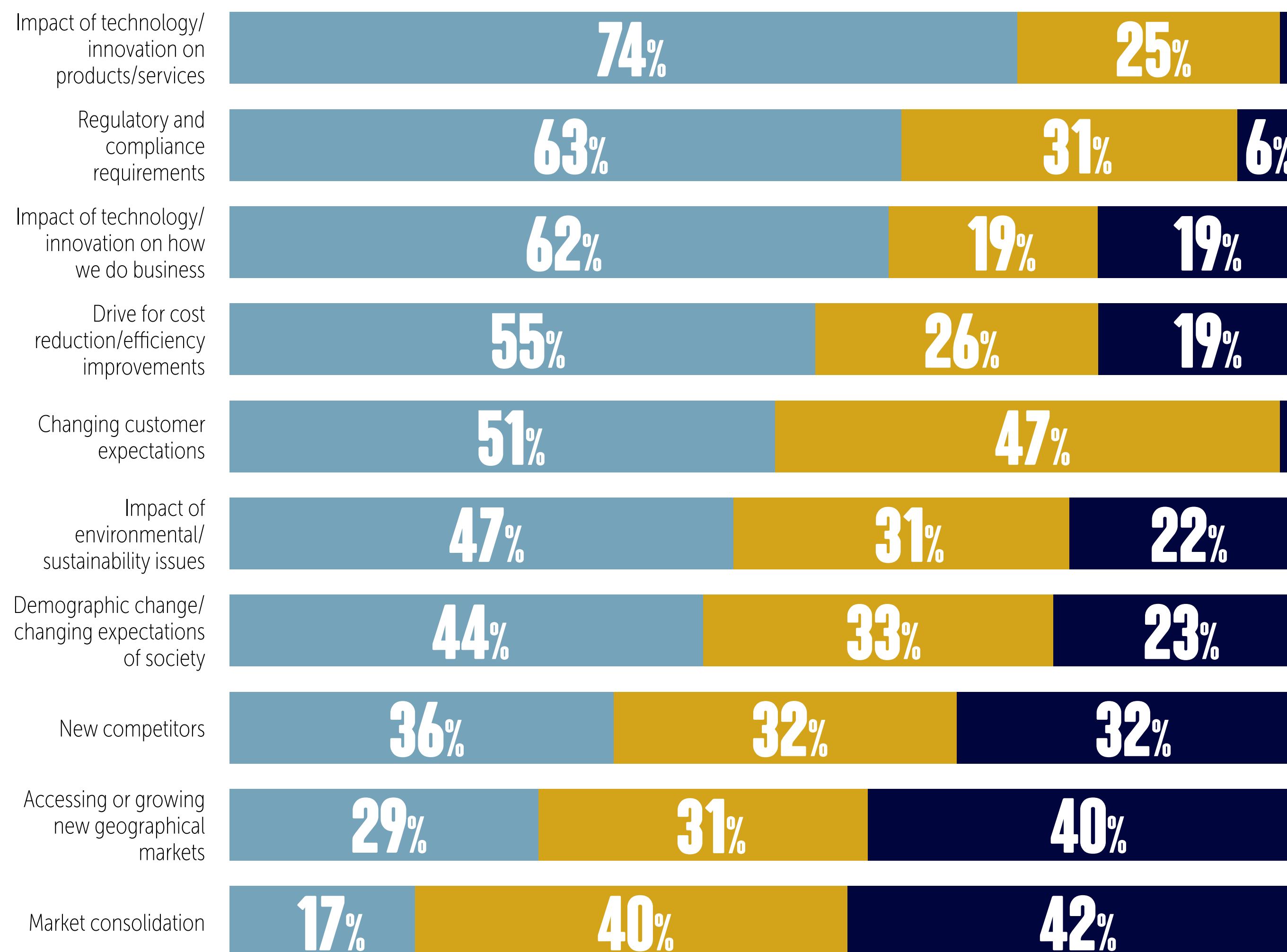
We began our discussions with CEOs and CHROs by exploring the major strategic changes going on in their businesses. The broad themes that emerged are:

- Significant pressure on margins with the emergence of new competitors offering lower cost or technology-based solutions.
- Blurring of industry boundaries, with disruptive competitors appearing from unexpected places. For example, is Tesla a car maker, a software company, or a clean energy business?
- The need to work on multiple timescales simultaneously. Businesses have seen extreme volatility in 2020, but also need to prepare for longer term business shifts, for example the move to a low-carbon economy or preparing for an ageing population.
- A challenging economic context with uncertain prospects for growth over the next three years.
- The need to innovate while delivering the existing business efficiently and maintaining margins – in essence, changing the wheels while the car is driving.
- All of this is underpinned by massive technological change – including the drive to digitise products, services and supply chain, and a need for digital transformation in the business.

The results of our survey gave insight into how the pace of change is playing out in CRF member organisations. We asked CHROs to what degree their organisation's business model is different today to five years ago. 38% said it was fundamentally or significantly different, while 38% said their business model was fairly different. See Figure 1.

FIGURE 2

Can you rate the degree of impact of each of the following drivers of change in your business?



We asked survey respondents to identify the impact of various drivers of change on their business over the last five years. See Figure 2. The top five drivers were:

- The impact of technology/innovation on products and services
- Regulatory and compliance requirements
- The impact of technology/innovation on how we do business
- Drive for cost reduction/efficiency improvements
- Changing customer expectations.

Our survey reflects the state of affairs before the pandemic took hold. If we were to re-run it in a year's time, we would expect the list to include change to business models and working practices brought about by Covid-19.

These results demonstrate the paradox that organisations face, and which in turn shapes HR's agenda. Businesses must both innovate and deliver their existing business efficiently while maintaining margins. They must balance a drive for growth with increasing external stakeholder pressures.

As well as pressure on their businesses, organisations must pay attention to a wider range of stakeholders, and take account of various social, political, environmental and regulatory developments.

- **Changing expectations of the organisation in society.** Large organisations must consider the needs of a wider range of stakeholders in determining their business strategy. There are multiple drivers, including the corporate governance frameworks that apply to listed companies, institutional investors, the workforce and business leaders themselves. In 2019, the Business Roundtable, an association comprising the CEOs of America's largest companies, issued a new statement of corporate purpose. This marked a shift away from a singular focus on serving shareholders towards a broader view of corporate purpose. The new 'Statement on the Purpose of a Corporation' commits companies to creating value for customers, investing in employees, fostering diversity and inclusion, dealing fairly and ethically with suppliers, supporting the communities in which they work, and protecting the environment alongside generating long term value for shareholders. We see similar trends in other countries, which organisations must consider in both their home markets and other geographies where they operate. As we discuss throughout this report, the trend towards considering a wider range of stakeholders is profoundly shaping the HR agenda.

- **Demographic change.** As the population ages across all major markets and the working population shrinks, organisations will find it increasingly difficult to hire in the capabilities they need, and must develop innovative strategies for sourcing the talent required for continuity and growth.
- **Trust and transparency.** As trust in the media, political and other public institutions and the media decreases across the globe, people are increasingly expecting their employer to step in to the void. The 2020 Edelman Trust Barometer found that employees trust their employer more than government and media organisations as a credible source of information. Transparency is another aspect of the social environment that companies must navigate. Feedback on sites such as Glassdoor shape the employer brand, and there is nowhere to hide if the experience of candidates and employees does not meet with expectations.
- **Economic inequality** is likely to increase as the impact of Covid-19 plays out, and fairness is increasingly on the agenda for HR. While well-paid, highly qualified white collar workers have been able to shift to remote working and have fared well during the pandemic, other sectors of the economy have suffered greatly. Transparency of executive pay, pressure to pay a living wage and concerns about mass unemployment are all weighing on corporate reputations. While the impact of technology, AI and automation have not yet resulted in massive job losses on a global scale, they are gradually reshaping the nature of work. Over the coming years, organisations will have to decide whether to engage in mass reskilling programmes to deal with the shifting workforce.
- **Diversity and inclusion.** Movements such as Black Lives Matter and #MeToo are shifting the debate about the representation of minorities in public and corporate life, leading to a broader discussion about what actions need to be taken to improve inclusion, and not simply increase representation.
- **From mass production to mass personalisation.** Technology is raising the expectation that people can have a highly personalised experience at work. It is making it easier to deliver a joined-up, consumer-grade experience in the workplace. A parallel trend that organisations are having to consider is the desire for people to find purpose and meaning in their work.
- **Sustainability and climate change** are now mainstream concerns for organisations. Investors, employees and other stakeholders expect companies and governments to take action. For example, in 2019 more than a thousand Google employees wrote to the company expressing their concern over the it's lack of commitment to climate change, urging it to commit to a company-wide climate plan. Increasingly, people want to work for and deal with companies that take a stand on the moral, social and political issues of the day.
- **A broader view of risk.** All of these trends add up to increased commercial risk for organisations arising from sustaining reputational damage through their actions. Boards are increasingly concerned by this, making it a significant action item for HR. As one of our interviewees said: "The reputational angle is so much more important now. Boards are concerned about reputational risk. As CHRO you have to be able to engage credibly with the board on all aspects of corporate social responsibility and reputation." Other risks that are moving higher on HR's agenda include cyber security, and other risks such as health and safety which have become a greater concern as organisations have moved to home working this year.

For HR leaders, this means being aware of wider trends, what they mean for the organisation, and having a strong point of view on the organisation's positioning relative to these issues.

1.2

HR IN THE TIME OF COVID



“Covid has placed HR in the middle of things. The executive has looked to HR to provide direction about how we should respond as a business. The people agenda has become pivotal and has been an opportunity for HR to reinforce its position as a core member of the executive team. We have been able to demonstrate real value in stewarding the organisation through a highly uncertain time.”

Matt Stripe, CHRO, PZ Cussons

As the Covid pandemic took hold in 2020, the centre of gravity in leadership teams shifted, thrusting HR into the spotlight. It put employees at the heart of business strategy. As The Economist observed early on in the pandemic, whereas CFOs were the corporate heroes of the 2008 financial crisis, it's CHROs who became critical during Covid-19.

In 2020, HR has had to address questions such as:

- How to keep everyone safe through an immediate shift to remote working
- How to provide emotional and mental health support at a distance
- How to maintain a safe environment for those whose jobs require them to attend the workplace
- How to gauge performance and develop people remotely
- How to keep the workforce on track and keep spirits up among deep uncertainty
- How to help firms retrench and thrive as they emerge from the crisis
- How to support leaders while they support their teams
- How to drive real change around inclusion
- How to preserve margins and performance amid significant upheaval.

The crisis exposed much about the strength of the function and its leadership. “It revealed the truth about many CHROs,” said Professor Patrick Wright, Director of the Center for Executive Succession, Darla Moore School of Business, University of South Carolina. “Those who could step up, develop strategies on the fly, execute and hold themselves accountable for results, and those who simply crumbled. For those who stepped up, particularly if they hadn't previously been viewed as a business person, it enhanced the credibility of them and their team with the CEO. They are more likely to be invited into strategic decision making in the future.”

Covid has been a test for HR at both the strategic and operational level. It doesn't matter how good the CHRO was at the executive team level, if their HR function two or three levels below couldn't deliver quickly and effectively, this reflected poorly on them. It has also given CHROs an insight into the succession pipeline for HR. “We've seen in three months what it would normally take us two years to find out,” said Wright.

While it's still early days to determine the long-term effects of Covid on organisations and the HR function, we can expect it to continue to shape the agenda for some time to come. It's an opportunity for HR to build on the role it has occupied this year, to reset and to reconsider how the function adds value to the business strategy.

HR'S STRATEGIC ROLE IN THE ORGANISATION OF THE FUTURE

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“It’s really important that anyone in this role sees themselves as a business leader first and foremost, with a deep understanding of and ability to contribute to the business strategy and its execution, rather than just putting themselves in a narrowly-defined box called HR.”

Sue Whalley, Chief People and Performance Officer, Associated British Foods

For more than 25 years, CRF has been developing and refining its view of the purpose of HR, and the characteristics of an effective HR function. The overriding principle is that HR does not exist in its own right – its purpose is to support the business and enable execution of the business strategy. It must translate the business strategy into the talent, skills and organisational capabilities needed to execute the work, and the leadership qualities required. Any discussion of HR’s future agenda must start with the business, and HR’s actions must flow directly from the business strategy. No amount of discussion on talent, leadership or engagement will be useful unless it’s connected to a business imperative. This means HR has to be intimately involved in developing the business strategy and interpreting what it means in terms of outcomes related to people and organisation.

In this section, we consider HR’s strategic contribution to the business and how it is evolving. We set out the expectations of business leaders by summarising interviews we conducted with CEOs. We consider the potential roles HR can play in developing business strategy and highlight the major strategic levers that HR can influence to make sure the organisation is set up to successfully execute the strategy.

2.1

WHAT DO CEOS WANT FROM HR?



“Getting the right HR team is a major priority for me. Without it, we’re going to struggle to build the culture we need to transform the business.”

CEO, FTSE-250 Company

In our research we interviewed a number of CEOs of large global companies, to understand their expectations of the role and contribution of HR to the performance of their organisation. While the specifics depend on multiple factors such as the industry sector and maturity level of the business, the following themes emerged:

- **CEOs expect the CHRO to be first and foremost a business leader.** The HR leader has to be commercial, deeply understand the drivers of business performance such as costs, service and customers, and make an equal contribution to business outcomes alongside other business leaders. To summarise, in the words of one CEO: “It’s about understanding the business and being able to apply HR disciplines in service of the business.”
- **HR plays a critical role in supporting and delivering business transformation,** bringing expertise in change management, culture change and power dynamics in the organisation.



“The business transformation agenda means I’m working more closely with my CHRO than with any other member of my executive team.”

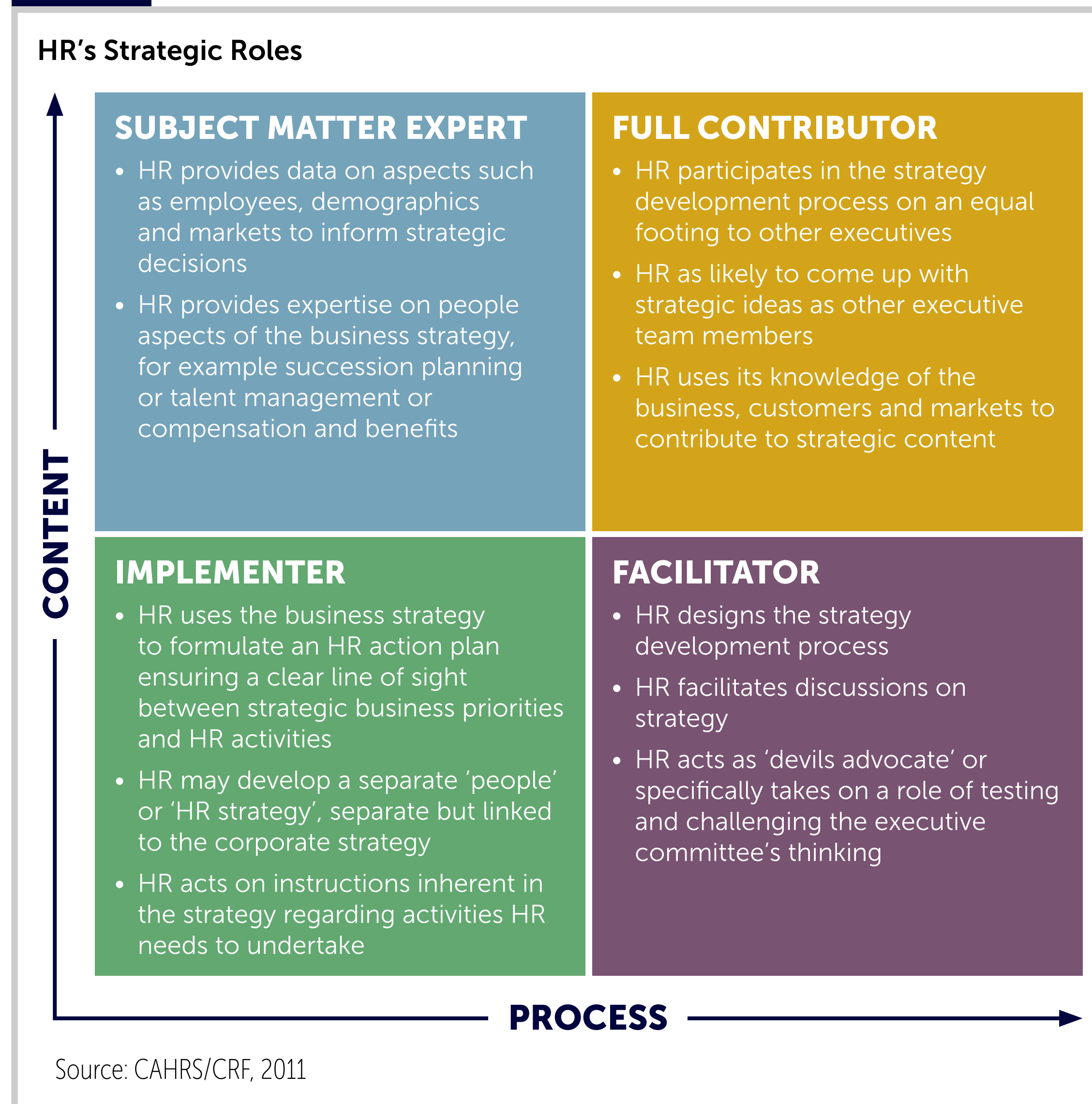
CEO, Global Logistics Company

- **The organisation culture is a key contributor to business performance where CEOs perceive HR can make a significant contribution** relative to other business functions. This often includes taking the lead in developing the values and behaviours required to support transformation and creating a distinctive culture that sets the company apart from competitors. As one CEO said: “I can say the right things, but HR has to put in the hard work to back me up, such as hiring change agents or making sure those who take risks are not punished.” For some CEOs, the contribution of HR to culture change is around breaking down silos and creating an enterprise-wide way of thinking. “Culture change is not just an agenda item for HR,” said one CEO. “But HR is well placed to play a lead role in this, because it involves getting people to think differently and collaborate.” Some CEOs see people-related measures such as health and safety metrics as a way of measuring whether culture change is being enacted.
- **Supporting the CEO in developing leadership capability.** One CEO leading a turnaround described how investing in training the company’s top leaders in sales and negotiation skills was essential to securing the company’s future. “We identified the leadership skills that would be essential to our success – sales, project management and commercial negotiation – and made a special investment in them. Even when times were tough, we invested in our leaders, because this helped us create a more commercial environment and collect the cash we were owed, which in turn meant we could survive.” Another CEO said: “Leaders are responsible for leading their people; the role of the HR function is to equip them to do that leadership job brilliantly.”
- **Focus on organisational effectiveness, productivity and performance management.** For example, taking the lead in developing the operating model for the business, defining accountabilities, setting performance standards and upgrading leadership capability. For one CEO leading a turnaround, this has meant hiring a strong HR function to bolster weak management capability across the organisation.
- A key deliverable CEOs expect of HR is to **create an environment that attracts and retains critical and scarce talent**. Several CEOs said they were looking to create a compelling employee experience to act as a competitive differentiator for the business. One CEO, leading a business in a highly competitive field of technology, saw HR’s ability to build a distinctive culture as being a key element in winning the ‘war for talent’. “The people who do our work are rare and everybody wants them,” he said. “We can’t pay as much as some of our competitors or clients, so we have to differentiate on other things. Where HR can help is to connect with the business priority of attracting scarce talent by creating an attractive and sustainable environment.” Designing work that’s meaningful, purposeful, rewarding, and offers the chance to develop and learn is also an opportunity for HR to contribute to business success.
- **Developing capabilities to support new business strategies and drive innovation.** For example, several of the companies whose CEOs we interviewed are moving from a product to a service-driven strategy or are developing digital businesses. They recognise the key role of HR in developing the skills needed to drive home the new strategy, and in upskilling and reskilling the workforce.
- **Sustainability is a major concern** for all the CEOs we interviewed, across different industries. Several CEOs, some leading organisations in traditional industries such as construction, felt that their sustainability strategy could be deployed to attract talent that would otherwise choose to work elsewhere. One CEO in the construction sector said: “To attract the right talent, these days you have to pay attention to your company’s impact on the world. You have to show that what you do as a business has purpose and meaning.”
- **Designing and delivering a process of employee communication, engagement and involvement to support transformation.** Making sure employees understand the strategy, it is translated into performance metrics, and there is alignment of incentives to encourage the right behaviours.
- CEOs are having to respond to the **changing requirements of corporate governance** and expect the CHRO to lead the people and organisation elements. Corporate governance codes are increasingly requiring Boards and executive teams to pay attention to issues such as employee voice and organisation culture.

2.2

HR'S ROLE IN BUSINESS STRATEGY

FIGURE 3



If HR is to be an effective contributor to the success of the organisation of the future, it needs to be at the heart of strategic thinking and decision-making. While it may not mean that HR always has to be instrumental in deciding which strategies to pursue, it does mean that HR should influence strategy development where it can, provide information to the executive team and the board on the internal and external environment to help shape strategy discussions, build a deep understanding of what the business strategy is, work closely with the business to identify what's required to execute strategy effectively, and make sure the people strategy is anchored to that of the business.

What role can and should HR play in developing and executing business strategy? Our research has identified four key roles that HR plays in formulating business strategy, which can be organised as a two-by-two matrix, with the depth of *content* provided by HR on one axis and the degree of involvement of HR in the *process* of developing strategy on the other.

Which role the HR director plays depends on a number of factors including:

- Individual capability
- Organisation expectations
- The needs and maturity of the business
- Relationships between the HR director, CEO and executive team.

An HR director or the HR function may take on multiple roles, or may adopt different roles at different times in the process. However, we think it is difficult for an individual to act as both 'Full contributor' and 'Facilitator' simultaneously because it is hard to contribute to content and process at the same time.



“The current generation of CEOs have experienced so much change and have had to adapt to survive. They are looking for help with adapting to change and are turning to HR to take on the work of designing and delivering it. It’s an opportunity for HR.”

Neil Hayward, Human Resources Director, HS2

CRF SURVEY: HR'S ROLE IN STRATEGY DEVELOPMENT

In our survey, we asked CHROs to specify the extent to which they play each of the four roles described opposite. Respondents said they were most likely to play the Subject Matter Expert or Full Contributor role and were least likely to act as Facilitator.

We also asked respondents to compare their current contribution to business strategy against where they need to be and identify the principal gaps they would like to address. The following themes emerged:

- A desire to be involved more up-front in strategy discussions rather than just being called in as a subject matter expert, to get involved earlier in the process or act more consistently as Full Contributor
- Being invited rather than having to fight to be involved in strategy development
- Building confidence in contributing to strategy development
- Improving their capacity to bring external business thinking into internal conversations
- Playing a greater role as customer advocate
- Developing strategic capability and credibility among the broader HR team.

What are some of the specific areas where HR contributes to the strategy discussion? Here are some examples from our interviews.

- **Bringing the outside in.** Being well-informed about trends in the social, technological, economic, and political environment and bringing those insights into discussions around strategy. Having a broad network of consultants, headhunters, business schools, academics and leading thinkers in your industry who can provide specialist insight to the executive team.
- **Bringing a cross-enterprise perspective.** The CHRO is one of only three executives (including the CEO and CFO) to have a view across the whole organisation. This means they are uniquely positioned to bridge across organisational silos, bring learning from one part of the business into another, to spot where there are gaps or conflicts, and to make sure that the organisation as a whole is greater than the sum of its parts.
- **Providing a reality check on the feasibility of strategic options.** Being the honest broker who asks tough questions about whether the company has the capabilities required to execute a particular strategy, or if they can be hired. “You need to really understand the labour markets of those locations where you’re considering investing,” said one CHRO. “I’ve seen many strategies that, while good on paper, didn’t work out because there weren’t enough of the required skills in that market.”
- **Steering the organisation away from choices that are a poor strategic or cultural fit.** “I often helped us steer clear of business opportunities that were unlikely to succeed because they didn’t fit with our culture or didn’t play to our strengths,” said one former CHRO.
- **Bringing opportunities to the table,** such as acquiring a business to hire key talent, or to redeploy people freed up through automation. “You can participate in the conversation by asking what else we could do with the capabilities we have,” said Neil Morrison, Group HR Director, Severn Trent Water.
- **Making predictions about competitor actions** – both established competitors and potential market entrants – based on the CHRO’s knowledge of their key players. “The CHRO should be armed with information about competitors and how their key decision makers and executors stack up against those at the CHRO’s organisation,” said Charan, Barton and Carey. “Similarly, a competitor’s organisational restructuring and reassignment of leaders might indicate a sharper focus on product lines that could give your company a tougher run.” Mara Swan, former CHRO at ManpowerGroup said: “When we discussed succession, I lined up external search information against our internal candidates so we had a complete picture. It kept us straight and stopped us getting too comfortable.”
- **Being the voice of the customer in the room.** Some CHROs allocate regular time to go on customer visits or listen to customer calls to identify customer trends.

It’s important to be curious and have a point of view on the business. One CHRO spends two evenings per week having dinner with executive team colleagues to really get under the skin of how their business works. “You need to have good information and a point of view to participate on an equal footing in discussions on strategy. Too often, HR sits back while the debate happens and only steps in to interpret the practical implications of decisions when they have already been taken,” said Jennifer Duvalier, Non-Executive Director and former Chief People Officer.

2.3

CREATING THE CULTURE, CONTEXT AND ORGANISATIONAL CAPABILITY FOR SUCCESS



"The HR agenda, more than ever, is about creating the environment for people to be inspired, motivated and to perform with creativity and purpose."

Bev Cunningham, SVP Human Resources,
Ricoh Europe

HR functions tend to prioritise developing people as individuals ahead of targeting the context and organisation culture in which they operate. However, companies deliver competitive advantage through organisation, strategy, processes and a winning culture, not just the performance of a few brilliant people. Developing people without improving the environment within which they work is likely to lead to sub-optimal results. Indeed, research by Ulrich, Kryscynski, Ulrich and Brockbank on 1,200 businesses found that developing organisation capability has four times more impact on business results than developing individual competence.

As we see it, developing the organisation, its capabilities and culture, and not just the workforce, is one of the major challenges for HR in the future. And as our interviews with CEOs show, developing a high-performance organisation is something business leaders also increasingly expect of HR.

One contribution that the CHRO can bring to the executive team is to drive conversations around the company culture at the executive team level. A positive culture is a way of attracting talent to the business, but an unhealthy culture is a business and reputational risk. As Reimer and Bryant found in their study of high-performing CHROs, "Culture has shifted from a 'nice to have' conversation to a 'need to have' discussion in corporate boardrooms."

In CRF's 2019 [Organisation Development Manifesto](#), we argued that it is more essential than ever for HR to build capability in organisation development. For HR, this means attending to the following elements.



“HR holds a disproportionate number of levers that the organisation can pull to create the right culture, whether it’s hiring the right people, how you acknowledge performance, what and how you communicate, or who you recognise as the heroes of the organisation.”

Kate Seljeflot, Chief People Office, Kingfisher

CASE NOTES: MEASURING CULTURE – THE SAY-DO RATIO

Geoff Lloyd, CHRO at Meggitt, which produces components for the aerospace, defence and energy markets, has introduced culture measures to track whether the company’s espoused values are actually being lived out. “Building and actively managing the culture is incredibly important and has to be high on your agenda as an HR leader now,” he said. “To really get an insight into what’s happening in practice, I’ve learnt you have to pay attention to the say-do ratio. You can’t just talk about ethics, morals and values, you have to put them into practice.” The company has a number of ways of measuring culture. For example, several questions in the employee engagement survey test the say-do ratio and the results are compiled into an index that’s reported to the board. Performance appraisals ask employees to comment on their experience of the say-do ratio, and executives run ‘skip level’ lunches where there’s an opportunity to discuss what’s going on in the business. “By bringing together information across various sources, you start to get a feel for what’s actually happening, and it means we can address those areas where there are gaps,” said Lloyd.

DEVELOPING A HIGH-PERFORMANCE CULTURE

The organisation culture determines the degree to which the organisation is open to its external environment, capable of adapting rapidly to changes in its context, and how performance-oriented and customer-centric it is. The required culture is determined by the business strategy. As one CEO we interviewed said: “Culture reinforces the things you need to do to drive a successful business.”

Professor Chris Worley’s research into organisation agility has examined the common features of organisations that succeed in adapting to changes in their environment and deliver top quartile performance over the long term. CRF’s [Organisation Agility](#) research, cowritten with Professor Worley, found that agile organisations tend to share some common cultural characteristics:

- A high-trust, transparent culture, where employees are treated like adults, and are encouraged to ‘tell it like it is’.
- A culture that’s open to learning from experiments and using that learning for continuous improvement.
- People are trusted to make good decisions and act in the best interests of the organisation.
- There is an assumption that employees’ intentions are honourable and that they can be relied on to ‘do the right thing’, even if they sometimes make mistakes.

Cultures can emerge by accident, or they can be deliberately designed and shaped. Increasingly, HR is being called on to diagnose and lead the development of the culture to achieve specific business objectives. This means focusing on two main elements.

1. The values, attitudes and behaviours of employees and of leaders, both at senior management and front-line leadership level.
2. The systems and processes that define what and how work gets done, how work is allocated, and who is selected, promoted, rewarded and exited from the organisation.

DEVELOPING THE ORGANISATION CAPACITY FOR RESPONSIVENESS

As we discussed in the previous chapter, competitive advantage is often short-lived these days. Increasingly, the most successful organisations are those that can anticipate changes in their business and move more quickly than the competition. The events of 2020 have brought this into sharp relief, as companies have had to reorganise global supply chains, reconfigure manufacturing facilities (for example to produce essential items such as hand sanitiser), and shift the vast majority of the workforce to home working, all in a matter of days. The capacity for innovation is becoming an imperative for most organisations.

McKinsey research found that companies that had launched agile transformations prior to the Covid-19 pandemic performed better and moved faster than their peers. They had an edge because they had processes and routines already in place that allowed for rapid reconfiguration of the organisation and the workforce.



“We’re doing more OD work than ever before, focused on delivering operational efficiency while at the same time achieving growth and innovation. It’s a major challenge for HR: how do you develop the culture and competency for both in the same organisation?”

CHRO, Healthcare



“How HR supports innovation is an OD question. It’s about how you create and sustain a culture of innovation, and it’s about identifying and developing the capabilities that drive innovation. Specifically, it’s about creating a culture where good ideas can flow from the ground up and be nurtured and developed.”

Jennifer Duvalier, Non-Executive Director and former Chief People Officer

DESIGNING THE ORGANISATION FOR ADAPTABILITY

One way HR can influence the organisation’s capacity for adaptability is to build expertise in organisation design. This is one of the fundamental building blocks for developing high performing, agile and adaptable organisations. Having an effective organisation design that allows the company to balance pursuing innovation, growth and responsiveness to customers, with achieving the benefits of operating at scale, is a key requirement for developing sustainable competitive advantage.

Our research has found that agile organisations that are capable of adapting rapidly to their external environment tend to share three key design features:

- They maximise the ‘surface area’ in contact with the external environment. They decentralise decision making, empowering employees who are closest to customers as much as possible, and have mechanisms for feeding information about market developments to decision makers who can act on those insights.
- They explicitly develop the ‘lateral’ organisation to allow collaboration across formal organisational boundaries and silos. For example, through creating cross-functional teams or networks, management processes or matrix structures they can avoid work being slowed down by the need to refer decisions up the hierarchy.
- They create flexible organisational forms that allow emerging businesses to thrive without being crushed by corporate bureaucracy. These include creating small units within the larger organisation to focus on specific business opportunities. They are governed by different internal processes and are able to maintain a responsive, small company feel in spite of being part of a much larger organisation. Some organisations create network-based or virtual organisations that can be rapidly configured and allow organisations to bring together flexible sources of talent to meet specific objectives.

Getting the organisation design right is important both in terms of delivering business objectives and creating the context for people to deliver their best work and thrive. This is a particular challenge for HR because organisation design is not a deliberately developed strength for most HR functions. This is an area where HR can step up to play a more central role in building organisation design capability and making sure leaders give it sufficient attention when determining strategy and implementing change. However, in practice organisation design work is often outsourced to strategy consultants. This is an area where in many cases HR would benefit from investing in upskilling. CRF’s report [Designing Adaptable Organisations for Tomorrow’s Challenges](#) discusses this topic in more detail.

DEVELOPING A SYSTEM-WIDE CHANGE CAPABILITY

Change has become a constant of organisational life these days. Having a broad and deep capacity for managing change is another way that organisations can stay ahead of the competition. A significant contribution HR can make to future proofing the business is to ensure that the ability to lead and deliver change is well embedded in the organisation. This means not just relying on a few knowledgeable individuals, but also developing collective processes for change management that become core to how the system operates. Some companies are doing this by rolling out a common change methodology more widely: making sure there’s a shared language for change management, that all change initiatives and projects follow a consistent methodology, and that there’s a strong cohort of change experts across the organisation.

For example, Patrick Bradley, CHRO of Brambles, the global logistics company, has rolled out a change methodology across the business. It was originally introduced to support the implementation of a new customer management system, but has now been adopted as the core methodology underpinning other projects designed to shape the organisation for the future. The roll-out involved setting up an internal team to co-create the methodology and to train and coach people across the business.



“Your organisation design has to be fluid and dynamic enough to allow you to do multiple things at once: running an efficient, profitable core business while establishing new ventures; creating space to work out how your core market might be cannibalised and developing your response quicker than anyone else.”

Rupert Morrison, CEO, Concentra



“You need to be able to connect every piece of your HR strategy to the business strategy. If you can’t explain clearly why what you’re doing supports the performance of the business, you need to ask why you’re doing it.”

Matt Stripe, CHRO, PZ Cussons

FOCUS ON PRODUCTIVITY AND PERFORMANCE

Another area where HR could make a significant contribution to business outcomes, but in our experience is often under-served, is to focus on improving productivity and performance. While HR is often responsible for designing performance management systems and processes, these rarely make much difference to improving overall business performance. Some ways to address this gap include:

- Make sure that HR’s activities are explicitly linked to improving sales, reducing costs, increasing margins, focusing on customers and supporting innovation and speed to market. These imperatives should form the foundation of all HR activities. If it’s not possible to demonstrate how HR initiatives contribute directly to one or more of these outcomes, questions need to be asked about whether those initiatives are worthwhile.
- Focus on team and not individual performance. Which are the top performing teams in the organisation? What makes them different? Are there ways in which the characteristics of the highest performing teams could be harnessed and applied elsewhere in the organisation? Some of the more sophisticated people analytics functions are looking to answer these questions.
- Introduce the very best in coaching to senior management to support individual and top-team effectiveness. Focus on enhancing performance, building capacity to deal with complexity, managing the stresses of being an executive, and effective leadership. This brand of coaching can only be delivered by those rare individuals who are exceptionally experienced, qualified, insightful, challenging and professional.



NEW FRONTIERS FOR HR

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“In the new world of work, if you want to be a talent magnet you have to compete around employee experience, the purpose and values of the organisation, how responsible you are as a business, and the things you do in your community.”

Caroline Fanning, CHRO, Avanade

In the previous chapter we focused on HR’s role in helping the organisation prepare for the future through developing and executing business strategy and building capability to sense and respond successfully to the changing business context. In this chapter, we examine how HR’s role, purpose and key deliverables are evolving as it responds to changes in the external environment and the workforce, and we map out some new frontiers for HR in the organisation of the future.

In 2017, CRF published our [HR Manifesto](#), which set out four key deliverables for HR:

- Creating a high performing work environment: creating the right leadership culture, systems processes and organisation design to enable people to perform at their best.
- Managing talent: getting the most suitable people into critical roles. It’s about finding, keeping, motivating and helping them to perform to the optimum.
- Improving performance: both at the organisational and individual level.
- Delivering core operational services: HR must deliver its core services such as employee relations and pay and benefits both effectively and efficiently, supported by technology and management information.

We asked respondents to our survey to indicate how the relative importance of various aspects of people and organisation strategy had changed over the last three years. The top four that had become significantly more important relative to other priorities were:



As we look ahead, HR’s core deliverables around talent, performance, leadership and operations remain the focus. However how they play out is changing in multiple ways as we discuss in the following sections.

3.1

HR'S RESPONSE TO CHANGING EXPECTATIONS OF THE ORGANISATION IN SOCIETY

SURVEY FINDINGS: HR'S CONTRIBUTION TO BUSINESS SUCCESS

Our survey asked CHROs to define the single most important or impactful action they are taking to support the future success of their business. The following key themes emerged:

- Workforce and capability planning to anticipate and prepare for new skills – owning the capability roadmap for the organisation
- Developing a long-term plan for upskilling/reskilling the workforce
- Focus on developing the employee experience
- Holding a mirror up to the leadership team around how they are developing the organisation culture for the future.
- Owning the sustainability agenda, purpose work and corporate governance on behalf of the organisation.

In Chapter 1 we highlighted the changing role of the organisation in society as a key trend that's influencing the expectations of the workforce and the practice of HR in organisations. Broad societal changes, such as debates around purpose, identity and inclusion, rising concerns around mental health, and sustainability are also profoundly shaping the purpose and role of HR.

These issues are increasingly visible at board level, which in turn is elevating discussion throughout the organisation. One factor driving this is corporate governance. For example, recent changes to the UK's corporate governance code require boards to engage with employees and the wider workforce to enhance the employee voice in the boardroom, require some companies to disclose CEO to UK employee pay ratios, and company law obliges directors to take account of the impact of the company's operations on the community and the environment.

Another factor is increasing employee activism. Leaders are being held accountable by employees who can mobilise on social media and put pressure on leaders to take action.

BROADENING THE AGENDA AROUND DIVERSITY AND INCLUSION

As discussed in CRFs research [D&I: Emerging Issues](#), we are witnessing a broadening and diversification of the D&I agenda away from simply being about gender.

- Reactions across the globe to the death of George Floyd and the rise of the Black Lives Matter movement shone a light on racial and ethnic diversity, prompting leaders to take stock of their own experiences and understanding and question how inclusive their organisations really are. According to Professor Pat Wright: "The interaction of the George Floyd incident and the pandemic has been explosive in terms of pushing inclusion up the board agenda." Wright's data show that, while the major focus to now has been on increasing the representation of women in the leadership pipeline, with success, strategies for advancing racial minorities are less well developed.
- Other areas where organisations are having to think more broadly and deeply about inclusion and belonging include social and economic inequality. This is likely to be exacerbated by the Covid pandemic. Are we at risk of creating a two-tier workforce where higher-paid office workers can work remotely while lower-paid factory, retail or distribution workers are required to be on-site? Is our workforce representative of the communities where we operate? How easy is it for talented people from disadvantaged backgrounds to progress in our organisation? Can we justify executive bonuses when we are laying off workers or receiving financial support from the government? Do we create enough opportunities for older workers to continue their careers and retrain beyond retirement age? Are women disproportionately affected by job cuts, pushing back gains we have made in achieving equality?



“There’s an emerging role for HR that goes beyond the classic work of articulating values and behaviours, that’s to do with defining the role of the business as a responsible citizen in society.”

Jennifer Duvalier, Non-Executive Director and former Chief People Officer

There’s a growing recognition in organisations that focusing on one aspect or another can be exclusionary and divisive. “As employers we have to look at the whole person, which leads you to think differently about inclusion,” said Geoff Lloyd. Creating an inclusive organisation is essentially an OD challenge and this means looking at D&I as a systems-level issue, not just focusing on numbers or representation. The response that’s necessary includes having higher quality conversations about the organisation culture, embedding inclusion into the organisation’s core processes, shifting from communication and empathy to taking tangible actions such as rethinking performance management and talent processes, and supporting leaders to create and sustain an inclusive working environment.

HR’S ROLE IN SUSTAINABILITY, RESPONSIBLE BUSINESS AND ETHICS

There has been renewed interest in the idea of ‘responsible business’ in recent years as businesses evaluate their role in society and their responsibility with regard to sustainability, climate change, responsible working practices and creating goods and services that serve social goals.

Many organisations are also linking their strategy, corporate mission and values with the concept of ‘purpose’, identifying a unifying purpose which defines how they create value while pursuing goals around contributing to society. This has been an important development for HR, as it connects people to the strategy and broader goals of the organisation. It’s an opportunity for HR to shape the discussion in the organisation around how to leverage core capabilities in pursuit of being a responsible business. It has also been a way of thinking about how to make work more meaningful for the workforce.

We see HR functions taking on greater responsibility for driving the sustainability agenda for their organisations. Several of the CHROs we interviewed now have responsibility for sustainability or CSR in addition to their HR role. This makes sense, as many of the elements of sustainability relate to HR’s activities. For example, several of the UN’s Sustainable Development Goals, which many organisations use as a framework for developing their approach to sustainability, are areas where HR has significant influence in the organisation, such as good health and wellbeing, decent work and gender equality.

Sustainability can play out in many ways in HR’s activities, going beyond tokenism or community outreach activities to making real impact in policies and processes. Sustainability as a principle can underpin much of what HR does, from helping younger and older workers into work, upskilling and reskilling, promoting fair pay and working practices throughout the supply chain, and investing in employee wellbeing and mental health.

Many HR leaders see this as an essential element of their employer brand, helping them meet business objectives by attracting and retaining critical talent. Increasingly, the company’s practices on sustainability and related issues influence people’s choice of employer. For example, Neil Morrison, Group HR Director at Severn Trent Water, said: “It’s helped us recruit female engineers, because they can identify with the fact that they are building critical infrastructure that will protect the health and safety of the community for many years to come.”

Another related issue that’s likely to become even higher on the agenda for HR is ethics. Many of the CHROs we interviewed saw it as part of their contribution to corporate strategy to steer the organisation towards ethical strategic choices. It’s also a growing issue within HR, particularly with regard to the ethical use of employee data, and application of AI in selection, development and performance management. As data and analytics become more widely used and embedded in the technology and processes that support HR activities, HR leaders will need to become expert in making ethical choices around data.

3.2

FOCUSING ON THE EMPLOYEE EXPERIENCE



“Our products contain the most sophisticated technology in the world, and yet our workplace technology is neither sophisticated nor intuitive. The employee experience should be like Uber, with real-time information that’s personalised to you. Candidates should be able to track their application through our recruitment process the same way they can track their parcels on Amazon.”

CHRO, Global Healthcare company

As companies deal with an increasingly competitive market for talent, many are focusing on the end-to-end employee experience as a way of differentiating their employer brand. Employees increasingly expect the technology they access at work to be as intuitive, user friendly, personalised and mobile-enabled as they are used to at home. HR technology is moving in this direction too, becoming more joined-up and intuitive. AI-driven learning systems can now work out what skills you have, recommend learning content and suggest internal job opportunities you might apply for to progress your career.

One of the downsides of the traditional operating model for HR, discussed further in the next chapter, is that it can lead to a disjointed employee experience. Centres of expertise, operating in silos, develop standardised processes centrally and ‘push’ them out to users. This can lead, for example, to an employee having a completely different experience as a candidate to what happens when they join the company. Products such as performance review processes can become over-engineered.

Companies are now approaching design of the employee experience with a similar degree of rigour as they would their customer experience. Some HR teams are even hiring experience designers from marketing into HR. And they are also using techniques such as design thinking and Agile project management methodologies to co-create solutions with employees and other stakeholders, and to prototype and improve products as they go along.

A typical process is as follows:

- Identify critical touchpoints and experiences and choose which to prioritise in HR plans. For example, the Dutch bank ABN AMRO analyses a range of data (including the annual employee survey, monthly pulse surveys and employee net promoter scores) to identify priorities for improving the people experience. The priorities identified through this process are used to define priorities within the HR plan, which is reviewed on a quarterly basis.
- Detailed design of the people experience. The design team picks apart the process and designs from scratch, including deciding which analytics to embed in order to understand the process better. Sometimes the team will design for different ‘personas’. For example, the onboarding process for a senior executive would be different than a junior colleague. At ABN AMRO, the bank sets up multi-functional teams, including random colleagues and experts from the relevant areas within HR, to develop a detailed design. The team follows a service design methodology and works in agile ‘sprints’ to develop prototypes which are tested with stakeholders, who provide feedback for the next iteration. The bank runs virtual listening panels with colleagues to seek feedback on specific topics. There is also an Employee Experience circle which includes IT and Facilities and Communications, so employees have a consistent end-to-end experience.
- Each HR ‘product’ (talent attraction, for example) has a product owner who is responsible for the product specification and managing internal stakeholders. The product owner tracks metrics and feedback and owns the roadmap for continuous improvement of their product.
- The employee experience ‘circle’ includes IT and facilities, so employees have a consistent end-to-end experience.

Some organisations focus on ‘moments that matter’. These are experiences that have a disproportionate impact on employee engagement. Providing an impactful experience at critical moments, increases engagement, intention to stay with the company, and results in higher productivity. One CHRO said: “It doesn’t have to be the most sophisticated employee experience across the board, but you have to get it right at the moments that matter. That’s where you get discretionary effort and stickiness.”

For example, Nokia brought together a cross-functional team to design the executive lifecycle. Previously executive hiring, executive development and compensation all sat in different parts of HR. Now they are aligned to provide a consistent experience for executives. “We realised that in the eyes of an executive, it would be good for executive development to know what had come out of the recruitment and induction process, because that’s something they can build on together with the executive as they grow with the company,” said Stephanie Werner-Dietz, CHRO.

There are a number of implications of this approach for HR.

- **New skills:** it requires development of skills such as user interface design, design thinking and using data to inform the design and prioritise key interactions.
- **New working methods:** teams have to work cross-functionally and in an iterative way in time-bound ‘sprints’. The process results in prototypes which are tested by users and refined through multiple iterations. The process is human and customer-centric, as it focuses on solving real problems identified by users.
- **New ways of organising work.** Some organisations are reconfiguring their HR functions along Agile lines. This might mean including other functions in the HR organisation, in order to have ownership of the employee experience end-to-end.. For example, when he was CHRO at TalkTalk, Nigel Sullivan held responsibility for HR, IT and facilities. Armin von Rohrscheidt, Partner and HR Transformation Leader, Mercer said: “Organising HR this way means you have to start by defining the portfolio of services to be provided, which is derived from the business needs. Then, having defined the people priorities, the processes and systems, you design an organisation to deliver against those priorities.”

3.3

LEADING THE REMOTE WORKFORCE

Covid-19 launched a massive global experiment in remote working, more or less overnight. For those parts of the workforce that can work from home, we are unlikely to see a return to previous working practices. At the very least, some form of hybrid model blending office and home working is likely to remain.

Many organisations found they were able to handle the technical aspects of the shift to remote working fairly successfully. However, we are still learning about the longer-term consequences in terms of performance, culture and learning. As we



“The virus has broken through cultural and technological barriers that prevented remote work in the past, setting in motion a structural shift in where work takes place, at least for some people.”

McKinsey Global Institute

begin to formulate what ‘normal’ working will look like in the longer term, HR can make a significant contribution to set the organisation up for successful remote working.

HR will need to become expert in advising leaders and teams on how to work effectively together while remote and will also need to rethink policies and practices across multiple areas. This means leading the conversation, not just in designing policies around who can and can’t work remotely, but also considering the broader implications of remote working for organisation culture, leadership and performance. While the topic of effectively leading a remote workforce is vast, there are some specific areas of attention for HR.

- **Culture.** It’s important to understand how cultures form and are maintained and find ways of adapting this for a remote working environment.
- **Leadership.** Successful remote working requires a different style of leadership, much more frequent communication and being intentional around inclusion. Some leaders will naturally adapt, and others will need support and coaching. Updating criteria for leadership appointments, gathering performance data and feedback via employee surveys, updating leadership development curricula, and targeting training and support for leaders who need it are key actions.
- **Communications** need to be much more frequent to support team cohesiveness and make up for the loss of random connections. Consider developing communications and meeting protocols, for example appointing a moderator to monitor how virtual meetings run and making sure team members are not being left out. Teams may need to rely more on asynchronous communications, for example sharing virtual documents or using Slack channels. Share good practices across teams.
- **Learning on-the-job.** Much of how we learn is dependent on observing others in action and practising. Formal mentoring and buddy systems can help make up for the loss of in-person connection.
- **Performance management** is far more than performance appraisal. Companies need to answer the question: what does high performance look like when working remotely? How can it be measured? Performance systems may need to be redesigned to account for the difficulty of monitoring performance remotely. Increasing the frequency of check ins, focusing on setting clear objectives and monitoring processes, and increasing the use of peer feedback are actions to consider.
- **Engagement.** Increasing the frequency of employee pulses and surveys can provide an early warning system for emerging issues.
- **Wellbeing.** It’s harder to maintain boundaries between work and family life when working at home and people are at risk of burnout. Providing resources to help individuals manage their mental and physical health and build resilience, while equipping managers to spot and act on signs of overload through training or by providing engagement data, are ways of addressing this.
- **Inclusion.** Remote working can exacerbate inadvertent but nonetheless exclusionary behaviours. Certain groups, such as working mothers, are at greater risk of being excluded when working remotely. Line managers are critical in building and maintaining inclusive working environments. They are likely to need extra support to communicate effectively, run inclusive meetings, and make sure opportunities to take on interesting and developmental work are shared fairly.

For a more detailed discussion of issues in setting up and running remote teams, see CRF’s research paper [D&I: Emerging Issues](#).

3.4

NEW FRONTIERS FOR TALENT, LEADERSHIP AND LEARNING



“Whatever the future of HR means, we still need to have the right people with the right skills at the right time in the right place, and at the right cost to execute business strategy.”

Respondent to CRF Member Survey

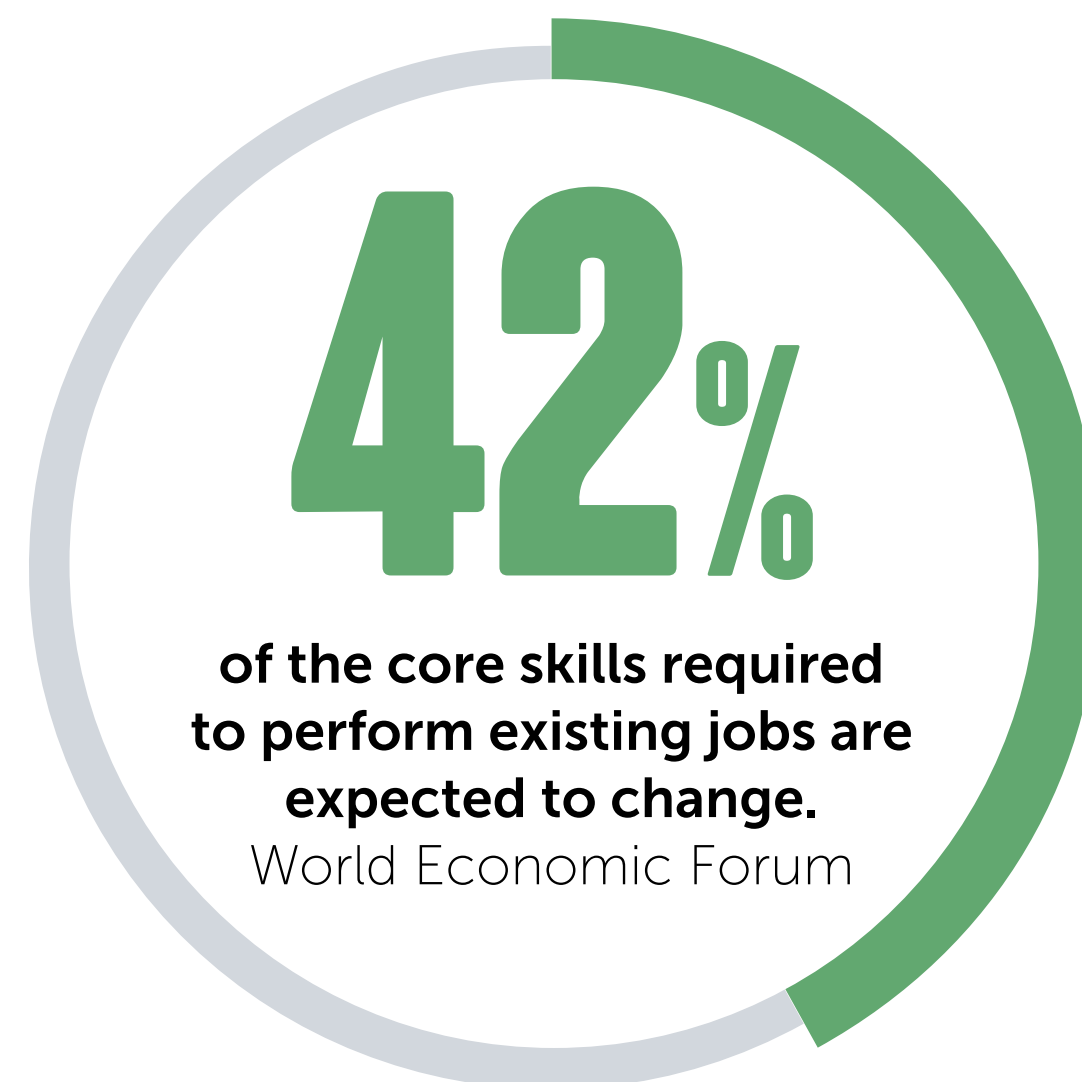
Developing future talent is among the most important agenda items for HR today, and is likely to become even more pressing as organisations grapple with a changing workforce, new business strategies and the need to reskill in the face of technology-driven disruption. In addition to HR’s traditional role in workforce planning, hiring talent into the organisation, and developing talent and future leaders, there are a number of emerging talent themes our research suggests will become more pressing priorities.

JOINED-UP THINKING IN TALENT, LEARNING AND RESOURCING

A key priority for HR is to support in developing the future capabilities required to build and transform the business and execute new strategies. HR needs to be much more joined up in its thinking and actions so that workforce planning, resourcing, talent and career management, learning and leadership development and performance management are all aligned to execute the strategy. All the elements of the talent supply chain need to focus on identifying and developing future skills while enabling people to access job experiences and learning to help develop those skills. However, in practice we find that talent, succession planning, career development, learning and leadership development are not as well integrated as they could be.

There are a number of elements to fostering joined-up thinking. The structure and operating model of HR (discussed further in the next chapter), is one. Another is the role of HR technology. While many challenges to effectively deploying emerging technology solutions remain, it’s now within reach for organisations to connect different elements of the employee experience through technology. This includes using artificial intelligence to infer people’s skills (making talent more discoverable), recommend learning opportunities that are personalised to an individual’s skills and preferences, and to better connect people with opportunities to develop their skills and progress their careers. New technologies put the tools for career planning, learning and internal mobility in employees’ hands, and they increase the prospect of learning and development in the flow of work. Josh Bersin, who analyses HR technology, describes the new landscape as “a world where people can work, learn, and progress all the time. In other words, a way to manage people so they know what they want to do next. The company offers lots of development and support in doing so, and new career opportunities are made available as part of everyday life.”

One of the challenges for HR is to harness the available technology to rethink strategies for talent management. CRF’s report [Talent: Careers, Development and Succession in a Changing Landscape](#), discusses this topic in more detail.



RESKILLING

The broad workforce shift that's expected over the next few years, and likely to be accelerated by the Covid-19 crisis, will mean many organisations will have to put in place purposeful initiatives around developing, reskilling and redeploying their people. In January 2020, the World Economic Forum estimated that 42% of the core skills required to perform existing jobs are expected to change. HR will need to get a grip on the scale of the challenge, develop strategies for supporting employees, and implement programmes to help people develop new skills and gain experience to enable them to move into new roles. In putting together a reskilling strategy, HR leaders will need to address the following questions:

- What is the scale of the reskilling challenge we face? Which parts of the workforce are affected?
- What responsibility do we have as an employer to help people prepare, develop new skills, and move into new positions (whether that's within the organisation, or with another employer)? What principles and policies underpin our approach?
- What new capabilities do we need to develop as an organisation? How can we help people develop those skills? What's the right mix of hiring externally versus reskilling internally? What opportunities are emerging for people to be redeployed?
- How can we encourage employees to actively plan their future and keep their skills up to date? How can we support people to plan their careers?
- Could we partner with other companies to develop shared resource pools?
- What do we communicate to the workforce and when?
- How will we pay for the work we need to do?

ENGAGING THE ALTERNATIVE WORKFORCE

Traditionally HR was responsible for the directly employed full-time and part-time workforce. However, for many organisations, employees represent only a fraction of the people who work within the business. For example, Hugh Mitchell, former CHRO at Shell, was responsible for the 90,000 people the company employed directly, but also had to consider over a million people who worked for the business globally. Increasingly, there's an expectation that, while the indirect workforce is not necessarily treated the same, the company takes some responsibility for maintaining minimum standards. "If you want to demonstrate you meet the standards of the living wage, for example, it's not enough to talk about how you pay your own people," said one CHRO. "You have to be able to show that your suppliers also meet those requirements."

Recent research by McKinsey found that 70% of executives expect to use more temporary workers and contractors than they did before the crisis. We are likely to see companies choosing to shift towards gig workers over the next couple of years as they deal with the economic fallout of the pandemic.

The need to reskill and redeploy people whose roles are displaced by technology is also likely to lead to the emergence of new employment models. For example, Unilever is experimenting with a flexible employment model in the UK for existing employees who wish to have a flexible working arrangement or who are phasing out of work at the end of their career. The company guarantees a minimum number of weeks work per year, with pay and benefits flexed up should they work for more than the minimum amount. While there are tax and fiscal issues that make these types of arrangements complicated in some jurisdictions, we can expect to see more flexible working models in future.



"Our challenge used to be about going out and getting the skills we needed in the external market. Now, those skills don't exist out there, so our role now is to tap into alternative talent pools or grow those capabilities ourselves."

Caroline Fanning, CHRO, Avanade



“We will need to move to models of employment that will enable people to move seamlessly between fixed and flex employment.”

Alan Watkins and Nick Dalton, authors of *Change the Workplace, Change the World*

Some companies are developing talent marketplaces involving multiple employers to share talent and to manage fluctuating demand.

Even if HR only has direct responsibility for employees, it still needs to be involved in planning the workforce in its broadest sense. HR should have a point of view on what capabilities must be retained and developed in-house and what can be safely outsourced. It needs to be involved in decisions about when to use gig or contract workers and be on top of the risks of doing so.

While companies have choices about whether to engage people as permanent employees or gig workers, individuals have choices about how they engage with the company. Sometimes people with the critical skills a company needs to develop new products or open up new opportunities are not interested in a full-time job with a single company. Mara Swan, formerly EVP Global Strategy and Talent at ManpowerGroup said: “Many times the employees who added most value to our customers’ strategies were contractors and HR had no line of sight to them. They didn’t appear on talent plans. They weren’t on the radar for engagement. This means one homogenous talent deal, engagement model etc will not work and we will need to manage the talent ecosystem with more creativity and deftness.”

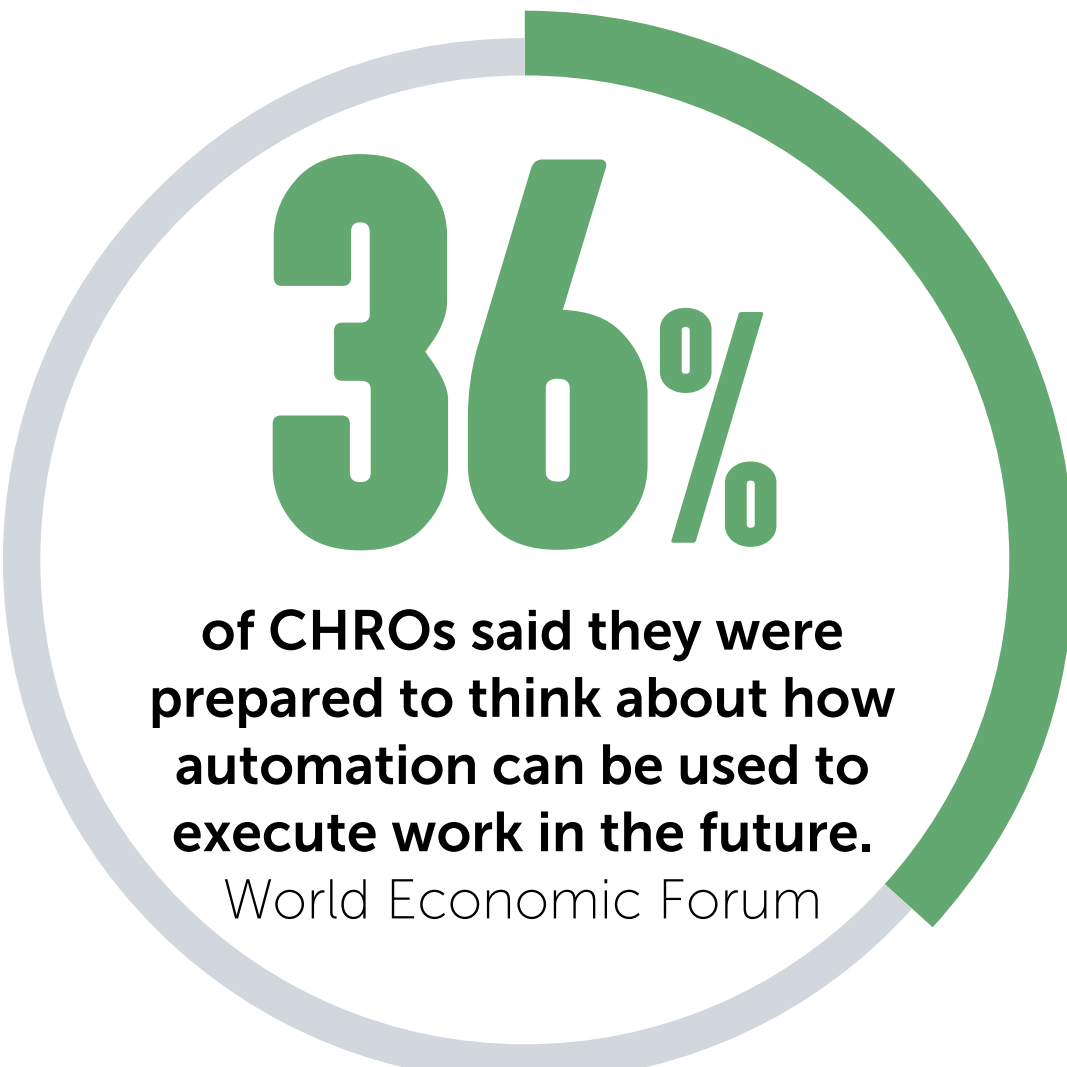
As HR leaders, we need to be clear about our responsibility for the wider workforce, where the business risks lie in relying on contractors and gig workers, and whether we should be engaging differently with talent in its broadest sense in order to optimise business outcomes. Questions to consider include:

- Do we know who and how many people are employed, both directly and indirectly, in our supply chain?
- What proportion of our critical capabilities/talent is delivered by gig or contract workers? Where are the major risks?
- To what degree should we include contractors and gig workers in our deal for talent, engagement, learning and development etc? What alternative talent models do we need to design?
- What minimum employment standards should we enforce throughout the supply chain?
- How are labour laws shifting in the markets in which we operate? What opportunities do these represent to engage differently with the workforce, or how will they restrict practices as governments and pressure groups seek to protect workers’ rights?

WORK DESIGN IN THE AGE OF ROBOTS AND AI

Another aspect of work that is likely to change significantly over the coming years is how humans and machines work together. This clearly has significant implications for the workforce, requiring HR to partner with business leaders to determine the right combination of people and machines. However, research suggests that HR is not yet properly engaged in this dialogue. The World Economic Forum found only 36% of CHROs said they were prepared to think about how automation can be used to execute work in the future.

Ed Lawler and John Boudreau at the Center for Effective Organizations at the University of Southern California have run a longitudinal survey into the role of HR for over 20 years. They found that, while the involvement of HR in decisions about using robotics or AI is not widespread, it was twice as likely to happen in high performing organisations where HR plays a strong strategic role. As Lawler and Boudreau conclude: “The future of work will require organisations and their leaders to optimise a diverse array of new work relationships and combine humans with automation. As this future emerges, effective organisations should involve HR more.” Indeed, it’s incumbent on HR to make sure it is involved at all stages of decision making around the impact of automation on work and the workforce.



36%

of CHROs said they were prepared to think about how automation can be used to execute work in the future.

World Economic Forum



“The one trend I think is certain is there will be uncertainty and ambiguity for some time. One of the key roles for people leaders will be to help the organisation develop leaders with the intellectual and emotional capacity to navigate through this challenging context.”

Sue Whalley, Chief People and Performance Officer, Associated British Foods

LEADERSHIP DEVELOPMENT

While leadership development is not a new topic for HR, it's one of the main ways in which the function can influence the strategy, future direction and culture of its organisation. This is an area where HR can shape business outcomes by advising the executive team on the criteria for hiring and appointing future leaders, determining who advances in the organisation, and by shaping the curriculum for leadership development. Building capacity for innovation, experimentation, agility and adaptability across the organisation is largely a leadership challenge. A well-designed leadership curriculum can expose leaders to new ideas, create experiences that force them to think differently about the organisation and its business context, help them build skills in dealing with complexity and ambiguity, and provide a vehicle for leaders to work together to develop and test new strategies.

Our extensive research into leadership development has found that significant financial investment is often not translated into business impact. Our research also suggests that one important way to narrow the gap between expectations and actual outcomes is to use leadership development as a vehicle for changing organisations.

Organisations can do this by using action learning as a way of linking strategy development and leadership development, or even using leadership development as a foundation for business transformation, in the following ways:

- Identifying real strategic and work process challenges that are critical to future success but that the business hasn't yet been able to resolve.
- Assigning current or future leaders in teams to focus on developing, testing and sometimes implementing options, on a full-time or part-time basis.
- Providing the resources participants need to learn as they go. This might be individual or team coaching, or learning interventions to teach specific skillsets or knowledge required to complete the challenge.
- Finding committed post-programme owners and sponsors who ensure that insights from these learning projects turn into long-term organisational initiatives rather than soon-forgotten presentations.

The key is that these projects need to focus on developing, testing, and implementing solutions, and iterating based on learning. The results of action learning can help the executive team choose which ventures to fund. Successful projects become part of the organisation's strategy and can provide the next leadership role for those who are involved – so they act as a vehicle for career development too.

HR'S OPERATING MODEL – FROM DESIGNING FOR EFFICIENCY TO DESIGNING FOR STRATEGIC IMPACT

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“How you implement – rather than what your strategy is – is becoming an ever more important source of competitive advantage. In future, 80% of work will be done in agile teams.”

Professor Joe Perfetti

What does the changing role and purpose of HR mean for the design of the function, its operating model, and the capabilities needed to deliver the people strategy? In this section, we look at the prevailing model in large organisations, consider some emerging approaches to organising HR, and look at how technology is shaping the practice of HR. We also highlight some critical capabilities that HR will need to develop for success in the future.

4.1

KEY CONSIDERATIONS IN DESIGNING THE HR OPERATING MODEL

We find that as HR teams are thinking about how to organise, they are grappling with questions such as:

- How do we build agility into the HR function?
- How do we break down silos between the different parts of HR?
- Do we need to have dedicated business partners for each business or function?
- What's the right mix of specialists and generalists?
- Should we split HR in two and separate transactional and strategic HR?
- Does delivering HR services through technology give rise to different ways of organising HR?
- Where can we find and how do we develop people who will make a difference to our capacity to deliver what the business needs?

As HR teams consider the design of their operating model, it's important to keep the following in mind:

- There isn't one single HR model that works in all circumstances. The model has to reflect the business strategy and work consistently with the business operating model. For example, in a holding company with highly autonomous business units, HR is also likely to be highly decentralised with a small central team and HR practices might vary significantly across the businesses. Similarly, HR in a fast growing, innovative technology company will look different to HR in an engineering firm with an ageing workforce.
- Start with the key priorities and objectives the model needs to address. A model that's designed to deliver a low-cost, lean HR service will look different to one that's focused on developing top notch talent or a strategic OD capability.
- There also isn't necessarily a correct 'solution'. Choosing an operating model inevitably means trade-offs, for example between being able to act with speed and agility and delivering services at low cost.

- In designing the operating model, you must identify HR's key stakeholders and their needs, and make sure the model is aligned with their expectations.
- HR's operating model needs to work with the design of other functions and business units. There's no point designing a highly innovative HR model if interfaces with the business don't work.
- The design needs to consider what processes, behaviours and skills will be needed to make the model work in practice. Do those exist today, and if not, can they be developed?

4.2

THE 'TRADITIONAL' HR MODEL – DESIGNED FOR EFFICIENCY AND STANDARDISATION

FIGURE 4

Traditional HR Operating Model – The 'Three-Legged Stool'



One of the major developments in HR over the last twenty years is the widespread adoption in large organisations of what is known as the 'Ulrich model' (although Dave Ulrich says he never prescribed this as a way to organise HR). Mercer's *Global Talent Trends* research finds that 72% of HR functions operate this model. There are three elements to the model

- **Centres of expertise:** HR professionals who provide deep technical insights, tailor solutions to business requirements and share knowledge across business units.
- **Service centres:** Deliver transactional services in areas including payroll, learning administration and employee relations. These are often supported by self-service portals for managers and employees.
- **Business Partners:** HR professionals embedded in business units. They are expected to customise solutions to their unique business strategies and act as a strategic partner to business leaders, advising on matters related to people strategy, talent and organisation development.

For over 25 years, Lawler and Boudreau have conducted a triennial survey of the effectiveness of HR and how it spends its time. Since 1995 they have observed:

- A significant increase in the extent to which HR centres of excellence provide specialised expertise
- A significant decrease in the extent to which HR practices vary across business units.



This is consistent with our observation that this operating model has led to HR delivering services more efficiently and in a standardised way. However, Lawler and Boudreau's analysis suggests HR has not necessarily become more 'strategic'. Where HR spends its time has changed little since 1995. HR still spends the majority of its time on services, controlling and record keeping, and it does not appear to be spending any more time on strategic topics.

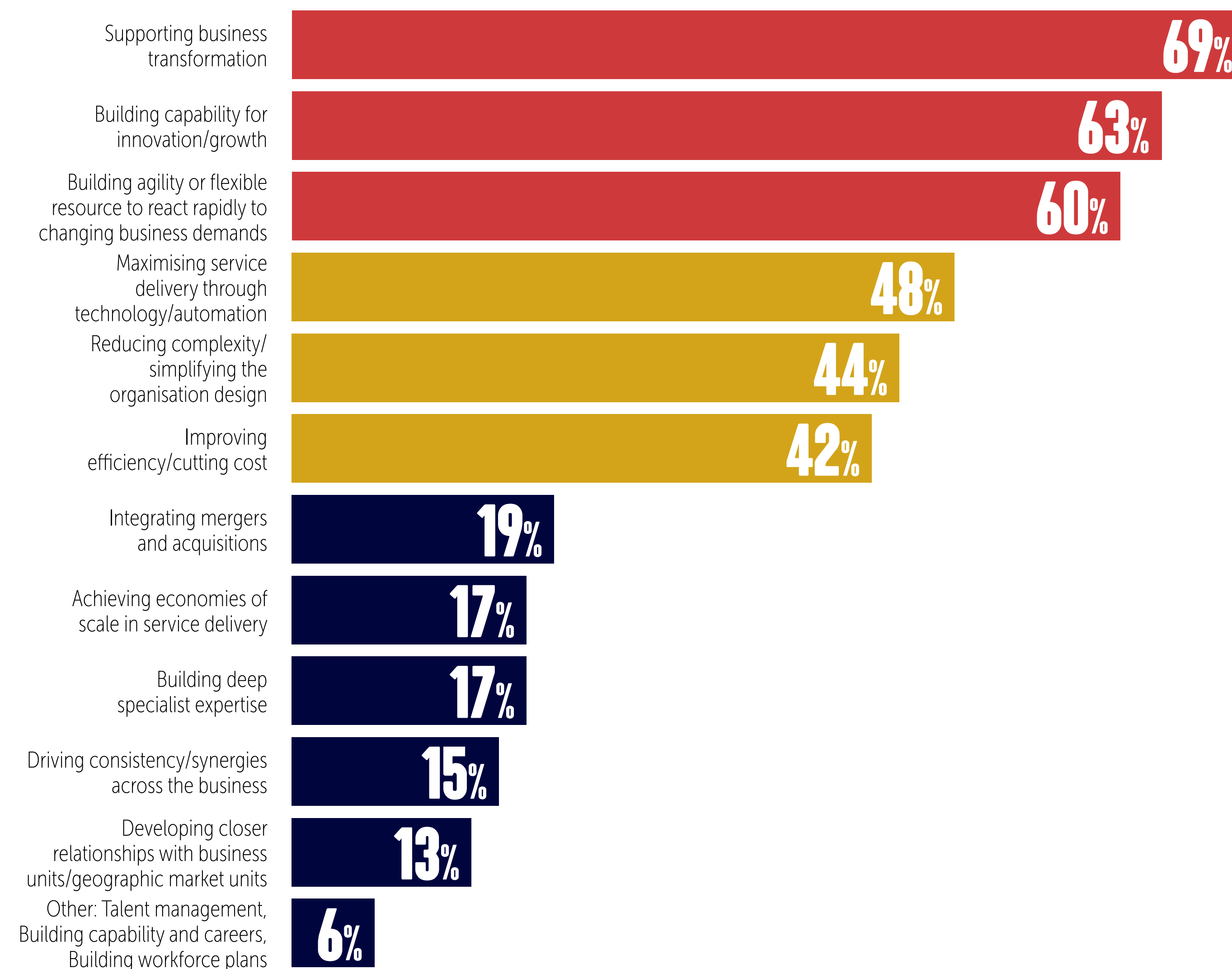
While this model has delivered significant value in terms of improving efficiency and standardisation, organisations commonly experience a number of downsides:

- While the model was designed to deliver the 'strategic' and 'operational' elements of HR simultaneously, a common complaint is that while it has delivered efficiencies, the strategic contribution expected of HRBPs has not lived up to expectations. There is often a big gap between intention and reality with regard to the HRBP role.
- Partly this is due to the design and/or activation of the model. HRBPs often end up playing a coordination role working with centres of expertise and service centres to make sure services are delivered consistently. Sometimes business leaders expect 'their' business partner to act as a single interface into the HR organisation, taking care of all their people needs.
- Often, however, this is also explained by a lack of strategic capability on the part of HRBPs. You cannot simply rebadge someone as 'strategic' without making sure they have the skills and support required to operate in a different way. Sometimes the work of HRBPs is simply high-level administration.
- Internal customers don't always understand how the role is designed or have expectations that are inconsistent with the model. It's important to put the effort in to communicate with and educate the business about how the model is supposed to work.
- The design has reinforced silos across different parts of the HR organisation. For example, we often find a lack of joined-up thinking between talent management, talent acquisition and learning when they sit in different parts of the HR organisation. This can result in people experiencing a disjointed employee experience, for example their experience as a candidate can be quite different to what happens when they become an employee.

As we rethink how HR can be fit for purpose in the organisation of the future, we need to develop operating models for HR that retain the benefits of efficiency while enabling HR to address the business's critical strategic challenges related to innovation and growth.

FIGURE 5

Thinking about how HR is organised to deliver the people and organisation strategy (HR's operating model) in your organisation, what are the principle objectives driving the future development of your operating model over the next three to five years? *Select up to four.*



4.3 WHAT ARE CHROS LOOKING TO ACHIEVE WITH THEIR HR OPERATING MODEL?

Our survey asked CHROs to specify the objectives driving the future development of their HR operating model over the next three to five years (respondents could select up to four). The top priority was supporting business transformation, cited by just over two thirds (69%). This was followed by building capability for innovation and growth (63%), and building agile or flexible resource to react rapidly to changing business demands (60%). Improving service delivery through technology or automation was a top-four priority for just under half (48%), and improving efficiency or cutting cost was selected by just over two-fifths (42%). See Figure 5.

FIGURE 6

Do you anticipate a significant restructure of the HR function over the next three years?

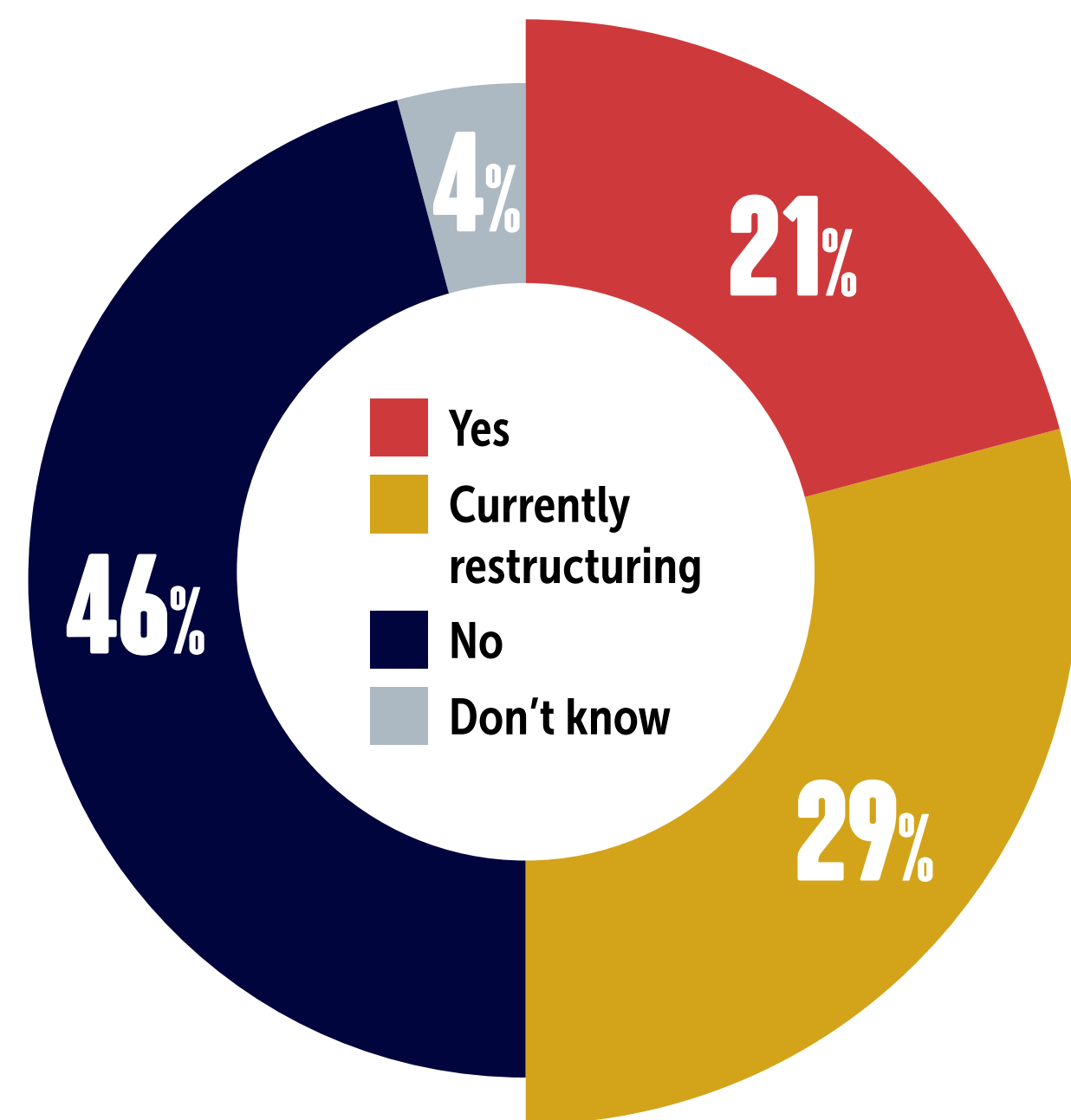
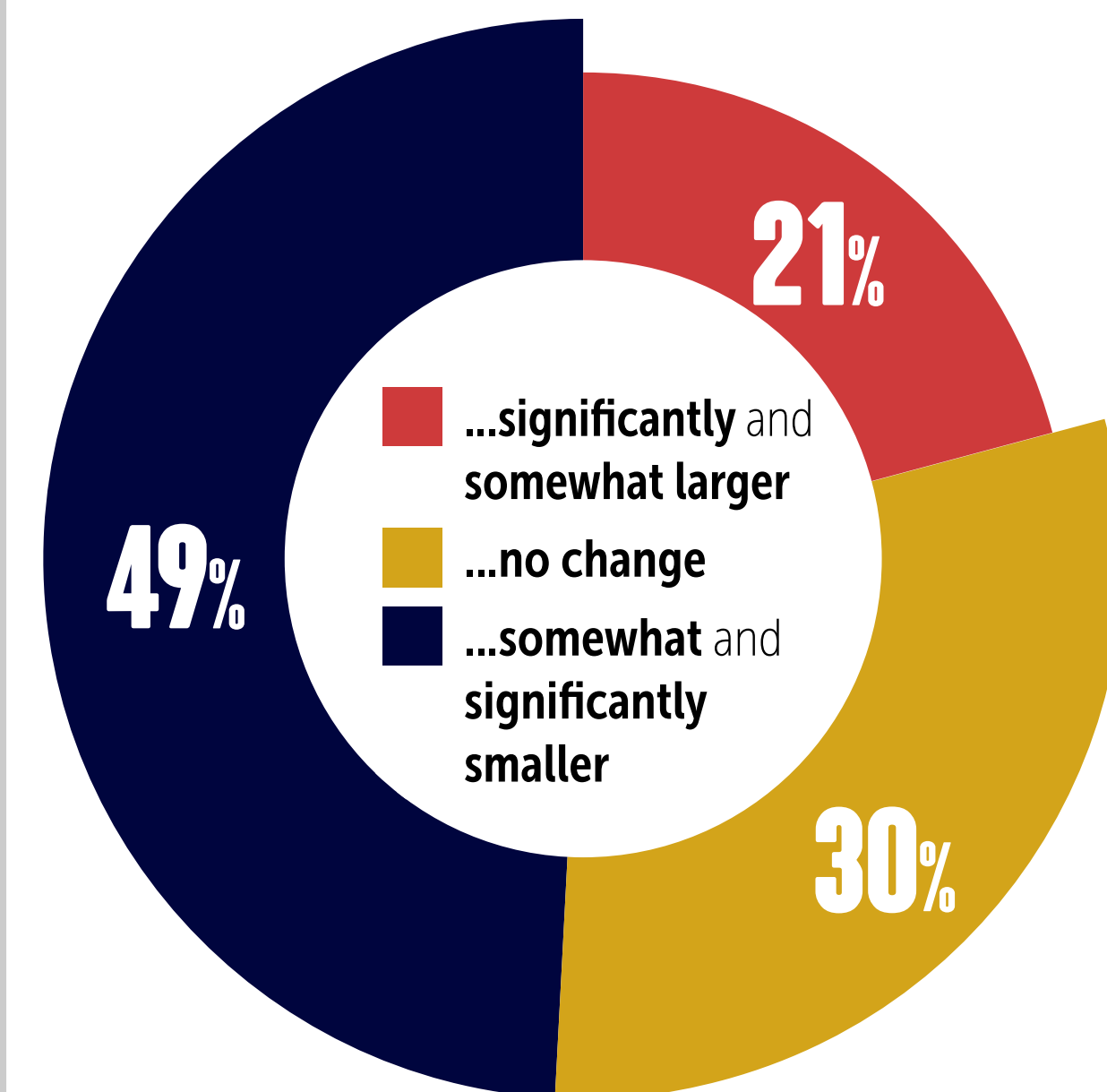


FIGURE 7

Looking ahead three years from now, do you expect your HR headcount to be...



A significant number of respondents expect to restructure their HR function over the next three years. Just under a third (29%) have a restructure under way and one fifth (21%) are planning to restructure in the next three years. See Figure 6.

Around a half also expect a reduction in the size of the HR team: 49% say their team will be somewhat or significantly smaller, and just under a third (30%) expect no change. See Figure 7.

We asked respondents to our survey to specify actions they were taking to build agility and responsiveness into HR's operating model. Common responses included:

- Developing new capabilities e.g. environment scanning, design thinking, business acumen
- Building flexible pools of talent partners, HR or OD consultants
- Greater collaboration between different teams within HR
- Using more flexible resources such as contractors
- Moving specialists/subject matter experts closer to business units
- Using technology to digitise HR tasks and free up HR resource
- Implementing shared services
- Upskilling the HR team to do more with less.

4.4

TOWARDS A NEW OPERATING MODEL FOR HR



“The core of high impact HR today is creating more specialists and locating them closer to the business, where they can drive the most value.”

Josh Bersin



“OD should be at the heart of what a strategic business partner does, not sitting in a centre of expertise.”

Nick South, Managing Director and Partner,
Boston Consulting Group

The new HR operating models we see are typically designed for flexibility, agile allocation of resource, collaboration across specialisms, optimal use of HR technology and to leverage specialists across the business. They aim to break down the silos between different parts of the HR model and move experts out of centres of expertise and closer to the business.

One driver for this way of working is that increasingly, HR's work is project-based rather than transactional. Armin von Rohrscheidt, Partner and HR Transformation Leader at Mercer, said: “On average we find that 40% of HR work is delivered through projects, and that proportion is increasing. Your organisation design has to be geared up for that, otherwise you're only accounting for 60% of HR's deliverables.”

Another driver is the focus on designing and delivering the employee experience end-to-end, discussed in the previous chapter. The HR plan identifies key employee experiences and interactions that need to be redesigned. Cross-functional project teams come together to design, prototype and develop new solutions.

This approach allows for resource to flow to where the greatest business need is, rather than being bound by a standard HR-to-employee ratio.

What are the common features of the new models?

- **They are designed to reconfigure resources without having to restructure all the time.** There's less 'hard wiring' of generalists to business teams. Specialists are allocated to work in a fluid way. Work is delivered through multi-functional teams who come together to solve specific business challenges such as launching new learning pathways or running an OD intervention. For example, Thomson Reuters has established a Strategic Resourcing team, which brings together OD specialists to support transformation projects in the business and undertake HR projects that impact the broader organisation, for example developing learning pathways for new managers. The team uses Agile project management methodologies to determine its priorities and govern how its work is delivered.
- **There are only a small number of business partners dedicated to business units.** They operate at a senior level and act as business consultants focusing on strategic topics such as talent management and OD. As much as possible, they are disconnected from the day-to-day HR liaison role that many business partners traditionally play.
- **Business partners act as a pooled resource, allocated to work according to business priorities.** For example, at ABN AMRO, the Dutch bank, each business unit has an HRD at ExCo level. Instead of each HRD of the business line having a number of business partners in their team, all business partners (called business consultants) are centred in a pool. The pooled resources 'swarm' to projects according to business priorities. In this way HR can allocate its resources according to highest strategic value for the business. HR Business Partners benefit from developing strategic consultancy skills and adding value to multiple business lines in their role. A critical enabler to allow the pool to work well, is that day to day questions from managers and employees are addressed via a Tiered Service model with information provided via intranet, call centre or second line support.

LESSONS LEARNED: MAKING THE AGILE MODEL WORK

Discussions with several organisations which have implemented an agile operating model within some or all of HR highlight various common challenges and lessons learned.

- While an agile operating model involves a more fluid structure, it requires robust governance processes for resource allocation, prioritisation and a strong project management office (PMO).
- It's essential that the project pipeline is determined by and flows from the business strategy. For example, at Thomson Reuters, the People Leadership Team reviews the project pipeline on a quarterly basis in line with strategic business priorities.
- It can be a change in mindset for HR. Delivering value at speed and customer focus mean giving visibility of projects to potential users as they develop and inviting continuous feedback. This requires overcoming the need for things to be perfect before they can be rolled out. It's necessary to invest in up-front development and ongoing support.
- Some managers are uncomfortable with the model as they no longer have a 'go-to' person who understands their business intimately. However, they benefit from having access to deeper expertise. Isabel Workel-Tijhuis, HR Director International at ABN AMRO said: "While there was initial resistance from the business, they began to see the benefit in terms of strategic value through having access to expertise. For example, in succession planning the outcome is seen as better because the person who's leading the process is an expert who knows the right questions to ask to have a challenging discussion on the right talent at the right place."
- The transition is most difficult for people who have to balance working on agile projects with maintaining their day-to-day workload, or for teams working in a hybrid model.
- Double-hatting can be a good way of breaking down silos between business partners and specialists, and developing expertise. One CHRO said: "Every one of my HR business leads also has to take on functional enterprise responsibility, such as for learning or talent. I do that so we can move the understanding of new skills and processes quicker, and also so that people in the field are accountable for delivering standardised processes. It's a way of getting people to behave differently and drive the change we need in HR."

- **Centres of expertise are smaller** and focus on developing common technology platforms, processes and standards rather than providing centralised services.
- The **specialists** who historically would sit in centres of expertise are either allocated or embedded in the business and **operate in 'networks'** in collaboration with other experts.
- They **employ a higher proportion of specialists to generalists than in the traditional model**. Amy Kates, Managing Partner, Kates Kesler Organization Consulting, said: "HR work is increasingly about bringing experts together to solve a specific issue as a team. Delivering HR services is done less through generalists. It's about bringing specialists together in teams to diagnose, create a solution and deliver, using toolkits and approaches that create efficiency and consistency."
- Central **talent management is a small team focused on developing common processes and programmes**. The bulk of the work of operationalising talent and succession management is led in the business by business partners.
- Some organisations **no longer use the term 'business partner'**. Instead they use terms such as Talent Leader or Talent Partner to reflect the greater specialisation of the role. They are measured on talent-related metrics such as attrition, internal promotion etc.
- HR's deliverables are redefined as products that can be **delivered by small, cross-functional self-organised agile teams**, which involve both HR experts and internal customers who co-create solutions.
- They are **supported by a strong technology-enabled service capability** that reduces the administrative burden on business partners and lets people manage their own HR transactions. Nigel Sullivan, Chief People Officer at BUPA, said: "Our new HR systems have taken most of the administrative load away. It's got HR out of the filing cabinet and it's creating capacity for more strategic work."
- An essential feature of the model is to have a **programme management office within HR** which sets plans and priorities, allocates resources and tracks progress.

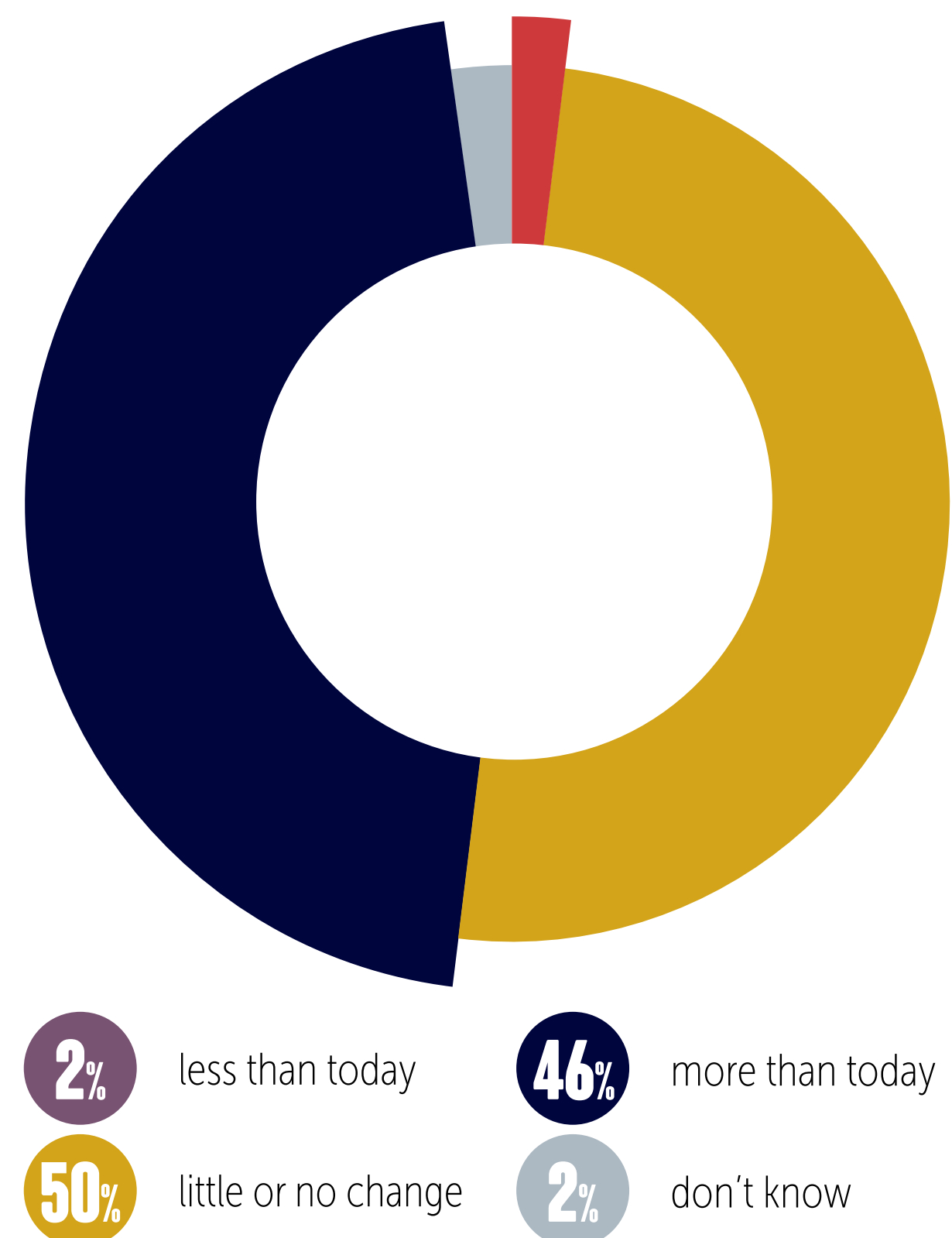
29%

are moving away from HR business partners allocated to business units towards a more flexible/agile resource pool that can be reassigned in line with business demand

How widespread is the agile HR model today? Our survey showed that just under a third (29%) of HR organisations have begun to move away from dedicated HR business partners allocated to business units towards a more flexible/agile resource pool that can be reassigned in line with business demand.

FIGURE 8

What level of outsourcing of HR services do you anticipate in five years' time relative to today?



4.5 SHOULD HR BE SPLIT IN TWO?

As HR technology has matured, it has enabled HR to deliver more services digitally and put tools such as self-service analytics in the hands of managers. In theory it has also freed up HR headcount from administrative tasks, although Lawler and Boudreau's research cited above suggests HR's administration burden has not reduced in the last 20 years. As technology such as chatbots become more widely used, perhaps we will finally see a shift. It's certainly something CHROs expect to happen: nearly two fifths (38%) of respondents to our survey expect HR technology such as chatbots to lead to a reduction in HR headcount over the next three years.

Some commentators suggest that technology solutions will eventually enable companies to reverse the outsourcing of HR services over the last two decades by replacing outsourced transactional services with in-house technology-enabled tools. However, this has not yet caught on. Our discussions with companies that are experimenting with chatbots, for example, indicate it's a complex undertaking, particularly in global businesses with different HR policies in each jurisdiction. One interviewee commented: "It's taking longer than we would like for the chatbot – which uses machine learning to improve and refine its responses to employee queries – to deliver the level of service we're aiming for. It needs many, many instances of the same example to learn." Only one survey respondent expected to reduce their reliance on outsourcing over the next five years, whereas just under a half (46%) expect outsourcing of HR services to increase. Only a fifth (21%) agreed that HR technology would allow them to bring back in-house activities that had previously been outsourced. See Figure 8.

One effect of the new ways of organising HR described above is that operational and strategic HR activities are becoming increasingly separated. Some organisations are taking this a step further and have hived off HR's transactional work into a business services organisation, combined with other transactional teams in finance, procurement etc. The benefit of this approach is that it brings together work that requires the same core competencies: process optimisation, digitisation and automation. It also offers opportunities for reducing cost through outsourcing. However, it does significantly change the scope, focus and capabilities of the CHRO, and the skills required of the HR function.

4.6

CRITICAL CAPABILITIES FOR A FUTURE-READY HR FUNCTION

So, where might HR leaders need to develop or enhance their capabilities to remain relevant and support the needs of the business? Many HR people are used to and comfortable with focusing on transactional work. However, in order to become more strategic and focused on developing a high performing organisation, HR will need to develop its commercial, consulting and analytical capabilities. We identified a number of priority areas for development as set out below. Our survey of CHROs found that the use of data and analytics, adoption of HR technology/automation, expertise in OD and culture change, and HR's contribution to supporting innovation and growth are their biggest concerns around future capabilities of the HR function. In developing a future-fit HR function, CHROs will need to decide whether to hire or develop people with these capabilities, and what are the implications for HR career paths.

- **Business acumen.** HR people need to be, first and foremost, business people. HR does not exist as an end in itself – it is there to support execution of the business strategy and delivery of business objectives. Effective HR professionals are genuinely fascinated by how the business creates value, who are its customers, why they do business with you, what are the expectations of investors and other stakeholders, and the identity and market positioning of key competitors. They understand the business model and value chain, and can identify and work with the key drivers of higher business performance. This is not an academic exercise – by developing a deep understanding of business and strategic issues, and linking HR activities to them, HR professionals can build credibility and deliver value. Sadly, HR can sometimes push 'products', such as performance appraisals, that have little commercial benefit, or can become preoccupied with pursuing 'best practice' rather than making sure HR solutions have clear business goals.
- **Bringing the outside in.** HR occupies a unique role in many organisations, being one of the few functions that works and has influence across all organisational silos. It can use its unique position to bring an external perspective, whether that's bringing in new ideas, advocating the customer viewpoint, challenging the feasibility of business strategies or promoting the voice of employees. This means being aware of broad political, economic, social, technological, legal and environmental trends and how they might affect the organisation and the workforce, and being able to interpret them for the organisation and frame them in a way that can inform decision making. It requires HR people to be connected to external networks and spend a percentage of their time outside the business.

CASE NOTES: DEVELOPING BUSINESS CAPABILITY IN HR

- One CHRO realised their HR team's understanding of the business strategy was highly variable. They introduced a programme where a team of people visit each of the company's business units every six months. They interview line and HR leaders about the business strategy, operations and performance, and compare how well the HR leaders understand the business. They then put together a development plan to help the HR leaders improve their business awareness, and retest every six months to see what improvements have been made.
- Another CHRO gets each member of the HR team to adopt a store. They are tasked with working with the local leadership team over a year to develop the business and grow revenue. They report back at monthly HR leadership team meetings about the actions they're taking and impact on the business. There's a prize awarded at the end of the year to the team that's made the greatest improvement. It's seen as a fun way of learning about the business.
- One CHRO spends two evenings per week with executive colleagues talking to them about their work to really understand the challenges they face, what they need to succeed, and coaching them to shape their arguments, craft their messaging, and develop solutions to their business issues. He is then able to bring that understanding into executive meetings, providing an informed and broad perspective into the discussion.

- **Deep expertise in HR.** HR practice is based on a deep and extensive body of knowledge, developed over decades and continuously evolving. There is a theoretical underpin to HR, but there is also an art and a craft developed through experience and judgment. Successful practitioners will need to become proficient in all three. The specific body of knowledge will differ depending on role (e.g. reward vs. talent management). However, the principles of understanding the underlying science and good practice, effective application in addressing business issues, taking an evidence-based approach, evaluating outcomes and continuously improving practice, apply. As a minimum, HR needs to be able to assess people and judge situations and this requires expertise in organisational and individual psychology.
- **Design skills.** As organisations increasingly view employees as internal customers, HR professionals will need to develop skills in areas such as design thinking, user interface design, and human-centred design. HR will also benefit from getting closer to marketing, as the employer and corporate brands become more closely integrated. HR can learn much from marketing, particularly in areas where they are typically more advanced than HR, such as social media and data analytics.
- **Organisation development and change management.** HR needs expertise in culture and behaviour change, organisation design and the principal tools and frameworks of organisation development. It's important to view the organisation from a whole-systems perspective, working on the level of the organisation and not just the individuals who work there. HR needs to make the link between strategy, the work that needs to be done, and the organisation design and organisation capabilities needed to deliver it. Strong skills in contracting, consulting and relationship building with key stakeholders are also required. It's essential to gain a thorough understanding of the organisation first, and then develop robust and relevant solutions that are appropriate for the organisation's context. Charan, Barton and Carey suggest giving early-career HR professionals rigorous training in business analysis, along the lines that consultancies do.
- **Project and programme management.** HR needs to be able to apply its expertise and business knowledge to develop and execute an effective plan. As more HR work is delivered through projects, HR will also need to develop expertise in project and programme management.
- **Data orientation.** The practice of HR is increasingly reliant on data and analytics – data underpins HR's processes and systems more than ever. As organisations are building and deploying dashboards and reporting systems that put data directly in the hands of HR, it will be necessary to ensure that HR professionals are capable and confident in using the tools that are available to them.

CONCLUSIONS AND RECOMMENDATIONS

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5.1

CONCLUSIONS

- 1. In defining the agenda for HR in the organisation of the future, the function's core deliverables around talent, performance, leadership and operations remain the same, but how they play out in practice is changing in multiple ways.** While HR's purpose remains constant: to support the business in building the people and organisation capability to execute its strategy for the benefit of its stakeholders; its plan is also shaped by the context in which we operate, and must reflect wider changes in the workforce and society.
- 2. The coronavirus crisis has significantly changed HR's profile and standing in many organisations, providing a platform for the function to demonstrate its value in supporting business strategy.** HR can build on this to have greater influence in advising the board and executive team, making sure the people agenda is core to the business strategy, and shaping the future direction of the business.
- 3. HR must take account of the major technological, social, political, and demographic change that is shaping the context in which organisations operate.** HR's role is becoming broader and more complex, and this must be reflected in its planning. The function also has a responsibility to be well informed about what is going on in the wider world and be able to translate what that means for the talent, business and organisational agenda, providing expertise and advice to inform and influence the management team's response.
- 4. Inclusion will be a defining characteristic of HR work over the coming years.** Its focus will expand from sex and race, to cover issues of social inclusion, economic inequality, wellbeing, mental health and sustainability. This is not only about creating an environment where everyone can thrive but is a crucial factor in being able to tap into every corner of the wider labour market to withstand current and future skills shortages.
- 5. Technology will play a vital role in delivering future strategy.** The pandemic has forced us to leverage technology in ways which haven't previously been required. Digitisation will continue apace, and HR should consider how best to employ it to improve the employee experience and enhance organisational learning.
- 6. HR professionals must act foremost as business people.** To be effective, we must continue to build commercial understanding, apply deep HR expertise to the challenges faced by our organisations, and make sure our operating model is set up to deliver both operational excellence and strategic impact.

5.2

RECOMMENDATIONS

1. Consider how well HR is set up to deliver against all aspects of the future agenda outlined in this research.

- Are HR leaders well enough informed about external trends? Can they advise their management teams from a position of expertise about actions the organisation should be taking in response?
- How commercial are HR leaders? Can they hold their own in discussions of business strategy and business performance? What actions are needed to develop their business knowledge and commercial acumen?
- To what degree does your workforce plan recognise and provide solutions to the talent shortages the organisation will likely face in future? Does it include a plan for reskilling current staff whose skills are likely to become obsolete? Does it explicitly address how to integrate the alternative workforce including contractors and gig workers?
- Is the employee experience designed and set up to provide a joined-up experience for your people that's consistent with your organisation's values and brand? Does technology enhance or hinder the employee experience?
- Is the operating model and organisation design for HR set up to execute the business's priorities effectively? Can it deliver quality services at the right cost? Is it sufficiently flexible and agile to reconfigure as business needs change?

2. When you look at HR's plan and major activities, does each element directly flow from and connect with the business strategy? Can you articulate how each part of HR's plan delivers the organisational and people capabilities required to execute the strategy? Have you struck the right balance of focus between developing the organisation and its culture and supporting the individuals who work there?

3. Consider what actions will be required to set up the organisation for success with remote and hybrid working in the longer term, rather than just as a crisis response. Are you considering the broader implications of remote working for organisation culture, leadership, performance and innovation? What measures need to be in place to assess the impact of new ways of working and set up to support team cohesion, communication and learning? How will you need to update leadership development practices to build leaders who are skilled in leading remote and hybrid teams? How can you create opportunities for sharing ideas to foster innovation? How does the organisation communicate with, and involve people, who work remotely?

4. Have a plan for developing the capability of the HR function. This includes developing commercial acumen, integrating skills, learning from other functions such as marketing and design, and building capabilities in areas such as organisation design and development and change management. The HR Director should have an active network of business schools, consultancies, reward professionals and headhunters as well as HR peers from other organisations to assist in bringing in outside thinking and new ideas.

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