

CRF COMMUNITY BRIEFING PAPER 2



OD, CULTURE AND CHANGE

OD: Focusing Where It Matters

A Framework for Organisational Analysis and Diagnosis

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INTRODUCTION

We live in a world of monumental change where organisations are grappling with mega trends and changes in technology, demographics, political discontinuity and economic uncertainty – as well as short term crises including terrorist attacks, global warming and COVID-19.

More than ever HR has a key role to play by adopting a holistic systematic way of thinking to enhance performance at the organisational and individual level. This paper provides an organisational analysis and diagnostic framework that supports this role and supports our *OD Manifesto's* objective to help HR practitioners *“develop a strong grasp of their organisation’s business model and the external environment and develop a credible point of view that pinpoints where HR and OD can contribute to business results”*.

The *OD Manifesto* was fuelled by a perspective that many senior HR practitioners either did not appreciate that this objective was fundamental to their role and influence or did not know how to perform it. We also hold the generalised view that HR’s relationship with the OD agenda is increasingly compartmentalised into change management, employee engagement and the behavioural aspects of OD, and has insufficient engagement with the commercial language and drivers of businesses.

If we agree that the purpose of HR is to **build the capability of an organisation to deliver its strategy**, and help it deliver that strategy, we must understand:

- The purpose and mission of the organisation
- Its financial and other objectives
- The strategy to get there and where it comes from
- What this implies for organisational capability
- What HR needs to do to build this capability

WHAT IS THE FRAMEWORK?

- It is a practical methodology to diagnose underlying business issues and drive continuous improvements in organisational performance. It is based on a distillation of other approaches, but also experience of what we think works well.
- It is a framework for HR, grounded in the business so is equally relevant to any business person. The framework should be used in small teams to stimulate discussion within HR but also with the business.
- It can apply at multiple levels (region, country, business unit, function) that fit into one enterprise vision.
- It is not rigid and should be adjusted, added to or reduced, to reflect the organisational context.
- The intention is to use the framework to ensure we focus on the important not just the urgent.
- The framework does not provide an answer, that is down to debate and experience, but it provides a structure to drive actionable insights supported by focused, relevant data and analytics.

THE FRAMEWORK

This is a high-level map that signposts destinations for you to explore in more detail.



1. VALUE

There is an ongoing debate about the purpose of the organisation. Building on the Chicago School and Milton Friedman’s work it has been accepted for decades that the purpose of a corporation is to create value for its shareholders. In recent years this has been challenged and 181 business leaders issued a statement in 2019 that the purpose of a corporation is to create value for all its stakeholders including customers, employees, suppliers, communities and shareholders. Whichever side you come down on, organisations aren’t there for their own ends but to create value. It is therefore critical that HR starts its thinking by asking how it can support **sustainable value creation for all its organisation’s stakeholders**.

HOW TO DO IT?

- Define **where the organisation is going** (its mission, vision and purpose) and **how it will know when it “gets there”** (its ambition, objectives and financial targets). These questions define who we are creating value for and how and when we’ll achieve this. The key is ensuring everyone in the organisation can answer these two questions in the same way. A common shared answer ensures **alignment and focus**. If this common understanding is not strongly in evidence, then this must be the starting point for HR. It has to drive and facilitate the debate.
- The answers to these two questions need to be defined in the context of the external world:
 - **Stakeholder demands** – shareholders, customers, employees, society, regulators, government.
 - **Mega trends, threats and disruptors** – economic, technological, demographic, social, political and regulatory.
 - **Market** – changing customer needs and existing and new competitor responses.
- Model scenarios for identified challenges which may require a different strategic response: business as usual (BAU), transformation, explosive growth, geographical or product expansion, defence/opportunity from M&A or activist shareholders, etc.
- Use business perspectives, data and language to ensure relevance and also engagement from business leaders and avoid using an HR centric approach or language.

2. STRATEGY

Define the strategic response to the value challenge. Michael Porter defined it in three ways:

1. Strategy is the creation of a **unique, sustainable competitive position** that is different to your rivals.
2. Strategy requires you to make **tradeoffs**. It’s about what you do but also what you don’t do.
3. Strategy involves creating a **fit** among company activities that is difficult to replicate. Strategy is about how everything you do fits together in way that your competitors can’t imitate.

HOW TO DO IT?

These need to be translated into must win battles in the short, medium and long term and into quantified, realistic plans with team and individual goals. These must be clearly communicated to all critical players in the ecosystem including leaders and managers, employees, key partners and suppliers. What should HR’s key role in this process be?

- **Implementer** – uses the business strategy to define what it does
- **Subject Matter Expert** – provides expertise around people and organisational issues
- **Facilitator** – designs and facilitates the strategy development process
- **Full Contributor** – plays a full and equal role in the strategy process

HR should aim to move into the last two roles and engage throughout the strategy process.

STRATEGY PROCESS



3. CAPABILITY

In 1990, C.K. Prahalad and Gary Hamel showed how strategy is dependent not just on the external market but also on the internal capabilities of the firm. In simple terms 'the combination of resources and skills that distinguish a firm in the marketplace'.

HR's core role is to **define and deliver the organisational and people capabilities** that are critical to the delivery of the strategy. There are two types of capability:

- Enabling capabilities: without which we cannot operate (finance, purchasing, etc.).
- Differentiating capabilities: a source of competitive advantage; meet a customer need; difficult to copy or learn; few in number.

HOW TO DO IT?

HR people need to have a clear organisational model. We propose a simple three-part model (below) because this is simple to remember and use, but you can also choose from "7S", Burke Litwin, Galbraith's 5 Star and others.

This model centres three capability groups (the 3Ps) that also focus on the 'what' and also the 'how':

- 1. People** – define how many people will be needed to deliver the strategy, when and where we'll need them, and the skills and style required. "Skills" refer to the technical skills, and "style" refers to how people go about the job (e.g. customer centric or a growth mindset).
- 2. Processes** – HR is also about creating the right organisation, and supporting the design and deployment of enabling systems and technology that underpin strategy delivery:
 - Tax, legal and corporate structures
 - Business process design
 - Organisational design
 - Decision rights, delegated authorities and controls
 - Performance drivers
 - Data and reporting
 - Core enabling technologies

These need to balance rigour with simplicity and flexibility but must be aligned with the strategy. If the strategy is based on agility, you can't have structures with multiple layers, unclear or slow-moving governance and complex systems.

3. Performance Culture – If processes are the tangible elements of organisation, then culture is the intangible, the values, leadership and climate, "*the smell of the place*" as Sumantra Goshal called it. HR has a key role to promote and nurture the right environment that supports the strategy. This includes coaching and training leaders, through to recruiting, on-boarding and development activities, as well as having positions on recognising people and how budgeting and planning should be practiced, etc.

4. ACTIVITY

Having identified the capabilities needed to deliver the strategy, HR needs to prioritise what it needs to do to build this capability.

HOW TO DO IT?

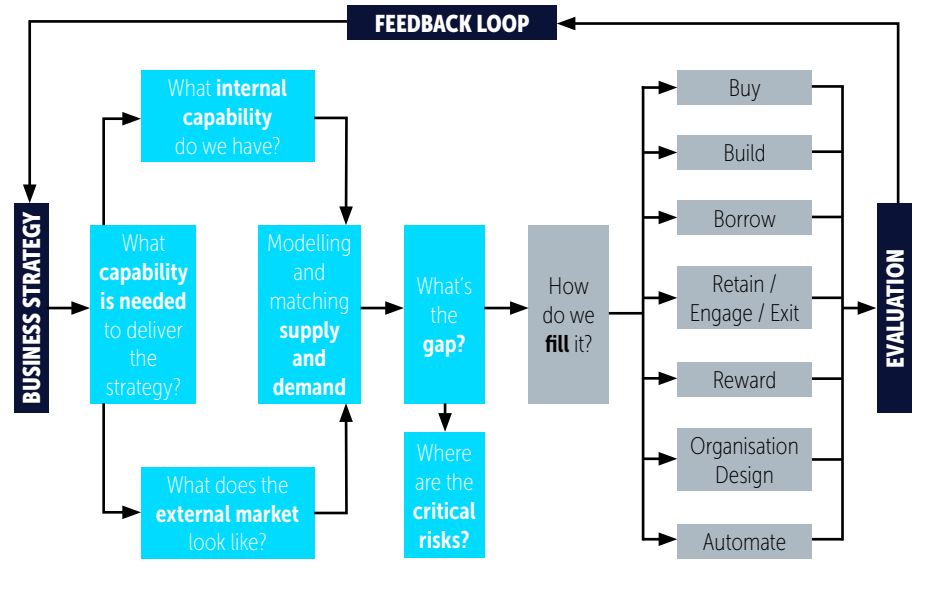
The first steps are to define: "As Is" – the current state of these capabilities, then "To Be" – what will be required. Then, assess the availability of these capabilities in the external market (over time) and the cost of acquisition. Compare this with a systematic assessment of the existing internal capability match.

Now devise the capability strategy, including some or all of the following:

- **Buy** – either individuals through recruitment or teams and organisations through acquisitions.
- **Build** – internal development especially where the required capability doesn't exist in the external market.
- **Borrow** – using contractors or joint ventures that are part of our ecosystem but not directly employed.
- **Retain** – retaining key technical and other talent through effective motivation and engagement.
- **Exit** – exiting people or capabilities we no longer require.
- **Automate** – not all solutions will be human – robotics, AI and machine learning will automate many tasks.
- **Reward** – ensuring strategic compensation plans are aligned to these capability needs.
- **Organisation design** – ensuring capability is used fully and effectively.

STRATEGIC WORKFORCE PLANNING MODEL

Approach this in a systemic joined-up way: it is likely to create multiple activities and these need to be prioritised against value-add and risk.



5. EVALUATION

It is essential that we keep track of all elements of the framework to measure progress against business outcomes, not only process completion, and drive continuous organisational learning. This goes beyond measurement (quantifying performance), to evaluation which is about judging the achievement of the end goals.

HOW TO DO IT?

We should frame evaluation as a series of questions before jumping to define the measures:

- What is our business plan, our business outcomes?
- What are the people and organisational implications?
- What are the people gaps / issues?
- What does HR need to do?
- How does this translate into HR measures that measure not just the HR process, but the business outcome?
- Do we have the right data to populate these measures and if not, how do we fill the gap?
- Who do we present the data to and how do we present it so it's engaging, drives insights and encourages action?

What you measure is what you get, so it is critical to measure the right things, or we will get the wrong outcomes. Evaluate outcomes – don't just measure inputs.

6. ENABLERS

Throughout this process we need to be cognisant of several underlying themes:

- **Change Management:** In thinking about what action to take, we should identify and address the change management implications. In the *OD Manifesto* we concluded that today's context for organisations is complexity, interconnectedness and digital disruption. More traditional project management methodologies aren't enough. We need to apply emergent change and agile management techniques:
 - Activities have different meanings for different people so there needs to be more dialogue to create a common understanding and buy-in. This amplifies the diversity angle too.
 - Engagement needs to happen as early as possible, so avoid detailed planning and commitments beyond the first point where feedback will emerge.
 - Allow those closest to the change to develop the detail as soon as you can.
 - Milestone aren't just about time, cost and quality but about tracking real feedback on whether the project is delivering the desired outcome.
 - *"Wisdom lies with the people, so we need to give the people a voice"* (Dr. Mee-Yan Cheung-Judge).
- **Communication:** There should be early **clear and continuous communication** that engages all stakeholders at every level in dialogues that drive understanding and buy in. This implies:
 - Less top-down formal communication and more conversations.
 - A shift from leaders creating the message to employees actively driving the message.
 - Fewer emails, PowerPoint and speeches more face-to-face dialogue.
 - Less assertion – more explaining and listening.

- **Analysis and Data:** Our analysis should be based on rigour, underpinned by good data. However, data by itself is not the answer, especially if it's the wrong data.
 - Start with the business issue, create hypotheses and test them but don't look to prove them.
 - Gather data (this might not be the data you currently have) and conduct the analysis but be careful that you don't confuse correlation with causality.
 - Reveal the insights and determine recommendations and present them in a way that persuades and drives action.
- **Power:** We must use influence and an understanding of power and politics to ensure alignment with key stakeholders. Machiavelli had some interesting ideas:
 - There is no one approach to politics, but it is part of organisational life, and we must engage.
 - See the world as it is not as you would like it to be or as you are.
 - Actions speak louder than words. Watch what people do not just what they say.
 - Focus on those who matter – the movers and shakers.
 - You need to have options in your mind and be mindful about which one to use.

But this is not medieval Florence! This is not about manipulation, but about understanding how organisations really work and how decisions are really made and using this for the benefit of the organisation not yourself. It's about combining political savvy with integrity.

CONCLUSION

For too long HR and OD have been over-engaged in introspection, preoccupied with 'transforming' the function more than actually supporting the business. We have often relied too heavily on consultants for things we should be able to do ourselves. We invest our time, energy and budgets in technology and systems that make us more efficient ensuring we are doing things right, but we have lost track of what is the right thing to do: investing our time, energy and budget in driving business performance.

This **Organisation Analysis and Diagnosis Framework** ensures we are driving what we do out of a structured and systemic analysis of the business issues, so we focus on what matters and the difference we make.

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