What’s next for HR?

Dave Ulrich
Professor of business administration, Ross School of Business, University of Michigan and partner, RBL Group, writes this ebook exclusively for HR Magazine

Contents

One: A mega-message for HR’s direction 3
The creation of value

Two: HR’s relationship to the business 4
1 Context: understanding the changing business setting which redefines work
2 Stakeholders: recognising and serving both internal and external stakeholders – the recipients of HR work

Three: Targets or outcomes of HR work 6
1 Individuals, as evidenced through a formula for productivity: competence, commitment and contribution
2 Organisations, as defined by their capabilities more than their structures
3 Leaders, whose thoughts and actions embody the firm’s brand

Four: Domains of HR investment 10
1 Design of HR departmental strategies and structures to deliver value
2 Alignment of HR practices to be integrated and innovative
3 Giving HR professionals competencies to respond to future demands
4 HR analytics – where HR investments can be tracked and monitored

About the author 18
Appendix 19
Selected authors and their key books 20

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Are we there yet?

Anyone who has been on a trip with a child has heard the endless question: “Are we there yet?” At first, the question captures the excitement of the child anticipating a new place. After a while, the questioning becomes exasperating and only adds to the length of the journey.

Many in HR also seem to be asking: “Are we there yet?” but never seem to arrive at their destination. Professional conferences keep lamenting that HR is seen more as an administrative service or compliance function than a business partner. Sometimes lamentations only lengthen the journey to HR credibility.

Maybe HR’s aspiration is less a specific destination that identifies when we have arrived – and more a direction for HR professionals to aim at to help their organisations succeed. HR professionals have made enormous progress in the past few decades in professional stature and contribution to business success, but nowadays the journey ahead has an ever-moving goal of continuing to deliver value, rather than a single point-in-time destination of when that value has been accomplished.

The logic for HR’s future is simple. We begin with a direction: that HR should add value. This direction needs to be connected to the business, both the business context shaping decision-making and the specific stakeholders around whom business strategies are created. Out of this context, HR defines targets for HR work: individual abilities (talent); organisation capabilities (culture); and leadership. Finally, HR budget and people investments redefine the HR organisation that makes the above happen. But, the simple logic requires more detailed assessment to accomplish the journey. In this essay, I want to propose, “what’s next” in each of these four areas (see below).

<table>
<thead>
<tr>
<th>Issue</th>
<th>Where we’ve been</th>
<th>Where we are going</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mega-message for HR direction</strong></td>
<td>HR from the inside/out: administer HR, redesign HR practices, link HR to strategy</td>
<td>HR from the outside/in: use HR to create value inside with employees and organisations and outside with customers, investors and communities</td>
</tr>
<tr>
<td><strong>HR’s relationship to the business</strong></td>
<td>Use HR to drive internal efficiency</td>
<td>1 Understand business context 2 Define HR value “outside/in” ie through the eyes of customers and investors</td>
</tr>
<tr>
<td><strong>HR’s targets or outcomes of HR work</strong></td>
<td>HR builds talent and improves employee results</td>
<td>1 Increase employee productivity (competence + commitment + contribution) 2 Improve organisation capabilities (culture or processes) 3 Ensure leadership as a brand throughout the organisation</td>
</tr>
<tr>
<td><strong>Domains for HR investment</strong></td>
<td>Restructure HR departments: seek the latest HR structural fad</td>
<td>Build HR departments as if they are a professional service organisation within their organisation</td>
</tr>
<tr>
<td></td>
<td>Re-engineer HR practices: seek best practices, offer piecemeal HR solutions</td>
<td>Offer aligned, integrated and innovative HR practices around people, performance, information and work</td>
</tr>
<tr>
<td></td>
<td>Upgrade HR professionals: ad hoc investment in HR careers</td>
<td>Ensure that HR professionals have the right competencies to deliver value and build HR career</td>
</tr>
<tr>
<td></td>
<td>Track or measure HR progress – measure what is easy and often activity-based</td>
<td>Create HR analytics focused on the right issues</td>
</tr>
</tbody>
</table>
In seminars with HR professionals, I often start with a simple question: “What is the greatest challenge you face in your job today?” Inevitably, the answers are around things such as building credibility with line managers, managing the flow of talent (bringing in new people, matching people to jobs, or removing people), handling employee grievances, managing HR costs efficiently and so forth.

My sense is that many of these responses are now dated – and need to be updated. My research suggests that up to this point the HR profession has been through three general waves (see right). Wave 1 was the administrative work of HR, where HR focused on terms and conditions of work, delivering HR services and working on regulatory compliance. Wave 2 was the design of innovative HR practices in sourcing, compensation or rewards, learning, communication and so forth. Wave 3 has been the connection of these practices to business success through strategic HR. Wave 4 – which is emerging – is about using HR practices to derive and respond to external business conditions.

Many of the replies I get to my query “what is your biggest challenge?” relate to Waves 1 and 2: HR professionals are concerned about the hurdles they immediately face in doing the HR work itself. These are legitimate and relevant concerns. Indeed, a number of senior HR executives have recently told me that HR has forgotten these basics and without doing the basics well, the aspirations of business contribution remain unrealised dreams.

I advocate a simple two-word question that moves HR forward: “...so that?” The challenge is to build credibility with line managers so we can make better investments that help the business reach its goals so that we can anticipate and respond to external business conditions and deliver value to customers and investors.

By doing the two “...so that?” queries, HR professionals shift from an inside/out to an outside/in approach to HR work. In a recent seminar, a participant said, the “outside/in” approach is new, but not really a dramatic shift in HR thinking. I believe she has missed the point. *HR from the outside/in is a seismic shift in how HR thinks and acts.* We must no longer create value by just serving employees, but by making sure that services we offer inside the company align to expectations outside the company. For example, we want to be the employer of choice of employees our customers would choose. We want to build on the strengths that will strengthen others. Every HR practice can be transformed by seeing the value that it creates for those outside the company. This positions HR not just respond to strategy, but to be proactive in helping shape and create it.

Defining value with an outside/in approach starts when HR professionals understand their business context and key stakeholders.
Two HR’s relationship to the business: context and stakeholders

A number of entrepreneurs have asked for my opinion about their business. Inevitably, they are excited about their new product or service, which they have often invested much of their personal wealth and energy to design and deliver. I respond with two simple questions:

[1] What are the general problems you are trying to solve?
[2] Who are your targeted customers who will buy your first products?

Too often, entrepreneurs can not fully answer these two questions, because they are so excited by their product that they are blinded to external realities. For HR professionals wanting to approach their work from the outside/in and deliver value, these same two questions can be summarised as: understanding the business context for their organisation and identifying/serving specific stakeholders.

Business context: STEPED trends

A senior business leader with responsibility for over 100 countries asked me in a coaching session how to better understand the context for how his business operated in each of these countries. He knew local leaders had insights and accountability for work in their country, but he felt a responsibility to help them by understanding the context in which they did business. Together, we developed a six-point STEPED framework, which captures the business context he could pay attention to in each country (see Figure 1, overleaf).

- **Social trends** – social issues in a country, such as healthcare and lifestyle
- **Technological trends** – this would include things like access to and use of the internet
- **Economic trends** – this would include inflation, recession and key industries
- **Political trends** – elections, regulatory requirements and political stability
- **Environmental trends** – this would include the emphasis around sustainability
- **Demographic trends** – age, education, race, gender, income etc

When leaders have a working knowledge of these six STEPED points, they can oversee and guide decisions that affect that market. STEPED helps redefine the nature of what work will be and how work will be done.

Likewise, HR professionals should be aware of how these external business factors affect both how their organisations work and also the work of HR. **Social** trends may affect what makes an effective employee value proposition. **Technological** trends may control the extent to which work can be done in remote sites. **Economic** trends may influence opportunities for investment and growth of products and talent. **Political** trends often alter the regulatory and compliance obligations for a company. **Environmental** trends may shape the social responsibility initiatives that help attract talent. **Demographic** trends may affect where to source talent (for example, if there are limited demographics locally, it may help to build relationships with immigrant groups). In future, HR professionals should be conversant with all these general business conditions in a global context, so they can anticipate what might happen next to their industry and organisation and prepare to respond accordingly.

Five key stakeholders

Within this complex STEPED business context, stakeholders have specific relationships with an organisation. In Figure 2, I identify five key stakeholders who receive value from HR. Traditionally, HR work has focused inside a company on employees who seek to be productive and line managers who work to implement strategies, with HR investments enhancing both...
What’s next for HR?

HR professionals can architect the intangible value investors receive.
policies. HR policies and professionals may crucially shape an organisation’s reputation.

As HR professionals understand both the business context and relationships with key stakeholders, they change their conversations with business leaders. The conversation does not start with what HR is about, but with what the business is trying to accomplish. An HR professional who was clamouring to be invited to the strategic table and conversation finally got his wish and he attended the strategic meetings. In the first meeting, the focus was on doing business in emerging markets and he was not sure what HR could contribute. In the second meeting, the focus was on the economic condition of the organisation and managing costs and again he was silent, waiting for an appropriate HR topic. In the third meeting, the focus was on product innovation for the changing societal conditions and he still waited to comment. He was not invited to the fourth meeting.

Knowing the business context and the key stakeholders would have enabled him to engage in strategy conversations without waiting for a more explicit HR topic to come up.

Three Targets of HR work: individuals, organisations, leadership

When HR professionals participate in strategy or business meetings, what are the unique contributions they can make? Take the HR professional who sits in on discussions about emerging markets, managing costs or increasing innovation. HR contributions in these settings are not just about the activities of HR (sourcing, compensation, training), but about the outcomes of the HR work.

I like to think about three targets or outcomes of HR work: individuals, organisations and leadership (see left). To deliver any strategy, individuals need to be more productive, organisations ought to have the right capabilities and leadership has to be widely shared throughout the organisation. When discussing emerging markets, cost or innovation, HR professionals can ask:

- **Individual** What talent do we need to make this strategy happen?
- **Organisation**: What organisational capabilities do we need to make this strategy happen?
- **Leadership**: What do our leaders need to be
What’s next for HR?

good at making this strategy happen? Once these targets or outcomes have been defined, then the HR practices may be designed and delivered to accomplish these outcomes. Below, I highlight some of the future thinking for each of these three targets of HR.

3.1 Individual ability (talent)

At the risk of grossly oversimplifying, let me suggest that there is actually a deceptively simple formula for talent that can help HR professionals and their general managers make talent more productive: Talent = Competence + Commitment + Contribution.

Competence means that individuals have the knowledge, skills and values required for today’s and tomorrow’s jobs. One company clarified competence as “right skills, right place, right job, right time.” For example, an emerging trend in the workforce-planning domain of competence improvement is to identify key positions and match people to positions. Competence clearly matters, because incompetence leads to poor decision-making.

Without commitment, however, competence is discounted. Highly competent employees who are not committed are smart, but don’t work very hard. Committed or engaged employees work hard, put in their time and do what they are asked to do. Commitment trends focus on building an employee value proposition to ensure that employees who give value to their organisation will in turn receive value back. In the past decade, commitment and competence have been bulwarks of talent. The next generation of employees may be competent (able to do the work) and committed (willing to do the work), but unless they are making a real contribution through the work (finding meaning and purpose in it), then their interest in what they are doing diminishes and their productivity wanes. Contribution occurs when employees feel that their personal needs are being met through their participation in their organisation. Leaders who are ‘meaning makers’ help employees find a sense of contribution through the work that they do. HR professionals who create ‘abundant’ organisations embed this meaning throughout the organisation. Organisations may be a universal setting where individuals find abundance in their lives through their work and they want this investment of their time to be meaningful. Simply stated, competence deals with the head (being able), commitment with the hands and feet (being there) and contribution with the heart (simply being).

In this talent equation, the three terms are multiplicative, not additive. If any one of the three is missing, the other two will not replace it. A low score in competence will not guarantee talent, even when the employee is engaged and contributing. Talented employees must have skills, wills and purposes; they must be capable, committed and contributing. HR leaders can engage their general managers to identify and improve each of these three dimensions to increase individual ability and gain productivity.

3.2 Organisation capability (culture)

Talent is not enough. Great individuals who do not work well together as a team will not be successful. Without attending to teamwork, processes and culture, HR misses opportunities to have an impact.

Great individual talent may succeed 15% to 20% of the time, but teamwork matters most. In recent years, people have called for human resources to be relabelled as ‘the talent function’, with a focus on workforce, people and competencies. Without attending to teamwork, workplace, processes and culture, however, HR misses opportunities to have a sustainable impact. HR professionals sitting in business discussions in the future need to offer insights on organisations, as well as individuals.
The organisation of the future exists today, but not in the traditional sense. Generally, when thinking about an organisation, we turn to morphology (ie the study of structure or form) and we define an organisation by its roles, rules and routines:

- **Roles** define the hierarchy of who reports to whom and who has accountability for work
- **Rules** represent policies and prescriptions for how work is done
- **Routines** reflect processes or cultures within the workplace

Combined, these three traditional factors capture an organisation’s structure or shape. In the past decade, however, a lot of restructuring has been done to right-size, reshape, re-engineer, redesign, delay and rebuild organisations, based on these three factors. Although this restructuring work encapsulates organisation design, it is only a small part of the complete organisation of the future.

When my team works with executives to define the organisation of the future, we ask them a simple question: “Can you name a company you admire?” The list of admired companies varies, but it often includes such well-known firms as General Electric, Apple, Disney, Google, Microsoft or Unilever. We then ask the executives “how many levels of management are in the admired firm?” and almost no one knows. More important, no one really cares – we do not admire an organisation because of its roles, rules or routines.

Capabilities represent what the organisation is known for, what it is good at doing and how it patterns its activities to deliver value. The capabilities define many of the intangibles that investors pay attention to, the firm brand to which customers can relate and the culture that shapes employee behaviour.

These capabilities also become part of the identity of the firm, the deliverables of HR practices and the key to implementing business strategy. A recent Duke Corporate Education client study found that HR professionals today are “shifting their focus from individual competency to organisational capability”.

McKinsey’s 2010 Global Survey also looked to the future and discovered that capabilities will become more important than individual competencies: “Nearly 60% of respondents to a recent McKinsey survey say that building organisational capabilities such as lean operations or project or talent management is a top-three priority for their companies. Yet only a third of companies actually focus their training programmes on building the capability that adds the most value to their companies’ business performance, the survey found.

### Competence or capability?

<table>
<thead>
<tr>
<th></th>
<th>Individual</th>
<th>Organisational</th>
</tr>
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<tbody>
<tr>
<td><strong>Technical</strong></td>
<td>An individual’s functional competence</td>
<td>An organisation’s core competencies</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td>An individual’s leadership ability</td>
<td>An organisation’s capabilities</td>
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Competencies represent the abilities of individuals, while capabilities capture the organisation’s identity (see above). In this figure, the individual-technical cell (1) represents a person’s functional competence, such as technical expertise in marketing, finance, or manufacturing. The individual-social cell (2) is about a person’s leadership ability – for instance, to set direction, communicate a vision and motivate people. The organisational-technical cell (3) comprises a company’s core technical competencies. For example, a financial services firm must know how to manage risk. The organisational-social cell (4) represents an organisation’s underlying DNA, culture and personality.

In the future, HR professionals will work to identify and build capabilities. Some of the traditional and accepted capabilities that have been discussed extensively have included efficiency (eg lean manufacturing), globalisation, quality, customer service and speed of change or agility. I would anticipate that some emerging capabilities for organisations to succeed in the future might include:

- **Risk management** In volatile and changing markets, organisations that can anticipate and manage risk will be more able to create sustainable change.
What’s next for HR?

- **Social responsibility** With increasing concern about environmental issues, organisations that have the ability to be socially responsible will attract employees, customers and investors.

- **Simplicity** As the business world becomes more complex, organisations that can remain simple in product design, customer interfacing and administrative systems will prove to be more responsive.

- **Connection** With technology being the crucible of the future, organisations that can form connections among employees, between employees and customers and with partners will be more likely to have collaborative social networks around the world.

- **Innovation** While not a new topic, innovation will increasingly be broadened to include not only products, but customer interfaces or channels, administrative processes and business models.

When HR professionals see how organisational capabilities connect to individual abilities, they begin to make the whole (organisation) add up to more than the sum of the individual parts (individual talent).

### 3.3 Leadership brand

Ultimately, leaders bring together both individuals and organisations to solve customer problems. However, there is a difference between leaders and leadership. Leaders refers to individuals who have unique abilities to guide the behaviour of others. Leadership refers to an organisation’s capacity to build future leaders. An individual leader matters, but an organisation’s leadership matters more over time. Looking forward, HR professionals will need to not only help individual leaders be more effective through coaching, 360 feedback and individual development plans, but build leadership depth by investing in leadership development.

In our studies of leadership, we have identified five things HR professionals can do to upgrade the quality of leadership.

**Build the business case for leadership** HR can show that the quality of leadership will drive performance both inside and outside the organisation. Organisations with leadership depth will have the capacity to respond to changing business conditions, execute strategy, increase investor confidence and anticipate customer requirements.

**Define leadership effectiveness from the outside/in** Consistent with the logic of creating value for external stakeholders, HR can help define what makes an effective leader from the outside/in. Often leadership success remains either inside the company (leaders learn from other leaders in the company who have been successful) or inside the individual. In future, the criteria for leadership should start with a focus on customers.

In a number of companies, we start to define effective leadership by viewing the company’s commercials or other media presentations. These externally focused broadcasts define the company’s intended brand. We then identify the leadership behaviours consistent with this external brand. When leaders inside the company behave consistently to meet expectations of customers (and other stakeholders) outside the company, the leadership will be more sustainable and effective. HR professionals who define internal leadership through external expectations will set more relevant and impactful leadership standards.

**Assess leaders** Once leadership standards are set, leaders need to be assessed on how well they meet those standards. With an external view, leadership 360s may be expanded to ‘720s’ – where customers, suppliers, communities, regulators or other external stakeholders may be included in assessing targeted leaders. In one company, the board of directors now regularly assesses the CEO’s performance both inside the company with his team and among his employees – and outside the company with key stakeholders. This type of assessment offers a more complete view of leaders who have roles with external stakeholders. Assessment also may help determine high-potential future leaders by looking at the extent to which they have aspirations to lead, ability to meet future standards and agility to learn and grow.

HR professionals charged with leadership assessment may monitor the ability of current and aspiring leaders to serve customers.

**Invest in leadership** The traditional formula for leadership investment has been 70-20-10: that 70% of learning and development is on the
job; 20% from feedback and observation of role models; and only 10% from training. We think that this formula should shift to a 50-30-20 model, as follows:

- **50% of learning** from job experience, including role models. Most learning still comes from doing and experiencing.
- **30% of learning** from updated training. Traditionally, training is what we call a ‘tourist activity’ – where people visit the event, observe it and may leave with a memento (the training notebook is the equivalent of a tourist’s pictures), but little impact. We suggest ‘guest training’ – where the participant is immersed in the business while in the training session. This requires preparatory work to decide what the participant should leave with, action learning during the training, live and relevant cases and problems to be solved, customers as teachers and participants – and follow-up to ensure that ideas taught had real impact.
- **20% of learning** from life experience. Many of us learn from experiences outside of work, in families, social settings, social networks, volunteer work, reading and travelling. When firms can encourage and access knowledge from these life experiences, leaders will broaden their repertoire. For example, one company uses its corporate philanthropic efforts as development opportunities for high-potential leaders.

This mix of interventions may be the basis for systematic development of leadership throughout an organisation.

**Measure leadership** Leadership investments have often been measured using Kirkpatrick’s four-level approach: attitude, knowledge, behaviour and results. This is an outstanding scale. I envision two changes, both expanding on the results. First, in the case for leadership, HR professionals show how leadership will help an organisation deliver value to its stakeholders. This value should be measured as an indicator of leadership success. Second, we have talked about a new ROI for leadership (and HR): the ‘Return on Intangibles’. As noted above, intangibles represent about 50% of a company’s market value. When we can link HR and leadership to this market value, the issues become even more salient to line managers.

**Summary: HR’s three targets**
The targets or outcomes of HR may include individuals, organisations and leadership. When sitting in business meetings, HR professionals who offer insights on how each of these targets can be aligned to deliver business results “outside/in” deliver value to their stakeholders.

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**Four Domains of HR investment**

Every few years, someone writes in an article or a column that they “hate HR”. One of my first reactions is, “What do you mean by ‘HR’?” HR may refer to the HR function, HR practices, HR professionals or HR metrics. Investments in the future of each of these areas may mitigate the enmity that others feel towards HR, so let me offer some thoughts on the future of HR in each of the four areas: HR function, HR practices, HR people and HR analytics (see right).

**HR function**
In the past decade, most HR functions have undergone transformation. This generally implies...
What's next for HR?

redefining the goals and restructuring the function. The goals of an HR function should be drawn from the capabilities the organisation needs to succeed. If an organisation requires innovation, speed or leadership as its capabilities, these should be the goals of the HR function – often called HR vision, mission, or purpose statement. When the function’s goals and the organisation’s capabilities overlap, HR will be more able to contribute to business success.

This recent restructuring of HR has occurred with the delineation of the transaction and transformation work of HR. HR transaction work includes the administrative, compliance and routine processes necessary to support an organisation. Many of these processes may be more efficiently accomplished through technology. By separating the administrative from strategy work, the HR function has mirrored changes in other staff groups (finance and accounting, data centres and strategic formation systems, marketing and sales).

The structure of an HR department varies, depending on the structure of the business. Companies typically organise along a grid of centralisation–decentralisation, which leads to three generic ways in which a company operates (see Figure 3): single business; diversified/allied organisation; or holding company. The HR department should align with the structure of its business operations (Figure 4).

**Functional organisation**

When the company is comprised of a single business it competes by gaining leverage and focus. The role of HR in the single business is to support that business focus through its people practices. Generally, start-ups and small companies have little or no HR staff. Until a company has 50 to 75 employees, it hardly needs a full-time HR professional; a line manager can usually handle required basic HR activities. As companies grow, HR departments and staffs grow as well—but as long as the organisation remains primarily a single line of business, HR expertise most logically resides at corporate level, establishing company-wide policies, with HR generalists in the plants or divisions responsible for the implementation of these policies. They do so because there is no meaningful differentiation between the business and the corporation.

The HR functional organisation suits a single business strategy. It should not be abandoned in favour of the more popular shared service organisation unless the structure and strategy of the business mandate the choice. I see only about 15% to 20% of large organisations following this functional organisation alignment.

**Holding company**

When the company is composed of multiple, unrelated businesses that are managed independently, it is best described as a holding company. While pure holding companies are rare,
(probably fewer than 10% of businesses overall), we are seeing some resurgence of holding company structure associated with the rise of large and well-capitalised private equity and investment firms, such as Carlyle, Berkshire Hathaway and Blackstone. For example, Berkshire Hathaway owns or controls Dairy Queen, NetJets, GEICO Insurance and Fruit of the Loom. Blackstone owns such varied companies as Celanese, Houghton Mifflin, Southern Cross/NHP, SunGard Systems, TRW Automotive and Vanguard Health Systems.

In a holding company, there is often little or no HR at a corporate level and little impetus to introduce it. Each business is expected to create and manage its own autonomous HR practices, based on the specific needs of the business. Therefore, HR is embedded within the businesses. GEICO has an HR department, as do Dairy Queen and NetJets, but Berkshire Hathaway has no corporate HR. Realistically, so long as the corporation is managed as a group of independent businesses, tied together only by a common treasury function (how investment funding is raised) and perhaps investor relations (if the company is publicly traded), the requirements for HR and the benefits of interaction among subsidiary HR groups are minimal.

Even in those cases where there is a corporate HR function, it is likely to be small and focused primarily on executive talent recruiting and managing executive compensation.

When organising HR for a holding company, the requirement is to embed dedicated HR departments within the business units, and ensure they are well led.

### Diversified/allied businesses

The vast majority of large companies are neither pure single businesses, nor are they true holding companies. They lie somewhere in-between, either in related or unrelated spectra of diversification. They create operating or business units to compete in different markets, yet try to find synergy among them. The best of these organisations align their portfolio of businesses around a core set of strategic capabilities that are leveraged across operations. For these business organisations, a relatively new way to organise HR resources has emerged called shared services. Shared services has two parts: first, service centres which rely on technology to meet employee administrative needs;
second, centres of expertise which create specialist knowledge and insight. From a distance, shared services looks a lot like centralisation, but it is not. The table on the previous page (12) marks some of the ways that functional HR, shared services HR and dedicated HR differ from one another.

**Centralisation versus flexibility**

Shared services became popular among staff groups—not just HR—beginning in the late 1990s, as a response to general cost pressures. Staff leaders couldn’t simply choose the cheapest and most efficient approach—centralise and standardise all processes—because centralised staff work cannot keep up with the needs of each unit of a diversified/allied business. Shared services became a way to balance the efficiencies of centralisation and the flexibility required for competing in different markets.

**From shared services to professional services**

Since shared services organisations have become more popular with large companies in the past decade, I often hear HR professionals asking, “What’s next in the HR organisation?” Sometimes this is HR’s quest to be on a journey for the future without really accepting the present. Increasingly, I believe that the basic tenets of the shared services organisation have not been fully deployed in many organisations.

To understand a shared services organisation requires thinking about HR as a professional services ‘firm within a firm’.

Any professional services firm (for example, consulting firm, advertising agency, film production studio) has a simple challenge: turn our knowledge into client productivity. To do so, a professional services firm is generally organised with knowledge centres staffed with individuals who have deep expertise in a technical area. Then, professional services firms have client relations managers whose job it is to diagnose client wants and needs and then pull experts together into client teams to meet those client expectations.

The HR organisation in Figure 5 captures how HR can turn the logic of a professional services firm into an HR organisation. Service centres will rely on technology to efficiently manage the administrative and transaction work of HR. Many firms outsourced these transactions to gain efficiency and may find they can bring this transaction work back in-house through technology. Corporate HR will continue to focus on HR for top (and visible) leaders, to offer integrated HR solutions to corporate-wide initiatives, and to manage HR careers. Embedded HR will be the generalists who diagnose problems and offer individual, organisation and leadership solutions to business challenges. Centres of expertise will continue to be HR specialists with deep technical knowledge in the HR core areas of staffing, learning, compensation, organisation development and so forth. Operational HR will be those charged with transferring HR knowledge into client productivity.

The metaphor of HR as a professional services organisation within the organisation will lead HR professionals not to invent a new HR structure, but to make the shared services organisation work well. This will require attention to what one firm calls ‘dynamic resource allocation’—and HR knowledge needs to be transferred into clients that create individual, organisation and individual value. This will require ongoing dialogue about which HR initiatives should be pushed throughout the entire organisation as against those that should be pulled into a specific organisation unit based on its business requirement—somewhat like a tax auditing firm that has the dual obligation of ensuring that its client adheres to the current tax code while, at the same time, advising the.
What's next for HR?

client on innovative alternatives. This will also require careful thought about careers and competencies of those in HR. An individual may choose to spend a career in a specialty area, a particular business, or move across the two.

The point is, the HR structure of the future may be here today. It is tied to the strategy of the business and some HR structures should operate as functions (in single businesses or holding companies). More common among large firms, the HR shared services function may be called professional services because it needs to operate like a professional services organisation within its firm.

HR practices

There is a vast array of HR practices, each with nuances that make the list of HR work daunting. To simplify this work, I have summarised HR practices into four areas:

- **People** HR work shapes the flow of people in, through, and out of an organisation. This includes the array of HR practices around staffing, training, development, workforce planning, and retention.
- **Performance** HR work promotes accountability with a focus on performance appraisal, setting standards, measuring performance, allocating rewards and offering feedback.
- **Information** HR work may also include focusing on the flows of information in a company – from top to bottom, inside to outside and side to side within an organisation.
- **Work** HR work includes an understanding of how the organisation gets work done (for example, through teams), workforce policies and physical settings.

These four categories obviously overlap and affect each other, but HR professionals in future need to master three actions relative to this HR work: alignment, integration and innovation.

Alignment

HR practices in each of the four areas can and should align not only with strategy, but external stakeholders. The outside/in approach that frames HR will encourage HR professionals to be constantly attuning their HR work to customer, investor and community expectations. Training may include customers in its design, as participants in training programmes and as faculty and facilitators in training. A test of a reward system is to ask customers if the standards in the performance appraisal process match their expectations. Communications outside the organisation can and should reflect communications within it. Customers may also be involved in teams and other design choices to make sure the organisation is responsive to the customer.

For HR professionals to be aligned not only with strategy but with external stakeholders, they need to know the customers. This is why I have been suggesting that HR professionals spend about 2% to 5% of their time (a half or full day a month) on sales visits to customers. At first, salespeople may resent the HR person and customers may wonder why they are there. Then, it begins to get more clear: the salesperson sells a product or service, but HR builds a relationship. When HR looks at a customer and says, “we will work to hire, train, pay, communicate and organise our people to deliver what we have just promised you”, the customer begins to move beyond buying products to forming relationships. A leading company invited a small focus group of customers into its annual HR planning meeting to ask the customers if the capabilities it identified as its goals for the forthcoming year would cause the customers to buy more products or services.

While I have focused here on customers, I could equally focus on investors, communities, regulators or other external stakeholders.

Integration

One firm with disconnected HR specialists worked to hire people with skills A,B,C, then trained them to do D, E, F, then communicated the importance of G, H, I and organised them to deliver J, K, L. This is obviously an extreme example, but until and unless HR practices integrate with each other, HR works at cross-purposes. Such integration will ideally be around the capabilities the organisation identifies as key. If a company defines its desired capability as innovation, HR can then hire, train, pay, communicate and organise work to deliver innovation. Research has shown that integrated HR work leads to higher results.
What’s next for HR?

– because different HR practices focus on similar results.

**Innovation** Innovation is not just a product or a service, but an administrative process as well. There is a great deal of innovation occurring in each of the HR areas, which is out of the purview of this monograph, but HR professionals should constantly be seeking new ways to manage people, performance, information and work. Many of these innovations will come from the challenges of doing work in new product or emerging global markets.

For example, one company develops local leaders in emerging markets by having a seasoned leader from a mature market being assigned “two in a box”: where a mature leader shares leadership duties with an emerging one. The mature leader is tasked, over a period of time (say, one or two years), not just with leading, but transferring leadership insights to the local leader.

Seeking HR innovation requires a spirit of inquisitiveness, a willingness to experiment with new ideas, a capacity to poll for innovative ideas both those inside and outside your industry, and a rigorous discipline of assessment of what works and what does not.

When HR practices – in people, performance, information and work – are aligned, integrated and innovative, HR is able to deliver individual abilities (talent), organisational capabilities (culture) and leadership to the organisation in ways that serve stakeholders and respond to external business contexts so that – to go back to my opening proposition – value is created.

This future picture definitely requires new skills of HR professionals.

**HR professionals**

Our firm, the RBL Group, in conjunction with the University of Michigan and a variety of HR professional associations from around the world, has studied the competencies and agendas of HR professionals as business partners for over 20 years. During this time, we have gathered data from more than 45,000 participants. Based on this work and on our in-depth experience with hundreds of companies, we are comfortable projecting three trends that we believe will frame the roles and skills of HR professionals over the next few years.

**First**, ‘20-60-20’: we are not sure that these are the precise percentages, but broadly we imply that about 20% of HR professionals are able and willing to contribute to business success, as we describe above. This monograph will ring true to them. At the other end of the spectrum, another 20% are either not able or willing to engage in the work I describe. If you want to “hate” or “love” HR, you can go to those at either extreme to lament or celebrate the progress of HR.

It is the 60% majority that is the real question: are they making progress? In general, are HR professionals more able to contribute to business today than yesterday and more tomorrow than today? My sense is yes, although the progress may not be fast enough.

**When HR practices, in people, performance, information and work, are aligned and innovative, HR is able to deliver individual abilities, organisational capabilities and leadership – so that value is created**

**Second**, companies will continue to require fewer HR professionals to do transactional administrative work. As discussed, emerging information and communication technologies will continue to be applied to improve the efficiency of HR administrative work such as payroll, benefits administration, entry-level staffing and employee record keeping. As companies grapple with the challenges of focusing on the most important wealth-creating activities of the firm, it will undoubtedly be the case that some nice-to-have but strategically unnecessary HR activities will be eliminated.

**Third**, as HR professionals become more able to contribute to business success, they will become more balanced in their approaches to work. In the most recent round of our competency research in 2007, we found that effective HR professionals function in six roles. These are as follows:

1. **Credible activists** earn a reputation for business value through their consistent delivery and proactive stance on business and HR issues.
2. **Strategy architects** contribute to development and execution of business strategies and design and delivery of HR practices and structure.
3. **Culture and change stewards** identify and facilitate important culture and other changes
What's next for HR?

that improve their organisation’s ability to compete and grow.

4 **Talent managers and organisational designers** understand, diagnose, audit and improve both talent and organisation.

5 **Operational executors** do the operational work of HR both effectively and cost-efficiently through information systems and through standardised HR policies.

6 **Business allies** demonstrate a firm grasp of business knowledge of how the organisation functions both internally and externally to make money.

Our analyses show that ‘credible activists’ have a primary impact on personal and business results and roles 2-4 have roughly equal impacts on business performance. Therefore, HR professionals must ensure that they have a balanced approach to their business contributions.

Looking ahead, we envision HR professionals continuing to demonstrate competence in these six roles. Some matters will be more pressing, including the management of:

- **Globalisation** Globalisation has been prevalent for the past 20 years at least and now must become a given in HR work. HR professionals should be active contributors in developing individual, organisation and leadership capabilities for their companies to compete in emerging markets. BRIC (Brazil, Russia, India, and China) has dominated the global discussions in recent years, due to be replaced by the next 11 emerging markets: Turkey, Vietnam, Philippines, Indonesia, Nigeria, Iran, Korea, Pakistan, Bangladesh, Mexico and Egypt. How companies build local leaders in these emerging markets, for example, will likely be an important topic. To compete in these new markets, the STEPED model and the stakeholder model might guide HR thinking for a particular nation.

- **Risk** With the recent recession, executives learned that they had to manage risk. Much of this risk is technological, financial, compliance and operational. But much of the future risk will be about individuals, organisations and leadership – the three targets of HR. When external boards or regulatory agencies come to examine risks, HR can and should be part of this conversation.

- **Technology** Technology changes how people in an organisation relate to each other. Technology 1.0 was a source of information, as people replaced encyclopedias with Google searches; 2.0 was about efficiency, as technology changed time and space for business operations; now 3.0 focuses on relationships, as technology connects people in new ways. Technology relationships require careful attention to avoid superficiality and to ensure substance. Tweeting to thousands of fans about what a celebrity eats for lunch on Tuesday creates a false intimacy. HR can begin to use technology to share information, drive efficiency and build good business relationships.

- **Meaning** As already mentioned, individuals require competence, commitment and contribution. HR professionals who through their contribution help employees find meaning at work will ensure increased productivity.

- **Sustainability** The social responsibility movement – which began with concerns about carbon footprints and environmental renewal – has shifted with the next generation of employees to a more generalised concern for sustainability in all aspects of the organisation. Socially responsible organisations, policies that balance work and life and corporate philanthropy will likely become woven into sustainability efforts in the future.

- **And ??**

- **As well as ??**

I leave some of these future HR skills as “??s” – we don’t yet know what we don’t know...

**Fourth**, HR careers. I am often asked if chief human resource officers should come from inside or outside HR. This question of course touches on the careers of successful HR professionals. My sense is that we will see an increased blurring of HR and line-manager distinctions, with senior HR people showing they have the ability to engage on business and HR issues.

**HR analytics**

As HR has become more aligned with business, evidence-based HR and HR analytics are increasingly important. Without rigorously tracking HR investments and outcomes, HR decisions and priorities remain whims not science. With HR analytics, line managers and HR professionals can better justify, prioritise and improve HR investments. While many HR decisions require insight and judgment,
What’s next for HR?

improved HR metrics helps HR move towards professional respectability and decision-making rigour. Let me suggest a few observations about the next generation of HR metrics.

First, avoid a means/end inversion. The end of HR is to create value; improved HR analytics are a means to help codify and to make value happen. Some companies are so concerned about the HR scorecard or dashboard that they make metrics the end, not the means. This is like a sports fan being consumed with the statistics of the event and not paying attention to whether the team won or lost. Effective HR metrics means doing more predictive than descriptive analytics. Descriptive analytics have scorecards and dashboards that can be used for comparisons across time or with others. Predictive statistics emphasise a path with lead indicators and outcomes of interest. Instead of using mean data that shows how well we do, we will likely see more correlation-based data showing how what we do impacts on what we want to see happen. Showing how employee attitudes inside a company affect customer attitudes and investor confidence outside the company are examples of prescriptive HR metrics.

Second, avoid measuring what is easy and focus on measuring what is right. Just because something can be measured does not mean it should be. In the past, HR would measure activities (eg how many managers received 40 hours of training or how much people liked attending a training programme). In future, we need to measure the outcomes of those activities. When focusing on outcomes, it is important to have a clear sense of what the desired outcomes of HR should be. Ultimately, I repeat, HR investments should affect customers, investors and other stakeholders outside the organisation.

Sometimes the lines of sight between these ultimate outcomes and HR investments are difficult to track (see above) and it is important to measure the intermediate impacts of HR work. In this essay, I suggest that the intermediate measures of HR should be around the outcomes or targets of HR work:

• **Individual ability** Measure the talent within your organisation on three scales:
  - **Competence** — ability of people to do their job today and tomorrow
  - **Commitment** — extent to which people are engaged with and committed to the organisation

• **Organisation capability** Measure the capabilities within the organisation as the extent to which the organisation has an identity that is shared both inside and outside the company

• **Leadership depth** Measure the extent to which leadership exists not just in one or two people, but throughout the organisation

I would suggest that it is important to show relationships between HR activities, HR outcomes and business outcomes. When correlations and causations can be determined, HR work will deliver more value.

Third, keep measures simple and focused on decisions. Too often, the desire to quantify HR leads to more HR data than insight. Turning valid data into thoughtful decisions should be the focus of HR analytics. Sometimes this starts with data, when HR information warehouses about employee attitudes, turnover, compensation, performance and so forth can be used to improve decision-making. In these cases, HR professionals need to learn how to cull key messages and trends from the data. Turning complex data into simple messages requires that HR professionals can see themes or stories in the information warehouses they access to make more informed decisions.

Sometimes, using data for decision-making starts with clarity about the decisions that need to be made, with data then collected to improve
those decisions. For example, as companies shift to doing business in emerging markets, decisions need to be made about how to staff, train, pay, and organise employees in those markets. Once these specific decisions are defined, HR can collect data to make better decisions. HR should become a decision science, not a data warehouse.

**Fourth**, keep ownership and accountability of HR analytics with line managers. Line managers are the ultimate owners of HR work; they have final accountability for what is done and how well it is done. HR professionals are architects who build blueprints for actions and lay out choices that can be made. To gain line manager buy-in and support for HR analytics, it is important to involve line managers in determining the goals of the HR metrics, in defining which HR metrics should be used and applying those metrics for improved decision-making. Validity and reliability are less about statistics and more about managerial buy-in and use of the data collected.

**Make statistics de rigueur**

In our research on HR competencies, we found that HR professionals were consistently lacking in business acumen. Many HR professionals went into HR to avoid the quantitative side of business, but it is no longer possible to side-step the data, evidence and analytics that bring rigour and discipline to HR. Statistics should become de rigueur for HR professionals.

**Conclusion: not quite there, but well on our way...**

I started this monograph with a simple question: “Are we there yet?” To answer this question, I suggested a straightforward but evasive definition of what “there” means (creating value from the outside/in). Then I laid out a roadmap for the journey which begins with business context and stakeholders, moves to individual, organisation and leadership HR outcomes, then shifts to HR investments in the function, practices, people and metrics.

This is certainly an ambitious agenda. Some in HR (the 20% rule) have already arrived; some in HR (another 20%) will never get there. What interests me most is how to move the 60% majority, unconvinced either way, to become more competent, committed and able to contribute.

About the author

Dave Ulrich is professor of business administration at the University of Michigan’s Ross School of Business. He is co-founder and partner at consultancy RBL Group. For the past five years, he has topped HR magazine readers’ poll as the world’s most influential HR thinker.

Ulrich studies how organisations build capabilities of speed, learning, collaboration, accountability, talent and leadership through leveraging human resources. He has helped generate award-winning databases that assess alignment between strategies, human resource practices and HR competencies.

Ulrich has authored/co-authored 23 books including: The Why of Work, Why the Bottom Line Isn’t, The Boundaryless Organization and Organizational Capability: Competing from Inside.

He has won numerous awards, been recognised as a leading thinker in the human resource profession, and been listed among the top 50 thinkers in global management.

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Six trends HR can use to drive strategic talent

Looking to foster a performance-driven business culture? It’s time to take advantage of new technology trends in talent management - in particular those that improve communications, streamline processes, and align the workforce to business goals

Here are six of the most important trends HR should incorporate on the road to a high-performance culture:

1 Mobile

Providing anytime, anywhere access to learning, assessments, and transactions with mobile devices. With smart phones now ubiquitous, and many travelling workers relying more on their mobile devices than their laptops, employees expect to access on-the-go learning. They want mobile apps that make it easy to complete HR-related transactions—such as approving expenses—when away from the office. And they want to leverage new innovations like GPS-based locational learning simulations. HR would be wise to empower the workforce with more mobile options that boost productivity and engagement.

2 HR analytics

Owning the organization’s strategic business intelligence. HR has typically acted as a provider of talent management information—but now, by correlating data from multiple sources, HR can act as a consultant to executives and business lines on ways talent management can increase profitability. For example, by aligning HR’s tactical metrics to business goals and profitability, HR can begin to converge analytics tools across the company. In addition, HR can now make use of predictive analytics for next-generation success planning, so corporations can make more effective hiring and layoff decisions, while better predicting an employee’s future success.

3 Social learning

Identifying expertise and sharing knowledge to nurture communities of best practices. Some of the most useful knowledge in an enterprise is spread face to face or through emails, rather than through formal training. HR can be more successful in mining this knowledge by providing social tools that enable sharing, collaboration, and tracking. Remember, though, that there is no knowledge to share unless employees contribute. For social learning to be effective, HR needs to allow employees to easily generate, upload, and update their own content. HR can then identify those people who contribute and help produce the knowledge for the workforce.

4 Continuous feedback

Gathering valuable ad-hoc reviews for greater visibility into workforce productivity. While feedback is most effective if it is gathered from a wide range of co-workers continuously, most employees only receive feedback from direct managers in their annual performance reviews. That’s why HR is beginning to deploy project-based review processes that capture ongoing performance feedback on temporary engagement teams managed by different people. For example, a senior architect working on different side projects can get continuous feedback on completed tasks in each project—and, when reporting to her direct manager during her annual review, she can share comments from the different project leads and team members. That way, her annual evaluation is truly based on all her activities, and not just those with her official role.

5 Employee portal

Enabling employees to interact with all relevant data and workflows from disparate HR applications. Now is the time for HR to make a business case for deploying an employee portal. With so many applications to manage—from learning and performance to benefits and payroll—HR needs to give employees an integrated point of access that automates administrative tasks, simplifies communication, and captures important information electronically. At the same time, the portal can host communities of best practices for social learning, while offering modules for continuous feedback, goal-tracking, and development options.

6 Integrated talent management

Unifying and extending HR processes to drive a high-performance culture. Solutions for learning, performance, and compensation management increase in value as they are integrated into a talent management platform. That’s because an integrated platform gives employees a way to leverage data seamlessly between talent management applications, creating and checking their goals and then picking strategic learning that fills any gaps in their performance. Workflows can be pulled into HR and desktop applications such as Outlook or SharePoint, accessed by mobile devices, presented as “widgets” in portals, and tied into corporate systems. Ultimately, this integration of talent information helps HR better align business goals to processes for workforce planning, career management, succession planning, and total rewards management—and it generates the kind of culture that drives employees to perform well consistently.

Within these six trends lies the secret to creating a high-performance work culture. Place the right tools in the hands of the workforce, and they’ll build themselves the utopia of talent management—a place where they are engaged, skilled, fairly compensated, and successful. Everyone is either in the right role and succeeding at it, or on a clear path to get there. Workers unite as a team in shared values and productive behaviors. And—the best part—the business as a whole is thriving, growing, and improving.

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