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ARE WE THERE YET?

What's Next for HR

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The RBL Group

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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 awhile, the questioning becomes exasperating and only adds to the length of the journey.

Many in HR seem to be asking the same question, "Are we there yet?" Too often, many in HR seek but never seem to arrive at their destination. Professional conferences continue to lament HR more as an administrative service or compliance function than a business partner. Sometimes these lamentations only lengthen the journey to HR credibility. Maybe HR's aspiration for the future is less a specific destination that pinpoints when we have arrived and more a direction for aspiring HR professionals to help their organizations succeed. Most HR professionals have made enormous progress in the last few decades in their professional stature and contribution to business success. But the journey ahead should focus on the intent to deliver ongoing and increasing value, rather than striving for an end point when that value will be realized. In the spirit of simplicity, let me suggest steps in the journey ahead and discuss them accordingly:[i]

1. **One mega-message for HR's direction: The creation of value.**

2: **Two components of HR's relationship to the business:**

- Context: Understanding the changing business setting which redefines work.
- Stakeholders: Recognizing and serving both internal and external stakeholders who are the recipients of HR work.

3: **Three targets or outcomes of HR work:**

- Individuals as evidenced through a formula for productivity which is competence * commitment * contribution.
- Organizations as defined by their capabilities more than their structures.
- Leaders whose thoughts and actions embody the firm's brand.

4: **Four domains of HR investments:**

- HR departments where strategies and structures need to be designed to deliver value.
- HR practices which need to be aligned, integrated, and innovative.
- HR professionals who must have the competencies to respond to future demands.
- HR analytics where HR investments can be tracked and monitored.

The logic for HR's future is simple. We begin with a direction: HR should add value. This direction needs to be connected to the business, both the business context which shapes decision making and specific stakeholders around whom business strategies are created. Out of this context, HR defines targets for HR work: individual abilities (talent), organization capabilities (culture), and leadership. Finally, HR budget and people investments redefine the HR organization that makes the above happen. But he simple logic requires more detailed assessment to accomplish the journey. In this article, I want to propose "what's next" in each of these four areas (see summary in Figure 1).

1. One Mega-Message for HR's Direction: The Creation of Value

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 like building credibility with my 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 appropriate responses need to move forward. I suggest that the HR profession has been through three general waves (see Figure 2). 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.

[i] The frameworks and ideas in this monograph represent my view of the future of HR but are drawn from collaborations and conversations with my partners at the University of Michigan and in the RBL Group (www.rbl.net), Wayne Brockbank, Norm Smallwood, and Jon Younger. In addition, I have drawn extensively on ideas from consulting and academic thought leaders as summarized in the Appendix.

Figure 1: Overview of What's Next for HR

Issue	Where We've Been	Where We Are Going
1: HR mega message	HR from the inside/out: Administer HR; Redesign HR practices; Link HR to strategy	HR from the outside/in: Use HR to create value inside with employees and organizations and outside with customers, investors, and communities
2: HR's relationship to the business	Use HR to drive internal efficiency	Understand business context; Define HR value outside/in, through eyes of customers and investors
3: HR's targets or outcomes	HR builds talent and improves employee results	Increase employee productivity (competence * commitment * contribution); Improve organization capabilities (culture or processes); Ensure leadership as a brand throughout the organization
4: Domains for HR investments	*Restructure HR departments:* Seek the latest HR structural fad	Build HR departments as if they are a professional service organization within their organization
	Reengineer HR practices: Seek best practices; Offer piecemeal HR solutions	Offer aligned, integrated, and innovate HR practices around people, performance, information, and work
	Upgrade HR professionals: Ad hoc investment in HR careers	Ensure that HR professionals have the right competencies to deliver value and build HR career
	Track or measure HR progress: Measure what is easy and often activity-based	Create HR analytics focused on the right issues

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 using HR practices to respond to and create value based on external business conditions.

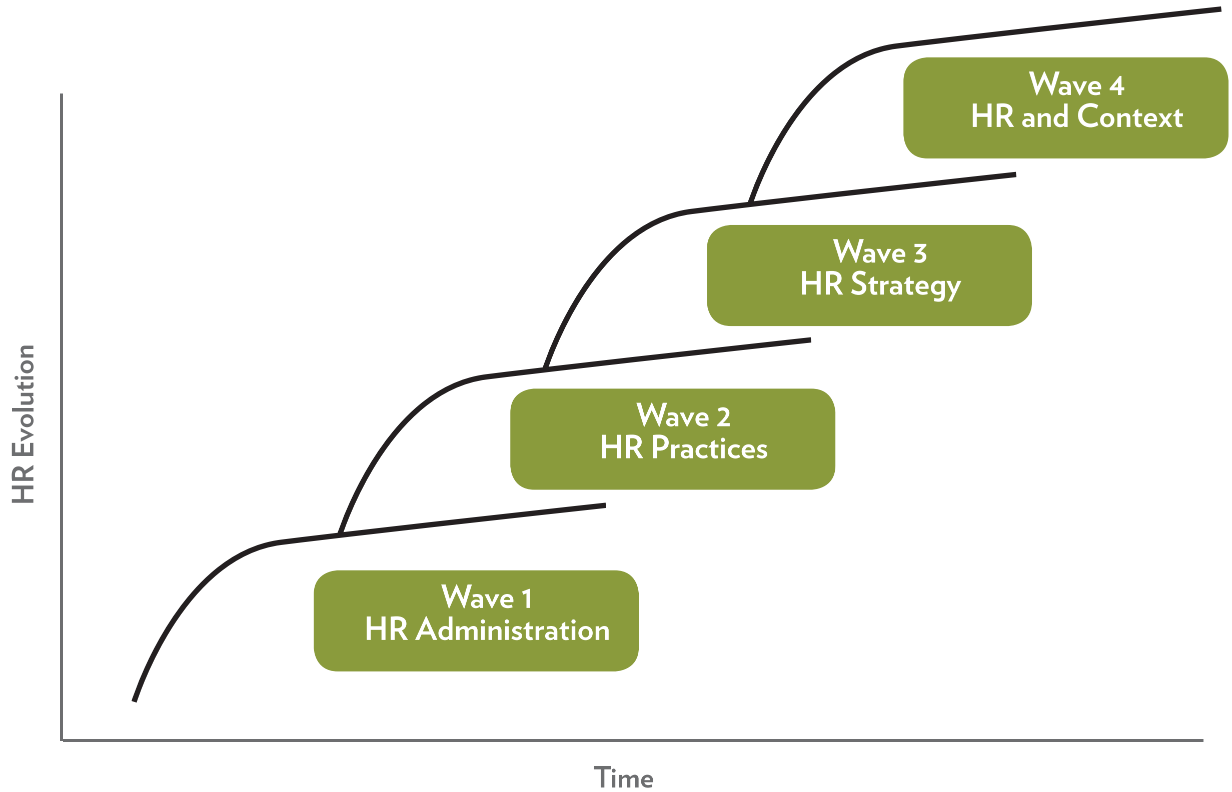
Many of the responses I get to my query, "What is your biggest challenge?" target Waves 1 and 2. HR professionals are consumed with the hurdles they immediately face in doing the HR work itself. These are legitimate and relevant concerns. In recent conversations, a number of senior HR executives have shared with me that HR has forgotten these basics, and without doing the basics well, the aspirations of business contribution remain unrealized dreams.

I advocate a simple two-word question that moves HR forward: "so that." My challenge is to build credibility with my line managers so that we can make better investments that help the business reach its goals. The "so that" question pushes HR professionals to see the outcome of their work, not just the work itself, moving from waves 1 and 2 to 3 and eventually 4.

I also like to pose a second "so that" question that moves us from connecting HR to the business (Wave 3 in Figure 2) to connecting HR to the broader business context in which business operates: My challenge is to build credibility with my line managers **so that** 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 missed the point. HR from the outside/in is a seismic shift in how HR thinks and acts. We no longer create value just by serving employees; we must also make 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 our 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 to respond to strategy, but also to help shape and create it.

Figure 2: HR evolution and mega message



Defining value with an outside/in approach starts when HR professionals understand their business context and key stakeholders.

2. Two Components of HR's Relationship to the Business: Context and Stakeholders

A number of entrepreneurs have asked my opinion about their business. Inevitably, they are excited about their new product or service. They often have invested much of their personal wealth and energy to design and deliver their product. I almost always respond with two simple questions: [1] What are the general problems you are trying to solve, and [2] Who are your targeted customers who will buy your products or services? Too often entrepreneurs cannot completely answer these questions because they are so excited by their product that they are blinded to external realities. Likewise, HR professionals need to approach their work from the outside/in and deliver value by understanding the business context for their organization and by identifying and serving specific stakeholders.

Business Context

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 that local leaders had both 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. We developed a STEPED framework which captures the business context that he could pay attention to in each country (see Figure 3). It includes:

- Social Trends: health care, lifestyle, and family patterns
- Technological Trends: access to and use of the intern
- Economic Trends: inflation, recession, and key industries
- Political Trends: elections, regulatory requirements, and political stability
- Environmental Trends: issues around sustainability
- Demographic Trends: age, education, race, gender, income issues

When leaders have a working knowledge of these STEPED issues, they can oversee and guide decisions that affect that market. These STEPED issues redefine the nature of what work will be and how work will be done.[1]

Likewise, HR professionals should be aware of how these external business factors impact their organizations and the work of HR.

Figure 3: STEPED

Category STEPED	Questions to ask
Social	• What are health patterns (physical, emotional)? • What are family patterns (married, not married, divorced, # of children)? • What are religious trends (heritage, activity)? • What is urban/rural mix and movement? • What is life style (workday, weekends, dominant hobbies)? • What is home ownership (apartment, home)? • What are the social problems (e.g., drugs, crime)? • Who are the heroes or famous people from this area (past and present)? • What are the diet and eating patterns?
Technical	• What are their communication mechanisms (media, television) and how independent are they? • What is level of technological maturity within the geography (internet use, computer access)? • What is their use of social media?
Economic	• What is the Gross Domestic Product? Relative to others, how is it doing? • What economic cycle are they in (recession, growth)? • What is unemployment? • What are leading industries? Companies? • What is economic gap of haves vs. have nots (size of middle class)?
Political	• What is their political history? • How much political stability is there? • How much regulation vs. private enterprise exists? (what is the role of government in industry?) • How open (vs. repressive) is their government? • What is their political heritage (democracy, socialism, parliament, king or family rule)? • What are the political "hot topics" that exist? • What is the relationship of the military and government? • How much corruption is there in decision making?
Environmental	• What are the environmental issues that people are worried about? • How does the geography participate in global conferences and trends?
Demographic	• What is the average age? • What is the birthrate? • What is the education level? (public vs. private) • What is the income level? (income disparity)

Social trends may affect what makes an effective employee value proposition. Technological trends may affect the extent to which work can be done in remote sites. Economic trends may affect opportunities for investment and growth of products and talent. Political trends may affect 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 (e.g., if there are limited demographics, it may help to build relationships with immigrant groups). In the future, HR professionals should be conversant with these general business conditions in a global context so that they can anticipate what might happen next to their industry and organization and prepare to respond accordingly.

Stakeholders

Within a business context, stakeholders have specific relationships with an organization. In Figure 4, I lay out five key stakeholders who receive value from HR work. Traditionally, HR work focuses inside a company with employees who seek to be productive and line managers who work to implement strategies. HR investments should enhance both employee productivity and a line manager's ability to deliver on strategy.

With the outside/in focus, HR can now also be aligned to external stakeholders. Investments in HR should increase customer share. When HR practices are aligned around customer expectations, those practices increase customer connection to the firm.

Figure 4: HR and Key Stakeholders

Customers can help with sourcing talent by participating in setting criteria for who is hired, by offering referrals on who might be interviewed, and by participating in some of the interviews. Customers may be involved in determining what training to offer, by attending training courses as participants, or by teaching some of the training sessions.

Investments in HR can also increase investor confidence in the firm's ability to deliver on future promises. With about 50% of a publicly traded firm's market value tied to intangibles, HR work can center on delivering a return on intangibles that comes when promises are kept, strategies are clearly articulated, organizations have core competencies or technical ability to deliver on strategies, and organizations have capabilities that ensure long-term success. HR professionals can architect the intangible value that investors receive.

Investments in HR also increase a firm's reputation within the community. HR can participate in social responsibility agendas by helping manage the company's philanthropy and community service activities, by being disciplined about the carbon footprint of the company, and by creating positive work/life balance employee policies. HR policies and professionals may shape an organization'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; it starts with what the business is trying to accomplish. An HR professional who was clamoring 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 organization 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.

3. Three Targets or Outcomes of HR Work: Individuals, the Organization, and Leadership

When HR professionals participate in strategy or business conversations, what are the unique contributions they can make? Imagine the above HR professional who sits in meetings on emerging markets, managing costs, or increasing innovation. HR contributions in these settings are not just about the activities of HR (sourcing, compensation, training); they are also about the outcomes of HR work. I like to think about three targets or outcomes of HR work: Individuals, the organization, and leadership (see Figure 5). To deliver any strategy, individuals need to be more productive, organizations need to have the right capabilities, and leadership needs to be widely shared throughout the organization. With discussing emerging markets, cost, or innovation, HR professionals can ask:

- **Individuals:** What talent do we need to make this strategy happen?
- **The Organization:** What organization capabilities do we need to make this strategy happen?
- **Leadership:** What do our leaders need to be good at to make this strategy happen?

Once these targets or outcomes have been defined, the HR practices may be designed and delivered to accomplish these outcomes. Below we highlight some of the future thinking for each of the three targets of HR.

Individual Ability (Talent)

At the risk of grossly oversimplifying, let me suggest that there is actually a deceptively simple formula for talent assessment 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. But without commitment, 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 organization will in turn receive value back. In the last decade, commitment and competence have been the bailiwicks for talent. We have found, however, that while the next generation of employees may be competent (able to do the work) and committed (willing to do the work), their interest and productivity wanes unless they feel they are making a real contribution (finding meaning and purpose in the work). Contribution occurs when employees feel that their personal needs are being met through their participation in their organization. Leaders who are meaning makers help employees find a sense of contribution through the work that they do. HR professionals who architect abundant organizations embed this meaning throughout the organization. Organizations 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).

Figure 5: Targets or Outcomes of HR work

In this talent equation, the three terms are multiplicative, not additive. If any one is missing, the other two will not replace it. A low score in competence will not ensure 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.

Organization Capability (Culture)

Talent is not enough. Great individuals who do not work well together as a team, or in their organization, will not be successful. Some simple statistics show the importance of teamwork over talent:

- In hockey, the leading scorer is on the team that wins the Stanley Cup 22 percent of the time.
- In soccer, the winner of the Golden Boot (leading scorer) is on the team that wins the World Cup 20 percent of the time.
- In basketball, the player who scores the most points is on the team that wins the NBA Finals 15 percent of the time.
- In movies, the winner of the Oscar® for leading actor or actress is in the movie that wins the Best Picture of the Year 15 percent of the time.

Great individual talent may succeed 15 to 20 percent of the time, but teamwork matters most. In recent years, people have called for human resources to be relabeled as the talent function, with a focus on workforce, people, and competencies. Without attending to teamwork, workplace, processes, and culture, HR misses opportunities to have sustainable impact. HR professionals sitting in business discussions in the future need to offer insights on organizations as well as individuals.

The organization of the future exists today but not in the traditional sense. Generally, when thinking about an organization, we turn to morphology (the study of structure or form), and we define an organization 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 work place.

Combined, these three traditional factors capture an organization's structure or shape. In the last decade, however, a lot of restructuring has been done to right-size, reshape, reengineer, redesign, de-layer, and rebuild organizations based on these three factors. Although this restructuring work encapsulates organization design, it is only a small part of the complete organization of the future.

When we work with executives to define the organization 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, and Unilever. We then ask the executives, "How many levels of management are in the admired firm?" Almost no one knows.

More important, no one really cares — because we do not admire an organization because of its roles, rules, or routines. Instead, we admire General Electric because of its capacity to build leaders in diverse industries; we admire Apple because it seems to continually design easy-to-use products; we admire Disney for the service we experience; and we admire Google and Microsoft for their ability to innovate and shape their industry. In other words, organizations are not known for their structure but for their capabilities.

Capabilities represent what the organization is known for, what it is good at doing, and how it patterns 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 behavior. These capabilities also become the identity of the firm, the deliverables of HR practices, and the key to implementing business strategy. A Duke Corporate Education client study[2] found HR professionals today are "shifting their focus from individual competency to organizational capability." McKinsey also looked to the future and found that capabilities will become more important than individual competencies: "Nearly 60 percent of respondents to a recent McKinsey survey say that building organizational 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 programs on building the capability that adds the most value to their companies' business performance." [3]

Competencies represent the abilities of individuals, and capabilities capture the organization's identity (see Figure 6). In Figure 6, 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 organizational-technical cell (3) comprises a company's core technical competencies. For example, a financial services firm must know how to manage risk. The organizational-social cell (4) represents an organization's underlying DNA, culture, and personality. [4]

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 (e.g., lean manufacturing), globalization, quality, customer service, and speed of change or agility. I would anticipate that some emerging capabilities for organizations to succeed in the future might include:

Figure 6: Differentiating Competence vs. Capability

	Individual	Organizational
Technical	1 An individual's functional competence	3 An organization's core competencies
Social	2 An individual's leadership ability	4 An organization's capabilities

- **Risk management.** In volatile and changing markets, organizations that can anticipate and manage risk will be more able to create sustainable change.[5]
- **Social responsibility.** With an increasing concern on environmental issues, organizations that have the ability to be socially responsible will attract employees, customers, and investors.
- **Simplicity.** As the business world becomes more complex, organizations that can remain simple in product design, customer interfacing, and administrative systems will be more responsive.[6]
- **Connection.** With technology being the workplace of the future, organizations 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. [7]
- **Innovation.** While not a new topic, innovation will increasingly be broadened to include not only products but also customer interfaces or channels, administrative processes, and business models.[8]

When HR professionals see the connection of organization capabilities to individual abilities, they begin to make the whole (organization) more than the sum of the individual parts (individual talent).

Leadership Brand

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

In our studies of leadership, we have identified five things that HR professionals can do going forward 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 organization. Organizations 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 succeeded) or inside the individual. In the future, I think that the criteria of leadership should start with 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 behaviors consistent with this external brand. When leaders inside the company behave consistently with the 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 360's may be expanded to 720's 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 and 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 current and aspiring leaders' ability to serve customers.

Invest in leadership. The traditional formula for leadership investment has been 70 – 20 – 10. The logic is that 70 percent of learning and development is on the job, 20 percent from feedback and observation of role models, and only 10 percent from training. We think that this formula should shift to something like:

- 50 percent of learning from job experience, including role models. Most learning still comes from doing and experiencing.
- 30 percent of learning from updated training. Traditionally, training is what we call a "tourist activity," in which 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 in training is immersed in the business while in the training session. This means pre-work to know what the participant should leave with, action learning during the training, live and relevant cases and problems to be solved, customers as faculty and participants, and follow-up to ensure that ideas taught had real impact.
- 20 percent of learning from life experience. Many of us learn from experiences outside of work, such as in families, social settings, social networks, volunteer work, reading, and traveling. When companies can encourage and access knowledge from these life experiences, leaders will broaden their repertoire. For example, one company uses their philanthropy efforts as development opportunities for high-potential leaders.

This mix of leadership investments may be the basis for systematic development of leadership throughout an organization.

Measure leadership. Leadership investments have often been measured using Kirkpatrick's scale: attitude, knowledge, behavior, and results. This is an outstanding scale. I envision two changes in the future, both expanding on the results. First, in the case for leadership, HR professionals show how leadership will help an organization 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), Return on Intangibles. As noted above, intangibles represent about 50 percent 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.

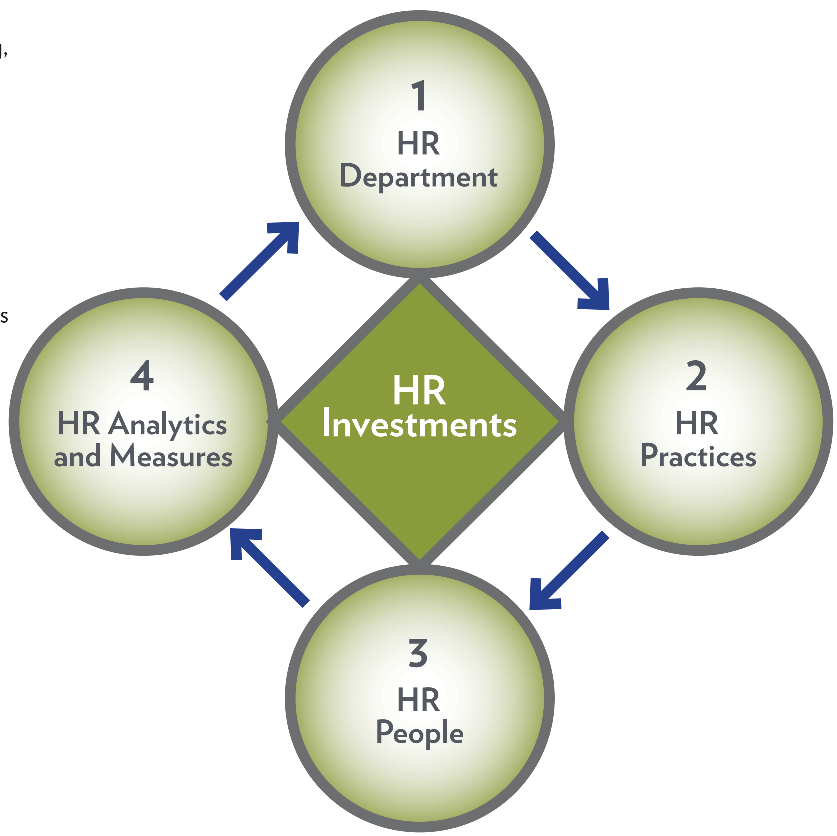
Conclusion: Three Targets or Outcomes

The targets or outcomes of HR may include individuals, organizations, 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 deliver value.

4. Four Domains of HR Investments

Every few years someone writes an article or 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 toward HR. 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 Figure 7).

Figure 7: Domains for HR Investments



HR Function

In the last decade, most HR functions have undergone transformation. This generally implies redefining the goals and restructuring the function. The goals of an HR function should be drawn from the capabilities that the organization needs to succeed. If an organization 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 organization's capabilities overlap, HR will be more able to contribute to business success.

Restructuring 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 organization. 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 centers and strategic formation systems, marketing, and sales).

The structure of an HR department varies depending on the structure of the business.[9] Companies typically organize along a grid of centralization/decentralization, which leads to three generic ways in which a company operates (see Figure 8): functional organization, holding company, or diversified/allied organization. The HR department should align with the structure of its business operations (Figure 9).

Functional Organization. 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, startups 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 organization remains primarily a single line of business, HR expertise most logically resides at a central office, establishing company-wide policies. HR generalists are typically 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 organization suits a single business strategy. It should not be abandoned in favor of the more popular shared service organization unless the structure and strategy of the business mandate the choice. I see only about 15 to 20 percent of large organizations following this functional organization 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 percent of overall businesses), we see some resurgence of holding company structure associated with the rise of large and well-capitalized private equity and investment firms such as Carlyle, Berkshire Hathaway, and

Figure 8: Business Structure and HR Structure

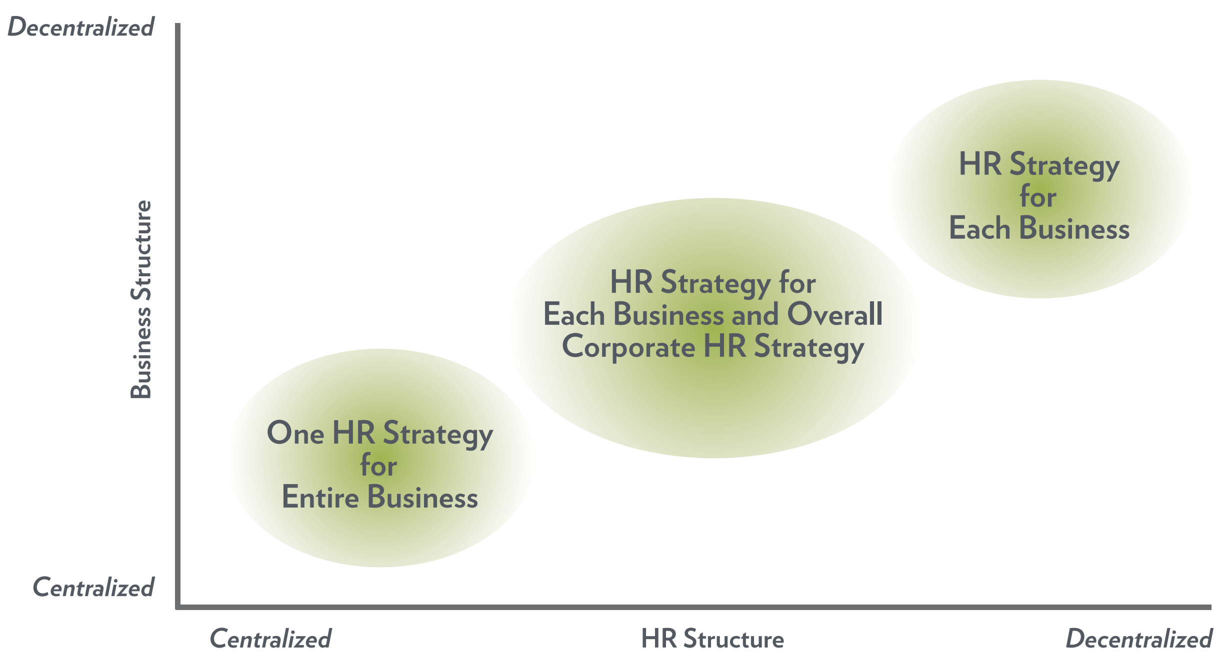
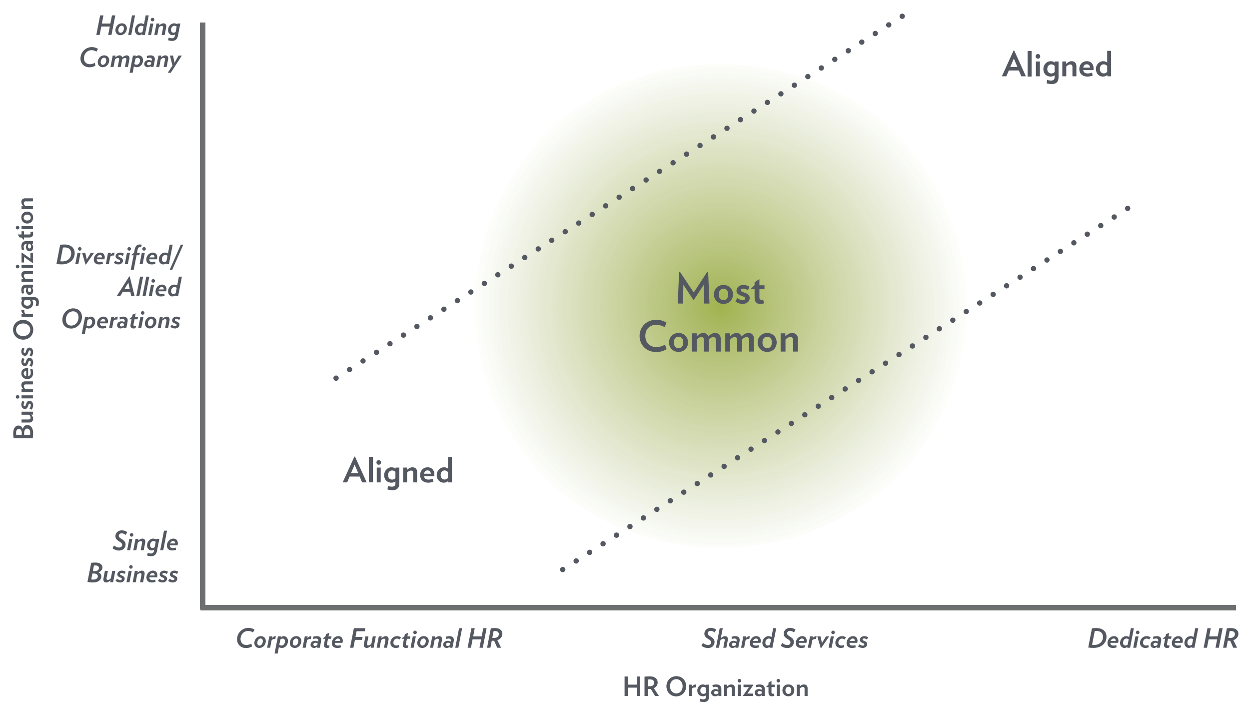


Figure 9: Alignment of Business Organization and HR Organization



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 do so. 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 does 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. If organizing 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 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 organizations align their portfolio of businesses around a core set of strategic capabilities that are leveraged across operations. For these business organizations, a relatively new way to organize HR resources has emerged called shared services. Shared services has two parts: [1] Service centers which rely on technology to meet employee administrative needs and [2] Centers of expertise which create specialist knowledge and insight (see below for details). From a distance, shared services looks a lot like centralization, but it is not. Table 1 marks some of the ways functional HR, shared services, and dedicated HR differ from one another.

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 — centralize and standardize all processes — because centralized 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 centralization and the flexibility required for competing in different markets.

From Shared Services to Professional Services. Since shared services organizations have become more popular with large companies in the last decade, I often hear HR professionals saying, "What's next in the HR organization?" Sometimes this is HR's quest to be on a journey for the future without really accepting the present. Increasingly, I believe the basic tenets of the shared

Table 1: Functional HR, Shared Services, and Dedicated HR

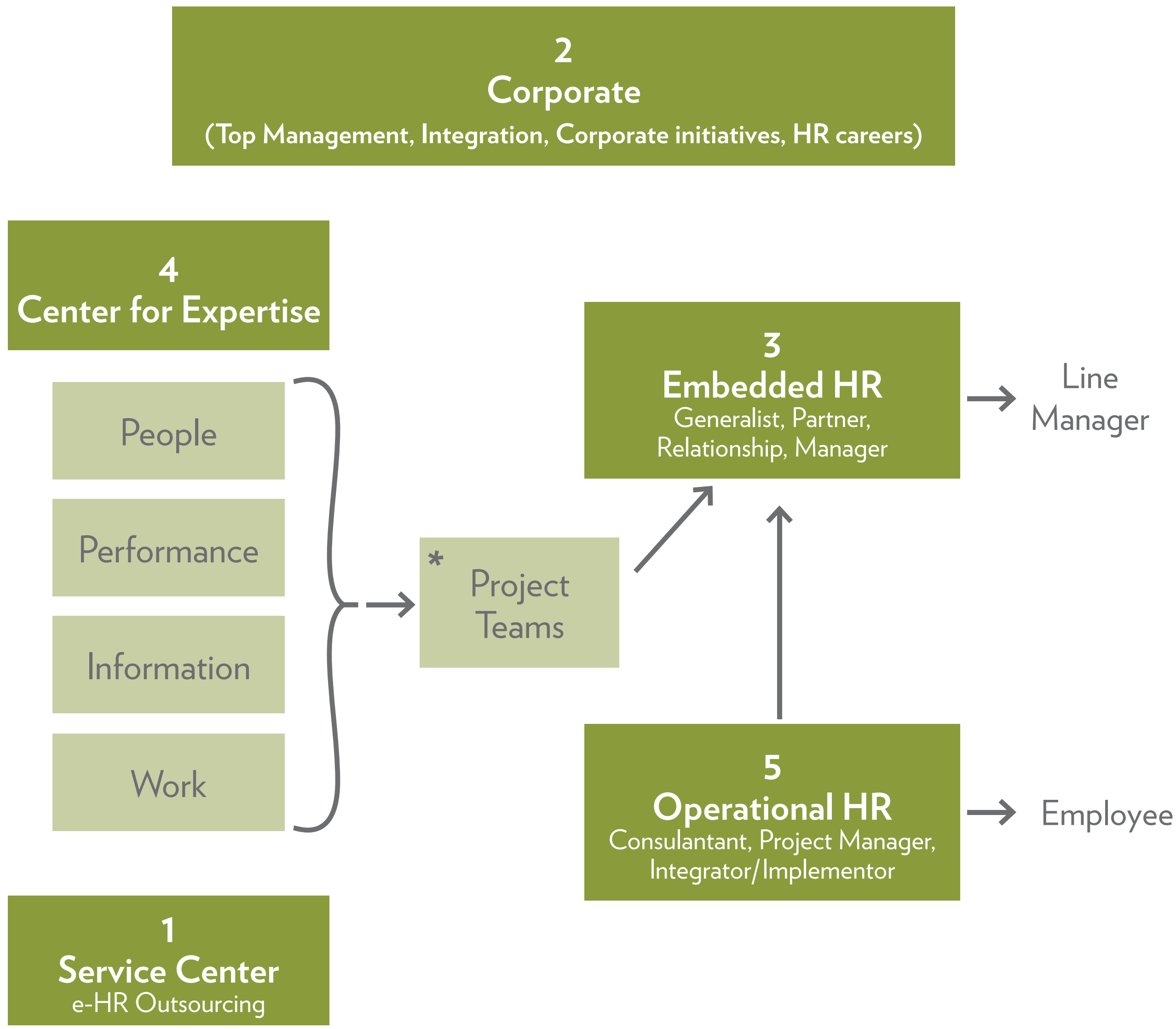
Dimension	Functional	Shared Services	Dedicated
Business organization	Single business	Related or unrelated diversification	Holding company
Design of HR policies	Performed by corporate functional specialists	Alternatives created by specialists in centers of expertise	Designed and delivered by functional specialists within a business
Implementation of HR practices	Governed by corporate specialists	Governed by local HR professionals who select options from center of expertise menu	Governed by local HR specialists embedded in the business
Accountability	Corporate HR	Split between operations and HR	Local business leader
Services orientation	Standardized services across the corporation	Tailored to business needs with consistency through learning and sharing	Unique services for each business
Flexibility	Mandates use of internal resources	Has flexibility as governed by the centers of expertise	Each business creates what is required
Chargebacks	Business units pay an allocation of HR costs	Business units pay for use of service	Business units fund their own HR costs
Location	Strong corporate presence with HR generalists on site	Wherever makes sense	Small corporate HR office, with HR staff at local level
Skills requirements for HR	Technically expert in design and delivery	Design expertise, but also consulting and support	Business expertise and technical specialty in business
Wealth creation criteria	Corporate shareholder value	HR value creation for line managers, employees, customers, and investors	Business unit profitability

services organization have not been fully deployed in many organizations. To understand a shared services organization requires thinking about HR as a professional services firm within a firm. Any professional services firm (e.g., consulting firm, advertising agency, film production studio, etc.) has a simple challenge: Turn our knowledge into client productivity. To do so, a professional services firm generally is organized with knowledge centers housed with individuals who have deep expertise in a technical area. Professional services firms have client relations managers whose job it is to diagnose client wants and needs and then pull knowledge together into client teams to meet those client expectations.

The HR organization in Figure 10 captures how HR can turn the logic of a professional services firm into an HR organization. Service centers (box 1 in Figure 10) 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 begin to re-insource this transaction work through technology. Corporate HR (box 2 in Figure 10) 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 (box 3 in Figure 10) will be the generalists who diagnose problems and offer individual, organization, and leadership solutions to business challenges. Centers of expertise (box 4 in Figure 10) will continue to be HR specialists with deep technical knowledge in the HR core areas of staffing, learning, compensation, organization development, and so forth. Operational HR (box 5 in Figure 10) will be those charged with transferring HR knowledge into client productivity.

The metaphor of HR as a professional services organization within their organization will lead HR professionals to not invent a new HR structure but to make the shared services organization 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, organization, and leadership value. This will require ongoing dialogue about what HR initiatives should be pushed throughout the entire organization versus those that should be pulled into a specific organization unit based on its business requirement. This is somewhat like a tax auditing firm that has the dual obligation of ensuring that its client live the

Figure 10: Overview of the HR Organization



current tax code and advising the client on innovative alternatives. This also will 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 more 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 may be called professional services because it needs to operate like a professional services organization within its firm.

HR Practices

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

- **People:** HR work shapes the flow of people in, through, and out of an organization. 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 the flow of information from top to bottom, inside to outside, and side to side within an organization.
- **Work:** HR work includes an understanding of how the organization gets work done (e.g., through teams), workforce policies, and physical settings.

These four categories obviously overlap and affect each other, but HR professionals in the future will 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 also with 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 the design of the training, as participants in training programs, 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 organization can and should reflect communications inside the organization. Customers also may be involved in teams and other organization design choices to make sure the organization matches the customer.

For HR professionals to be aligned with strategy and external stakeholders, they need to know the customers. I have been suggesting that HR professionals spend about 2 to 5 percent of their time (one half to one day a month) on sales calls with customers. At first salespeople may resent the HR person and customers may wonder why they are there. With time it becomes more clear. The salesperson sells a product or service; HR builds a relationship. When HR looks at a customer and says, "We will work to hire, train, pay, communicate, and organize 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 their annual HR planning meeting to ask the customers if the capabilities they identified as their goals for the forthcoming year would cause the customers to buy more products or services. While I have focused on customers, I could also 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 organized 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. The integration often can be around the organization capabilities. If a company defines its desired capability as innovation, HR can then hire, train, pay, communicate, and organize work to deliver innovation. Research has shown that integrated HR work leads to higher results because different HR practices focus on similar results.[10]

Innovation. Innovation is not just a product or 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. HR professionals should be constantly 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 be assigned to work with a local emerging leader. The mature leader is charged over a period of time (e.g., one or two years) of leading and 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 troll for innovative ideas both 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), organizational capabilities (culture), and leadership to their organization in ways that serve stakeholders and respond to external business contexts so that value is created. This HR future requires new skills for 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 over 45,000 participants. Based on this work and our in-depth experience with hundreds of companies, we are comfortable projecting four trends that will frame the roles and skills of HR professionals going forward.

First, 20-60-20. We are not sure that these are the precise percentages, but they imply that about 20 percent of HR professionals are able and willing to contribute to business success as we suggest above. This monograph will be confirming to them. Another 20 percent are either not able or willing to engage in the work I describe. If one wants to see either good or bad in HR, they can go to those in either extreme to celebrate or lament the progress of HR. The 60 percent majority are 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.

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 continually grapple with the challenges of focusing on the most important wealth-creating activities of the firm, 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 their 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 the 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 that improve an organization's ability to compete and grow.
4. Talent managers and organizational designers understand, diagnose, audit, and improve both talent and organization.
5. Operational executors do the operational work of HR both effectively and cost-efficiently through information systems and through standardized HR policies.
6. Business allies demonstrate a firm grasp of business knowledge of how the organization functions internally and externally to make money.

Our analyses show that credible activists have primary impact on personal and business results and that the next three above roles have roughly equal impact on business performance. Therefore, HR professionals must ensure that they have a balanced approach to their business contributions.

As we look forward, we envision HR professionals continuing to demonstrate competence in these six roles, but some of the issues will be more pressing, including the management of:

- **Globalization.** Globalization has been prevalent for 20 years and now must become a given in HR work. HR professionals should be active contributors in developing individual, organization, and leadership capabilities for their companies to compete in emerging markets. BRIC countries (Brazil, Russia, India, and China) have dominated the global discussions in recent years, to be replaced by the next 11 emerging markets: Turkey, Vietnam, Philippines, Indonesia, Nigeria, Iran, Korea, Pakistan, Bangladesh, Mexico, and Egypt.[11] For example, how companies build local leaders in these emerging markets will likely be an important topic. To compete in these new markets, the STEPED model (see Figure 3, page 4) and the stakeholder model (see Figure 4, page 5) for a particular nation might guide HR thinking.
- **Risk.** With the recent recession, executives learned that they had to manage risk. Much of this risk is technological, financial, compliance, and operational.[12] But much of the future risk will be about individuals, organizations, and leadership, the three targets of HR. When external boards or regulatory agencies examine risks, HR can and should be part of this conversation.
- **Technology.** Technology changes how people in an organization relate to each other. Technology 1.0 was a source of information as people replaced encyclopedias with Google searches; 2.0 was efficiency as technology changed time and space for business operations; and now 3.0 focuses on relationships as technology connects people in new ways. Technology relationships require careful attention to avoid superficiality and ensure substance. Tweeting about what a celebrity eats for lunch on Tuesday to thousands of fans creates a false intimacy. HR can begin to use technology to share information, drive efficiency, and build relationships.
- **Meaning.** We have suggested that individuals require competence, commitment, and contribution. HR professionals who help employees find meaning at work through their contribution 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 concern for sustainability in all aspects of the organization. Socially responsible organizations, policies that balance work and life, and corporate philanthropy will likely become woven into sustainability efforts.
- ??
- ??

I leave some of these future HR skills as "??'s" because we don't know yet what we don't know.

I am often asked if CHRO's should come from inside or outside HR. This question addresses the careers of successful HR professionals. My sense is that we will see an increased blurring of HR versus line distinctions as senior HR professionals have the ability to engage on both business and HR issues.

HR Analytics

As HR has become more aligned with business, evidence-based HR and HR analytics have become increasingly important.[13] 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, prioritize, and improve HR investments. While many HR decisions require insight and judgment, improved HR metrics help HR move toward professional respectability and decision-making rigor. 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 make value happen. Some companies are so concerned about the HR scorecard or dashboard that they are making metrics the end, not the means. This is like a sports fan being consumed with the detailed 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 emphasize a path with lead indicators and outcomes of interest. Instead of using mean data that shows how well we do, we likely will see more correlation-based data showing how what we do impacts what we want to have happen. Showing how employee attitudes inside a company affect customer attitudes and investor confidence outside the company are examples of prescriptive HR metrics.

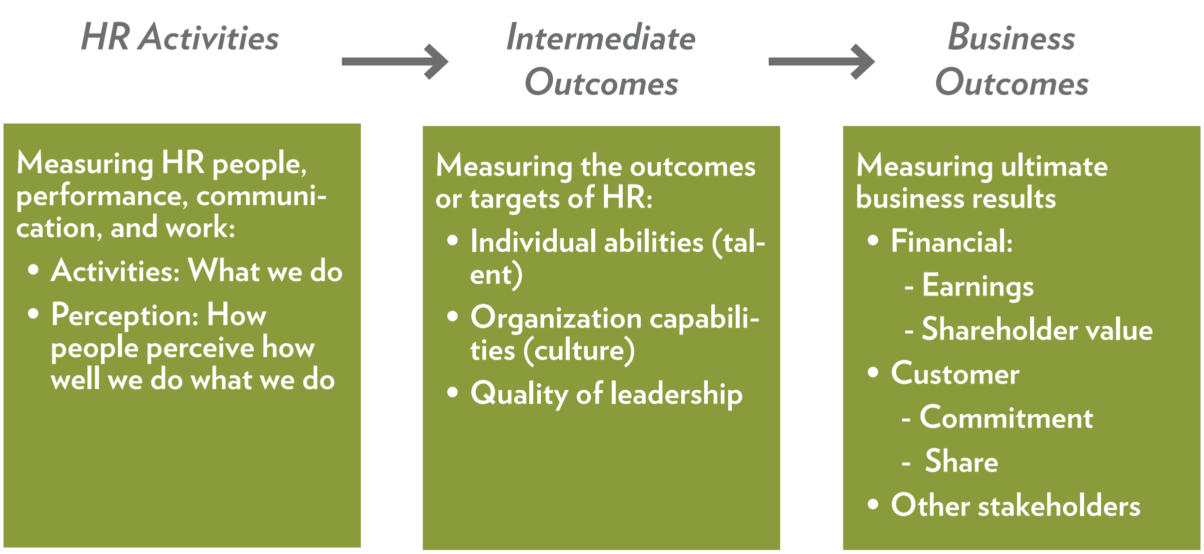
Second, avoid measuring what is easy, and focus on measuring what is right. Just because something can be measured does not mean it should be. In the past, HR would measure activities (e.g., how many managers received 40 hours of training or how much people liked attending a training program). Going forward, 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, HR investments should affect customers, investors, and other stakeholders outside the organization. Sometimes the line of sight between these ultimate outcomes and HR investments are difficult to track (see Figure 11), and it is important to measure 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 the organization.
  - Competence: ability of people to do their job today and tomorrow
  - Commitment: extent to which people are engaged with and committed to the organization
  - Contribution: extent to which people find meaning at work
- **Organization Capability:** Measure the capabilities within the organization as the extent to which the organization has an identity that is shared both inside and outside the company.
- **Leadership Depth:** Measure the extent to which leadership exists throughout the organization.

I would suggest that it is important to show relationships between HR activities, HR outcomes, and business outcomes. When correlations and eventually 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 on 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 from the data key messages and trends. Turning complex data into simple messages requires that HR professionals can see themes or stories in the information warehouses they currently access to make more informed decisions. Sometimes using data for decision-making starts with gaining clarity about the decisions that need to be made and then shifts to the data collected.

Figure 11: HR Metrics



For example, as companies shift to doing business in emerging markets, decisions need to be made about how to staff, train, pay, and organize 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 for 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 in applying those metrics for improved decision-making. Validity and reliability is less about statistics and more about managerial buy-in and use of the data collected.

HR Metrics: Conclusion

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 sidestep data, evidence, and analytics that bring rigor and discipline to HR. Statistics should become de rigueur for HR professionals.

Conclusion:

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, organization, and leadership HR outcomes or targets, and then shifts to HR investments in the function, practices, people, and metrics. This is an ambitious agenda. Some in HR (the 20 percent rule) have already arrived. Some in HR (another 20 percent) will never get there. What interests me the most is how to move the 60 percent to become more competent, committed, and able to contribute.

I like HR departments because they are the rudder for individual, organization, and leadership success within a company. I like HR practices because they enable sustainable results. I like HR people because, for the most part, they have good intentions and aspirations. I like HR analytics because they document the value that HR creates. The good news is that my passion for HR is shared with many thoughtful colleagues. (See Appendix for a list of recent research reports on HR's future and for a list of selected authors and their key works on positioning HR.)

The journey toward HR contribution is ongoing. In 1942, Winston Churchill expressed a classic statement about a forward-looking journey: "This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning." ■

About the Author

Dave Ulrich, *PhD, is a professor of business administration at the University of Michigan Ross School of Business and a cofounder of the RBL Group. He has consulted and done research with over half of the Fortune 200 and published more than 200 articles and book chapters as well as 23 books. He served as the editor of the Human Resource Management Journal from 1990 to 1999 and is a fellow of the National Academy of Human Resources. HR Magazine has named him the number one thought leader in HR for the last four years.*

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Appendix:

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End Notes

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[6] See: Ron Ashkenas, *Simply Effective: How to Cut Through Complexity in Your Organization and Get Things Done* (Boston: Harvard Business Press, 2009).

[7] This logic is laid out in: PriceWaterHouseCoopers, "Managing Tomorrow's People. The Future of Work to 2020," *PriceWaterHouseCoopers* (2007), sourced at http://www.pwc.com/gx/en/managing-tomorrows-people/future-of-work, accessed January 2012.

[8] Excellent work on innovation is in Larry Keeley's work (www.doblin.com).

[9] We recognize that there are generally two types of "business strategy": [1] Corporate strategy focuses more on the portfolio or mix of businesses and [2] Business unit strategy focuses on how a particular business unit anticipates and services customers to make money. Each view of strategy leads to business organization choices which then lead HR organization choices.

[10] Brian Becker, Mark Huselid, and Richard Beatty, *The Differentiated Workforce: Transforming Talent into Strategic Impact* (Boston: Harvard Business Press, 2009).

[11] These 11 emerging markets have been identified by Goldman Sachs, who identified the BRIC markets. "The N-11: More Than an Acronym,"– Goldman Sachs study of N-11 nations, Global Economics Paper No: 153, March 28, 2007.

[12] See the standard for risk management from Committee on Supervising Organizations (commonly known as COSO) of the Treadway Commission.

[13] There are great works on HR analytics and evidence-based management:

John Boudreau and Peter Ramstad, *Beyond HR: The New Science of Human Capital* (Boston: Harvard Business Press Books, 2007).

John Boudreau, *Retooling HR: Using Proven Business Tools to Make Better Decisions About Talent* (Boston: Harvard Business Press, 2010)

Jac Fitz-enz, *The New HR Analytics: Predicting the Economic Value of Your Company's Human Capital Investments* (New York: Amacom, 2010).

Jac Fitz-enz, *The ROI of Human Capital: Measuring the Economic Value of Employee Performance* (New York: Amacom, 2009).

John Gibbons and Christopher Woock, "Evidence-Based Human Resources: A Practitioner's Guide," *Conference Board, Research Report* (R-1427-09-RR, 2009).

John Gibbons and Christopher Woock, "Evidence-Based Human Resources: A Primer and Summary of Current Literature," *Conference Board, Research Report* (E-0015-07-RR, 2007).

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