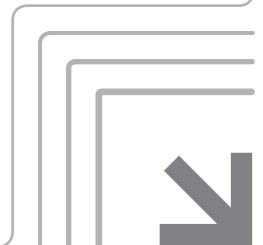


Stress Testing HR Strategy and Effectiveness



JON YOUNGER AND DAVE ULRICH

As HR is increasingly expected to grow in performance and contribution, organization leaders need a simple but robust model of HR effectiveness. This paper provides such a model, reviewing ten critical characteristics of world-class HR organizations. In doing so, it provides a comprehensive and robust methodology for “stress testing” HR that provides a logical and research-based approach to assessment and improvement planning, with implications for both research and practice.



Stress Testing HR Strategy and Effectiveness



Jon Younger and Dave Ulrich

In rebuilding confidence in the financial system, an important action taken by both the American and European banking systems was “stress testing” the largest banks. The stress test was a thorough review of banks’ capital position and its operations, and was focused on risk—in the case of banks, the potential for default and assessment of the need for additional capital so that the banks would remain solvent and perform. As one observer mentioned at the time, “The tests have clearly been a market confidence builder. It helps us counter the sky-is-falling mentality we’ve seen.”

Although certainly not as acute as the banking system in 2009, executives in companies around the world are asking a similar question of their HR departments: Does our HR department have the focus, organization, and resources? And do our HR professionals have the competencies and commitment to perform and grow? As executives increase their dependence on “human capital” for growth, it is increasingly important to HR leaders to develop a straightforward process to enable the organization to demonstrate that they have been “stress tested” and found ready to meet the requirements to contribute.

In the last 50 years, HR professionals have moved from industrial relations where they negotiate the terms and conditions

of work to personnel specialists who have expertise in HR practices like recruiting, compensation, training, and organizational development to business partners who deliver value to business success.

In a variety of books and articles, we have stated that the goal of HR is to create value inside an organization for employees and outside an organization for customers, investors, and communities. Value is ultimately created by receivers of HR work more than those who do the work. This is accomplished by ensuring that HR is focused on the right outcomes; investing prudently to achieve the right priorities; delivering the right leadership and talent to the organization; and delivering the most appropriate HR structure, practices, professionalism, and tracking measures to meet customer (and other stakeholder) expectations.

Below is a brief survey that captures the keys to HR delivering value, and provides an HR or management team with a simple, rigorous, assessment of HR effectiveness—an HR strategic stress test—based on what world class HR organizations do superbly well. Following this we describe in detail the elements of this stress test.

Effectiveness Assessment

	Current Effectiveness: 1, minimal; 5, a great deal					Most critical 2–3 in the next 3 years
How effectively do we currently perform on each of the following factors for the future of HR?	1	2	3	4	5	
1. Outside/in: We are good at connecting our HR work with customers, investors, and communities outside our organization.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
2. Business context: We are good at understanding the social, technological, economic, political, environmental, and demographic context of our business.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
3. Value: We are good at defining the value created by HR work.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
4. Talent: We are good at improving the productivity of our employees through their competence, commitment, and contribution.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	

- 5. Organization: We are good at identifying and investing in organization capabilities required for our future success. ○ ○ ○ ○ ○
- 6. Leadership: We are good at building leadership depth through the company with things like bench strength, quality of management, and Leadership Brand. ○ ○ ○ ○ ○
- 7. Restructuring HR departments: We are good at building HR departments so that they turn knowledge into client productivity with clear roles and responsibilities. ○ ○ ○ ○ ○
- 8. Re-engineering HR practices: We are good at aligning, integrating, and innovating our HR practices in people, performance, communication, and work. ○ ○ ○ ○ ○
- 9. Upgrading HR professionals: We are good at ensuring that HR professionals have the right competencies to deliver value and build their HR career. ○ ○ ○ ○ ○
- 10. Tracking or measuring HR progress. We are good at creating HR analytics focused on the right issues ○ ○ ○ ○ ○

WE DESCRIBE EACH FACTOR IN TURN:

1. Outside/in: We are good at connecting our HR work with customers, investors, and communities outside our organization.

Transforming HR professionals into business partners is not just reflecting HR practices in a strategic mirror, but looking through the strategy to external constituents and connecting HR inside the firm to expectations of those outside the firm. Basic supply-demand logic asserts that if supply is high for any given product or service but demand is zero, then its value is zero. If what we do in HR (and other functional groups) on the inside does not create value on the outside, improving the ability of the company to attract, serve, and retain customers and investors, its value is zero.

This logic has practical implications. For example, many HR leaders launch change in HR with an all-hands meeting to share the vision and goals of the new HR organization. We strongly suggest that this event begin with a detailed discussion about the business. For example, in one recent workshop with a large defense contractor, the chief HR officer spent the first two hours reviewing how the business was performing against competitors, changes in bidding procedures, and cost pressures on government customers. During the break, two HR professionals mentioned to one another, “When do we start talking about HR priorities?” In fact, the CHRO was defining the agenda for HR transformation by focusing on the business first. When we begin our business conversations by talking about the business, it sends a message: HR transformation is not about doing HR; it is about contributing to business success.

2. Business context: We are good at understanding the social, technological, economic, political, environmental, and demographic context of our business

HR leaders must both align human resources with business strategy, and also look through the strategy to see and understand the external realities that shape it. Understanding and linking HR with the situation and requirements of an organization’s key constituencies helps HR not just implement the strategy but play a role in defining it. HR professionals who want to contribute to strategy and sustain a transformation must be more than casual observers of the external conditions that impact and shape an organization’s plans and priorities. It is not necessary to be an economist, demographer, or political scientist to build effective HR, but it is important to be conversant with the basics. Understanding the general business conditions that impact your organization means more than offhand reading of newspapers or Internet news stories. It means really understanding customers and why they buy your organization’s products and services, why investors invest or withhold funds, how markets work, key demographic trends and technological forces shaping your industry, and the political and regulatory actions that will affect your organization. A thorough model of HR influences includes multiple stakeholders—employees and line managers inside the organization, and customers, investors, regulators, competitors, and communities outside the organization. To fully grasp business conditions influencing what HR must do and contribute specific to your organization, HR must identify the particular expectations and changes for each stakeholder. We find it helpful to think in terms of the stakeholder map described in the figure below:

Figure 1: Key Stakeholders



We briefly describe these stakeholders in turn:

- **Employees.** Research on employee demographics underscores the varying expectations employees have of their organizations. Employees represent increasingly diverse backgrounds: HR needs to be able to understand how employees of different backgrounds experience the workplace and what facilitates and impedes employee productivity, engagement, and development. Externally, HR professionals need to understand the demographic trends that affect how the organization will source talent in the future; for example, the availability of key skills and the need to explore alternative sources of talent (for example, hiring older or retired employees part-time, building relationships with universities outside your home markets, or using technology to access talent from distant countries).
- **Line Managers.** Line managers charged with defining and executing strategy to deliver results are a key HR stakeholder group. A decade ago, HR professionals clamored to be “at the table” when key business decisions were made. Today, most competent HR professionals are involved in business discussions. Now the greater challenge looms: What do we contribute? If, in business discussions, HR professionals wait for “HR issues” to come up (e.g., recruiting, compensation), they will likely wait beyond their welcome. Line managers face ever-increasing scrutiny and pressure to perform, and HR professionals must be active contributors in

business discussions, not just HR discussions. This requires seeing the business through the eyes of line management: What is that manager accountable for? What’s on the scorecard? What are the problems that cannot easily be solved? Anticipating and working on these problems helps HR professionals deliver value.

- **Customers.** Customers are increasingly segmented, informed, and demanding. As they gain greater choice, they are more selective about organizations with which to work. It is important for HR to understand the target customers of the business, why they do business with your organization, and what the organization must do to grow future customers and retain current customers. HR professionals who spend time learning about and working with customers have a clear line of sight between HR practices and customer value. HR professionals are in a unique position to help build long-term relationships with customers by demonstrating that the company has the organizational capability and talent in place to deliver on promises. Customers who know the organization will hire, train, pay, and organize work to meet their needs are more likely to form deeper, more enduring relationships. Obtaining customer insights by reviewing marketing data and spending time with customers builds awareness of how HR investments link to these customer needs.

- **Investors.** Investors are increasingly concerned about intangibles as well as financial results. Institutional investors and analysts increasingly look beyond the balance sheet and into the quality of leadership and organization that give them confidence about the growth prospects of their investments. HR professionals who know the goals of the company's investors (growth versus value; short-term versus long-term) can more knowledgeably work with line management to craft HR practices that give investors confidence in the future. HR professionals should have a point-of-view about how to define and enhance intangible value, and benefit from learning investor expectations. In *How Leaders Build Value* (Wiley & Sons, 2006), we argue that critical steps to creating intangible value include keeping promises, ensuring a compelling strategy, aligning core competencies, and aligning organizational capabilities. We call this the "Architecture for Intangibles" and show four intangible factors that HR professionals should master: meeting current commitments, clarifying future strategy, developing core competencies, and building organizational capabilities.
- **Competitors.** Competitors include traditional, large global players as well as smaller regional innovators. The rate of global growth continues, but increasingly, growth is coming from emerging markets—what Goldman Sachs has called BRIC and the "Next Eleven": Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam. Knowing present and future competitors requires insight into how industries will shift and evolve on a global as well as a local scale. Mapping current and future competitors, reviewing their strengths and weaknesses, and plotting your strategies to outperform them helps you shape HR practices that differentiate the organization. HR also plays a role by benchmarking competitors' organizational capabilities in talent, speed to market, innovation, customer service, efficiency, and leadership as a way to signal market threats or opportunities.
- **Global Suppliers.** Suppliers connected to the firm offer a source of advantage or disadvantage. Supplier management reduces risks and ensures continuity of service. Just as HR can connect staffing, training, and compensation with customers, it can do so with suppliers to ensure stability of operations. HR should be able to assess and help leverage individual talent and organizational capabilities at every phase of the integrated value chain. Furthermore, HR insights can help develop ways to stabilize critical resources by forming stable and cost-effective supply contracts.
- **Regulators.** Government agency policy impacts organizational performance by defining and implementing

policies that favor or hinder your business. As political trends cycle from more to less regulation and then back to more, HR needs to help the organization be aware of how those trends affect the organization's ability to attract and retain talent and compete in new markets. Regulations increasingly focus on processes used to govern (Sarbanes-Oxley, for example), and HR executives can be activists in anticipating and responding to legislation.

- **Community.** Reputation matters as an organization's social standing figures as a larger share of its success. Increasingly, companies are being judged by a triple bottom line: they are expected to support sustainability, to give back to the communities in which they operate through funding and employee volunteerism, and to create jobs for the local population and work practices that treat employees well. HR professionals can be leaders in shaping socially responsible practices that help the organization gain a strong reputation for attracting talent, customers, and capital.

3. Value: We are good at defining the value created by our HR work.

HR effectiveness starts not with what we do in HR, but the value we deliver for key stakeholders: how HR actions and investments create measurable value for customers, investors, and other stakeholders. As a corollary of the outside-in principle, we encourage the discipline of "so that." Adding these two simple words to the articulation of HR initiatives or activities shifts the focus from what we do to what our activities deliver and the value these activities create. For example, many HR organizations are invested in measuring employee engagement. Too often, the goal of that investment—requiring significant time and expense—is left implicit. Alternatively, what if the organization were to say: "We are investing in measuring employee engagement so that we can identify specific ways to improve the experience of target customers." This would produce a more focused effort, clear action plans, and an emphasis on how to relate the impact of engagement to the business goals of customer satisfaction and loyalty. Creating a well-defined line of sight between business strategy and HR investments starts with clearly defining stakeholder needs, and ensuring that HR activities begin with value creation—so that—firmly in mind.

4. Talent: We are good at improving the productivity of our employees through their competence, commitment, and contribution.

A simple formula for talent has been Competence x Commitment. Competence means that individuals have the

knowledge, skills, and values required for today's and tomorrow's jobs. Some organizations describe competence as right skills, right place, right job. Competence clearly matters because incompetence leads to poor decision-making and missed opportunity. 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 more time and effort—and care about the result. In the last decade, commitment and competence have been the bailiwicks for talent.

However, 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 their work), 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 organization. Organizations are the 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). An emerging talent formula might be: Competence x Commitment x Contribution.

Rather than think in terms of a "war for talent," we prefer to describe the talent challenge facing most organizations in terms of a "Marshall Plan" for talent that helps people find meaning and purpose in work—to answer the question, "Why am I working and why am I working here?" Based on theory and research from positive and developmental psychology, individual motivation, personal growth, and organization theory, we can identify what organizations and leaders can do to help employees find abundance at work. Leaders may help employees answer seven questions so that employees feel abundance in their work.

- Who am I? How does the employee identity meld with the company reputation?
- Where am I going and why? How can the organization help the employee reach his or her goals?
- Who do I travel with? How does the organization build a community of support so that an employee feels connected?
- How do I shape a positive work environment? How can I make our work setting affirming and positive?
- What challenges do I enjoy? How does the organization help an employee find the work itself easy, enjoyable, and energizing?

- How can I continually learn and grow from my work? How does the organization help the employee grow from both success and failure and find resilience in the process?
- What are my sources of delight? How does the organization help the employee enjoy the workplace and have fun?

When HR supports managers in finding answers to these seven questions by participating in the organization, these employees are no longer in a "war," but in a setting where they find abundance in their lives by feeling that they contribute. These ideas apply across demographic groups. In particular, for generation Y, where they have career attention deficit disorder and change jobs frequently, they are more likely to remain in or return to a company when they find meaning from the work that they do.

5. Organization: We are good at identifying and investing in organization capabilities required for our future success.

Organizations can be defined more by their capabilities (what they are known for and good at) than their structure. Capabilities shape the way people think about organizations. 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 Apple, Virgin, Google, or Velux. We then ask, "How many levels of management does the admired firm have?" Almost no one ever knows. More important, no one really cares—we do not admire an organization like Apple because it seems to continually design easy-to-use products; we admire Virgin for the outstanding service we experience; we admire Google for their ability to innovate and shape their industry. And, we appreciate Velux for the high quality of their products. In other words, organizations are known not 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 customers can relate to, and the culture that shapes employee behavior. These capabilities also become the identity of the firm, the deliverables of HR practices, and the keys to implementing business strategy. Capabilities can and should be monitored by measuring and tracking them. But, the first step is ensuring that HR is positioned to contribute to the creation of capability through its systems and processes.

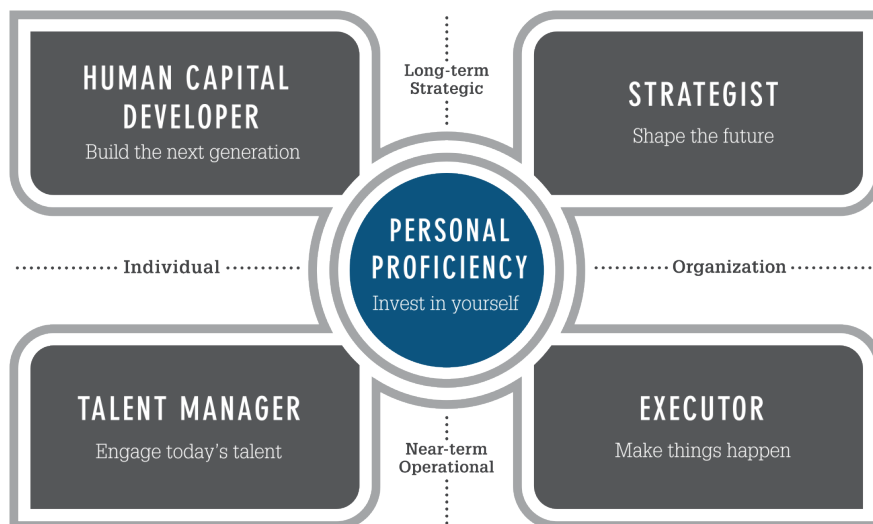
6. Leadership: We are good at building leadership depth through the company with things like bench strength, quality of management, and Leadership Brand.

One of the most critical elements of HR effectiveness is ensuring that the organization has leaders at all levels that are recognized for the ability to both drive performance and build future capability. We call this Leadership Brand. Leadership Brand occurs when external customer expectations are translated into internal leadership behaviors so that leaders ensure employees deliver the desired customer experience whenever they touch the customer.

To do this, the firm must not only build good individual leaders but must develop leadership as an organizational capability, recognized inside the firm and by the market. The reward for doing so is increased investor confidence, greater customer willingness to see the company was an attractive supplier or partner, and higher levels of interest by talented potential employees.

Leadership Brand has two elements. The first of these is a high level of overall leader competence in what we have called The Leadership Code. The leadership Code refers to the five rules of effective leadership as indicated in figure 2 given below:

Figure 2: Leadership Code



We find that 60 to 70 percent of effective organizational leadership is Leadership-Code driven and common to high performing organizations across industries. The remaining percentage reflects the degree to which organizations demonstrate unique leadership skills that align with customer expectations. To discern Leadership Brand, we often start with a firm's media campaign: What messages is the company sharing through television, internet, and print advertisements? To what extent do these external signals show up as leadership actions?

Leadership Brand is directly related to the organization's choice of capabilities that define how they will compete. For example, leaders at Samsung, the South Korean company, have earned a reputation for driving innovation in the electronics industry. Disney is known to attract and develop leaders who have a deep understanding of their target customers—creat-

ing entertainment that is uniquely suited to families. Goldman Sachs has earned a global reputation for deal making and savvy opportunity analysis, so much so that Berkshire Hathaway invested five billion dollars at the depth of the global financial crisis. At the time, Warren Buffett explained the investment by saying, "Goldman has a proven and deep management team and the intellectual (and financial) capital to continue its track record of outperformance."

7. Restructuring HR departments: We are good at building HR departments so that they turn HR insights and knowledge into client productivity with clear roles and responsibilities.

HR departments are increasingly expected to operate as a business within a business, rather than a disconnected and isolated set of HR practices. As such, like any business, HR

departments (and other staff groups) must have a vision or strategy that defines where it is headed (outside/in), a set of clear goals (objectives, outcomes, or deliverables) that focus the priorities for the work and investments essential to carrying this vision (so that), and an organization structure that allows HR to facilitate the accomplishment of these goals. Moreover, HR is expected to clearly understand and appropriately resource the two categories of work in which HR is engaged: transactional work, such as pay and benefits administration, that although essential does not positively impact an organization's competitiveness and needs to be managed for cost efficiency at a well defined level of quality; and transformational work, such as workforce planning and leadership development that positively impacts the organization's ability to deliver value and differentiate itself with customers and other stakeholders.

Recently, we described a structural model for HR that is built on earlier work and emphasizes five key functionalities:

- Corporate HR. Some HR professionals perform Corporate HR roles. There are six areas of important activity and need in Corporate HR. They are as follows:
 - They create a consistent firm's culture and reputation by focusing on values and principles. For example, Hewlett-Packard has diversified dramatically, but the guidance of the HP Way continues.
 - Second, Corporate HR professionals shape the programs that implement the CEO's agenda. Corporate HR is expected to convert this agenda into a plan for investment and action, and build organizational readiness to deliver this agenda by determining the capabilities required to deliver the strategy and building the action plan for implementation.
 - Corporate HR is responsible for ensuring that all HR work is aligned to business goals. Corporate HR should not mandate business unit initiatives since they do not understand the business as well as Embedded HR professionals. But they should mandate a clear and definitive linkage between business strategy and HR within the business units.
 - Fourth, Corporate HR professionals arbitrate disputes between centers of expertise and Embedded HR. The former naturally lean toward consistency; the latter prefer flexibility and choice.
 - Fifth, Corporate HR professionals take primary responsibility for nurturing corporate-level employees—a role both like and unlike that elsewhere in the firm.
 - Finally, Corporate HR is responsible for HR professional development. Too often HR professionals are “cobbler's

children”—designing learning experiences for others, for example, while going without a similar investment in their own development. HR corporate staff should work at helping HR professionals to grow as professionals, unlearn their old roles and learn new ones.

- Centers of expertise. Centers of Expertise or CoEs operate as specialized consulting firms inside the organization. Depending on the size of the enterprise, they may be corporate-wide or regional (Europe) or country-based (Germany). They often act like businesses with multiple clients (business units) using their services. In some cases a fee for use or a “chargeback” formula plus an overhead charge for basic services may fund them. The financing of CoEs is sometimes set to recover costs and in other cases is comparable to market pricing. Typically, businesses—through their Embedded HR units—are directed to go to the center before contracting for independent work from external vendors. If, in working with the Center experts, the decision is made to go to outside vendors, the new knowledge provided by these vendors is then added to the menu for use throughout the enterprise. CoEs are demand-pull operations—if businesses do not value their services, they will not continue. Center of Expertise HR professionals play a number of important roles:
 - They create service menus aligned with the capabilities driving business strategy. The menus are finite. Embedded HR professionals are expected to choose from these menus, which legitimizes the HR practices in use company-wide.
 - Second, CoEs work with Embedded HR professional colleagues in selecting the right practice or intervention for a given situation. For example, if an Embedded HR generalist sees the need for management training, the CoE should have a menu of choices, including an in-house workshop, externally provided offerings, or other development experience.
 - As a third role, the Center is expected to collaborate with Embedded HR in making the selection and supporting implementation.
 - When Embedded HR and Center experts agree that existing menu items are insufficient, new solutions need to be added to the menu. The fourth role is the creation of new offerings when the current slate is inadequate. In many cases this will be prompted by strategic actions. For example, as IBM shifted from products to services, new HR offerings were established to respond to the need.
 - The fifth role of the Center of Expertise is to manage the overall menu. As a very simple example, a large regional bank conducted an audit of its training practices and

discovered no less than twelve distinct and different coaching programs were used in various parts of the organization. That number was reduced from twelve to one.

- Finally, Centers of Expertise also shepherd the learning community within the enterprise. They initiate learning when design experts generate new ideas for the menu; then process experts generalize learning by sharing experiences across units. For example, they share the experiences of supervisory training from one unit to another so that each business does not have to recreate its own training programs.
- Operational executors. Many HR departments have found that important work falls between the functions of shared service, Centers of Expertise, and Embedded HR. For example, Peter Reilly under the auspices of CIPD surveyed 800 senior HR professionals about their experience with their HR organization and found difficulties among service centers in boundary management (identified by 55 percent of respondents), service gaps (42 percent), and communication difficulties (37 percent). Communication with other functions was a key problem with Centres of Expertise (34 percent) and the difficulty of separating out transactional work (45 percent) was even more of an issue. Similarly, 'getting drawn into the "wrong" activities' was the number one problem with business partners. As one VP of HR recently pointed out, "The operational demands on HR generalists make it extremely hard for them to remain focused on their strategic agenda." This challenge is exacerbated by the velocity of corporate change. As a result, many Embedded HR people are encouraged to "be more strategic" by line management, but are required to do operational implementation by Corporate HR. One senior Embedded HR executive, for example, described it this way: "We are asked to be business partners and strategists, but we end up acting as 'pairs of hands' for Corporate HR." What has been missing in some HR restructurings is the capacity to deliver and implement the ideas from the center while maintaining focus on the business and its customers. Companies are responding to these missing implementation requirements in different ways:
 - One company established the role of junior Business Partners assigned to the HR Generalists or Business Partners. This role works with Embedded HR and Centers of Excellence to turn strategic ideas into operational practice.
 - Another company created a team of "HR Operational Consultants" assigned to a business to help turn the strategy into action. They were focused on project work with an emphasis on implementing specific projects within the business. These roles secondarily served as a preparatory and testing ground for individuals slated as potential incumbents for senior Embedded HR professional roles.
- A third company created what they call the HR Consulting Pool. The pool operates as a team of high performing mid-level HR professionals and are managed as a cohesive unit. They are deployed to assist joint CoE and Embedded HR teams to implement solutions to important HR projects.
- Embedded HR. Some HR professionals work in organization units defined by geography, product line, or functions such as R&D or engineering. These HR professionals whom we call "Embedded HR" go by many titles: Relationship Managers, HR Business Partners, or HR Generalists. Whatever the title, they work directly with line managers to clarify strategy, perform organization audits, manage talent and organization, deliver supportive HR strategies, and lead their HR function. Embedded HR professionals play a number of important roles that include the following:
 - Embedded HR professionals engage in and support business strategy discussions, offering insights and helping leaders to identify where the organization can and should invest resources to win in new ventures or increase the performance of existing investments. They are expected to help frame the process of business strategy development, be proactive in providing insights into business issues, and facilitate effective strategy development discussions within the management team.
 - Embedded HR professionals represent employee interests and highlight implications for employees that follow from the changes or developments that follow from strategy decisions and changes.
 - Once strategies are set, and even while being set, Embedded HR professionals are expected to audit the organization to define what is required to achieve goals and where problems may exist. Sometimes this is an informal process; other audits may involve a formal review to determine what capabilities are required and available given the strategy.
 - They select and implement the HR practices that are appropriate to the delivery of the business strategy. Embedded HR professionals are expected to bring their unique knowledge of the business, pull from CoE's guidance and support, and adapt that guidance and support to the requirements of the business. This means that Embedded HR professionals must be adept at influencing and working well with HR colleagues.
 - Finally, Embedded HR professionals measure and track performance to see whether the HR investments made

by the business deliver their intended value. In essence, HR professionals diagnose what needs to be done, broker resources to get these things done, and monitor progress to make sure things have been done.

- Service centers. Service centers emerged in the late 1990s as HR leaders (and other functional organizations such as purchasing) realized that many administrative tasks are more efficiently performed in a centralized, standardized way. The maturation of information technology has also contributed to the growth of service centers and the ability to locate them in lower cost geographies (e.g., India, Eastern Europe). It works because employees are increasingly willing to find answers to routine, standard questions through a service center and because technology enables these centers to access employees and meet basic transactional needs as well as or better than other ways. Service centers enjoy economies of scale, enabling employee needs and concerns to be resolved by fewer dedicated HR resources. In addition, service centers require a standardization of HR processes, thus reducing redundancy and duplication. Service centers can also be accessible 24 hours a day, seven days a week, from inside or outside the company because of technology, which enhances the service level to employees and retirees. Service centers offer more efficient alternatives to traditional HR work like employee assistance programs, relocation administration, benefits claims processing, pension plan enrollment and administration, applicant tracking, payroll, and learning administration. Employee-related transactional processes need to be performed and performed well; but it is work that we think of a “table stakes,” a requirement to be in the game, but certainly not a basis of winning. HR organizations are increasingly addressing their transactional needs primarily through technology-enabled employee self-service and through outsourcing.

8. Re-engineering HR practices: We are good at aligning, integrating, and innovating our HR practices in people, performance, communication, and work.

We re-engineer processes to improve function and performance. HR creates value by creating HR practices that facilitate organizational capability. For example, Google is well respected for ensuring that HR practices reinforce and encourage innovation. Reinforcing innovation requires more than good processes for attracting and retaining talent. It needs performance standards and rewards that support innovation. It means effective communication practices to reinforce and facilitate innovation and collaboration. And, it means creating the right jobs, team, organizations, and physical

environments to encourage creative and innovative action. We see four core areas of HR practice to be primary, and these are:

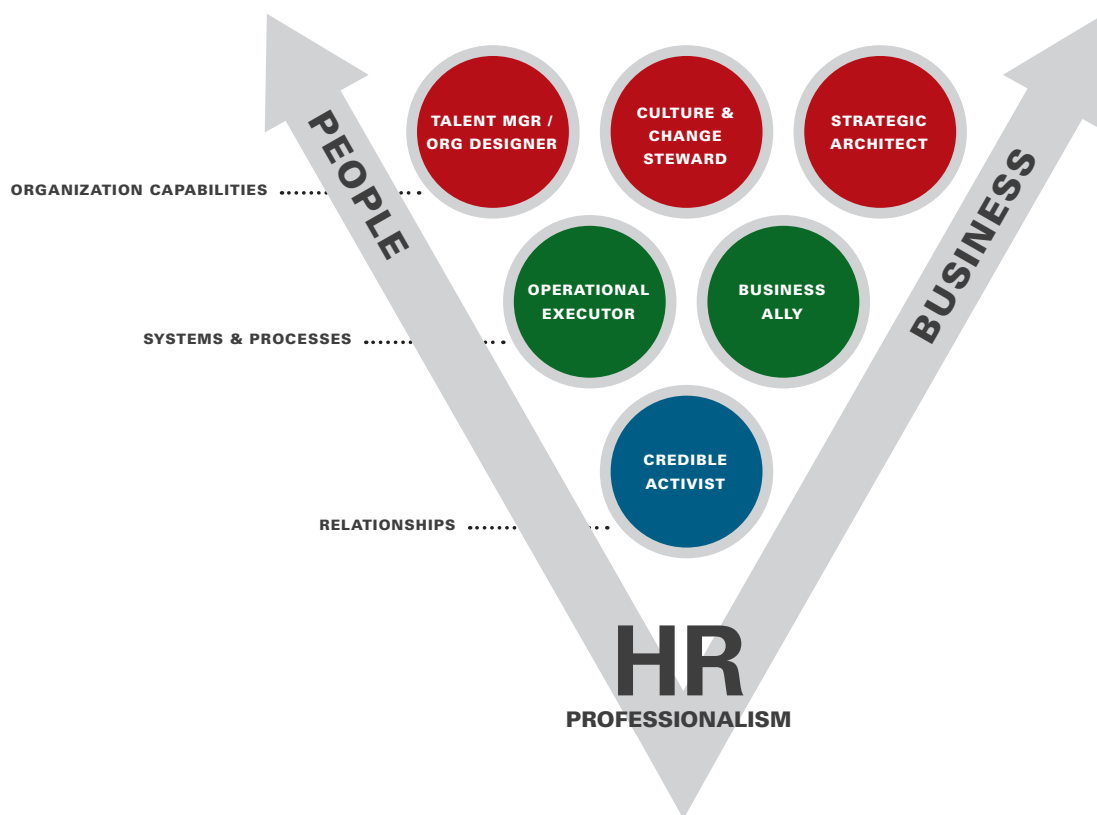
- Talent. Talent management is the systematic process of creating and sustaining individual competencies that will help the business deliver strategy. Simply stated, companies with better talent will be more successful. As we proposed earlier, the talent formula is: Competence x Commitment x Contribution. Effective talent practices must address all three of these constituents.
- Performance and reward. Performance practices turn desired outcomes into measurable goals and incentives that motivate people to reach those goals. The basic criteria for performance management are accountability, transparency, completeness, and equity. Accountability means that performance management practices should tie individual and team behavior and outcomes to clear goals. Transparency means that financial and nonfinancial rewards are understood and public. Completeness means that performance management practices cover the full range of behaviors and goals required for overall business success. Equity means that those who produce more receive more. When performance management practices are transformed according to these criteria, they help create value.
- Information and communication. Organizations must manage the inward flow of customer, shareholder, economic and regulatory, technological, and demographic information to make sure that employees recognize and adapt to external realities. They must also manage the internal flow of information across horizontal and vertical boundaries. HR professionals, with their sensitivity to people and processes, are ideally suited to assist with both information flows. Information flow focuses on how you will communicate both inside and outside the organization. In implementing effective communication strategies, HR needs to manage several areas of focus: outside-in (ensuring up-to-date knowledge of stakeholder impressions), inside-out (keeping stakeholders informed about organization progress), up and down (from top management to employees at all levels, and vice versa), and side to side (ongoing communication between organizational units and their leaders and employees).
- Work and organization. Organizations must manage the flow of work from product or service demand through order fulfillment to make sure their obligations are met. To do so, they distribute goals to individuals and groups and set up job and organizational structures to integrate the varied output into a cooperative whole. They design processes for the work itself and set up a physical environment that promotes effective and efficient work. HR professionals are

ideally suited to assist in all aspects of this process. This means HR professionals must be competent in several areas: relating organization design choices to strategy, assessing organizational effectiveness and needs for change, implementing new organization structures, ensuring that rigorous work processes are in place, and building teams. In addition, aligning time and physical facilities with the organization and work is increasingly important—including where the job is performed (remote or on site), and even when the job is performed (time flexibility).

9. Upgrading HR professionals: We are good at ensuring that HR professionals have the right competencies to deliver value and build their HR career.

The first step in ensuring HR competence is to be clear about what is expected for success in the field. Over the last 20 years, we have regularly assessed the competencies that make HR successful through the Human Resource Competency Study (HRCS). The most recent round of this study, conducted in 2007, identified six competencies that define the standards for HR professionals. These six domains define what it takes to be an effective HR professional. Our findings are summarized in figure 3.

Figure 3: HR Competencies Overview



- **Credible Activist.** The most effective HR professionals are both credible (respected, admired, and listened to) and active (offers a point-of-view, takes a position, challenges assumptions). Some call this “HR with an attitude.” HR professionals who are credible but not activists are admired but have little impact. Activists who lack credibility have ideas that no one implements. Credibility moves you up the people axis, and activism moves you up the business axis.

As credible activists, HR professionals create sustainable business outcomes as they link the people and business dimensions with energy, insight, sensitivity, and impact.

- **Culture and Change Steward.** Effective HR professionals appreciate, articulate, and help shape a company’s culture. Culture is a pattern of activities rather than a single event. Ideally, this culture starts with clarity around external expectations (firm identity or brand) and then translates these

expectations into internal employee and organizational behaviors. As stewards of culture, HR professionals respect the past and also help to shape a new culture. They coach managers, weave cultural standards into HR practices and processes, and make culture real to employees. Successful HR professionals facilitate change by helping make culture happen and by developing disciplines to make change happen throughout the organization.

- **Talent Manager and Organization Designer.** High-performing HR professionals master theory, research, and practice in both talent management and organizational design. Talent management focuses on competency requirements and how individuals enter and move up, across, or out of the organization. Organizational design focuses on how a company embeds capability (for example, innovation) into the structure, processes, and policies that shape the way it works. HR professionals must ensure that the company's talent management and organizational capability are aligned with strategy, integrated with each other, and working effectively and efficiently. HR is not just about talent or organization, but the two of them together. Good talent without a supporting organization will not be sustained, and a good organization will not deliver results without talented individuals with the right skills.
- **Strategy Architect.** Effective organizations have a vision for how the organization can perform and win in the marketplace, now and in future. HR professionals play an active part in establishing the overall strategy to deliver on this vision by being an active participant in creating strategy. They also turn strategy into HR practices that build organizational capabilities. They ensure that leader behaviors throughout the organization match the strategy. They help articulate how the strategy bridges employees inside and customers outside. They may also manage the process of shaping and sharing the strategy.
- **Operational Executor.** Effective HR professionals execute the operational aspects of managing people and organization. Policies need to be drafted and implemented. Employees have many administrative needs (for example, to be hired, trained, and paid), and HR professionals ensure these basic needs are efficiently met through technology, shared services, or outsourcing. The operational work of HR reinforces credibility if executed consistently and well. HR professionals continually solicit and receive feedback from employees on the accuracy, speed, and responsiveness of all HR administrative processes and practices.
- **Business Ally.** Businesses succeed by setting goals and objectives that respond to external opportunities and

threats, and executing plans of action that achieve those ends. HR professionals contribute to the success of a business by appreciating the social context or setting in which their business operates, how the business makes money (the value chain of the business), who customers are, why they buy the company's (or competitor's) products or services, the roles and business processes of various functions (finance, marketing, R&D, etc.), and how these functions must work together.

10. Tracking or measuring HR progress. We are good at creating HR analytics focused on the right issues.

Tracking and measuring HR progress answers the question: Are we getting done what we know needs to get done? The starting point in monitoring HR contribution is the identification of key stakeholders, beginning with the customer and investors. A thorough and effective process of ongoing measurement involves the following key steps:

- The first step is clarifying the most important stakeholder outcomes. Starting with an outside-in perspective, a good measurement system for HR asks the question, "What would effective HR systems and practices deliver for our customers, investors, and other stakeholders?" Another version of the question is: "What would our key stakeholders want us to do more, less, and differently to meet more of their important needs?"
- Convert stakeholder outcomes into clear, prioritized, business measures. Business results should be rooted in the firm's brand. For example, in thinking about customer measures, the starting point should be why customers choose its products and services, what customer experience the firm hopes to provide, and what experience the customers are actually having with the firm—and how it can be improved. From this, HR measures need to be constructed that align with the intended customer experience.
- Collect, organize, and synthesize data about stakeholders' experience of doing business with the organization: where they are pleased, frustrated, or where we need greater clarity such as when and why they choose to purchase products or services from our organization and when they choose to go to competitors.
- Define moments of truth or critical touch points. For example, at P&G, there are two fundamental moments of truth: one when the consumer picks the P&G product from the shelf in a store, and the other when the consumer uses and develops an opinion about the product. HR professionals should recognize these moments, understanding what causes them, how they tie to the financial success of the firm, and the role of HR in prompting positive outcomes.

- Regularly measure and monitor. Working with sales, marketing, quality, and other functions, HR can support focus groups, customer service evaluations, and other data-gathering activities that assess customer behavior and experience. HR should be a key player in data analysis and synthesis. HR professionals are in a unique position to deliver on the promises that the organization makes to customers and other stakeholders by ensuring that the organization is designed and staffed to execute them successfully.
- Using stakeholder information they have gathered, HR leaders must make required changes in staffing, training, communication, rewards and recognition, organizational structure, and leadership that deliver on stakeholder requirements.
- A system must be established to sustain long-term customer connectivity. HR leaders need to use the tracking data and other experiences they have gathered, analyzed, and synthesized to create sustainable processes. The goal is to ensure stakeholders are represented (or present) when programs and practices are being designed for people, performance, information, and work. An effective example of this is Hallstein Moerk, formerly chief HR officer at Nokia. When Moerk gathered his senior HR team at the end of 2007 to plan the major HR strategy and initiatives for 2008, he invited two customers to participate in the meeting. Every time the HR team came up with a new program or initiative,

the team would ask the customers to weigh in. Sometimes the customers would say, “Yes, that’s exactly what we need,” yet other times they would say, “Sounds like an interesting idea, but it doesn’t help me!” Customers in the room proved to be a significant benefit for Moerk and his Nokia team. When there is a clear line of sight between HR investments and customer requirements, both customers and HR win.

SUMMARY AND CONCLUSIONS

As organizations recognize the critical importance of human capital management and development, the importance of ensuring effective and efficient HR department naturally increases. We have identified ten elements in world class HR effectiveness. These ten dimensions may form the basis of an HR “stress test” that ensures that HR will deliver the value it promises.

We have found that inviting management teams—both line management and HR executive teams—to complete the stress test at the front of this article provides a useful point of view of HR departmental strengths and needs for improvement. Even more helpful is inviting both HR and line management to complete the survey and compare results. Doing so provides a very useful framework for building the agenda for HR excellence and identifying what has to change.

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