Next Generation HR

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The **RBL** Group
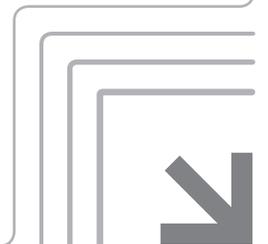
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"Tell us about your business."

That's how we like to start when we sit down to work with senior HR professionals. We find that it is a good litmus test for assessing the current state of HR in a company.

Most replies start with discussing the latest challenges or innovations in HR practices (hiring people, training leaders, building incentive compensation, doing HR analytics, and so forth), relating to business leaders (having a voice at the table, getting buy-in), or managing the increased personal demands of the HR job (allocating time, staying upbeat in the face of overwhelming demands). That is, HR professionals almost invariably define *business* as "HR business," and they are inclined to talk about their current initiatives in leadership training, recruiting, engagement, or rewards—the areas where they focus their attention on the job.

All these efforts are important, but they are not *the business*. They are in support of the business. In the past half-century or so, the HR profession has been through three general waves (see figure 1), and a fourth is emerging.

Wave 1 emphasized the administrative work of HR, where HR personnel focused on terms and conditions of work, delivery of HR services, and regulatory compliance. HR was predominantly what we would describe as an "administrative and transactional utility. The transaction and administrative work of HR continues today, but it is done differently through outsourcing and technology solutions. HR administration must continue to be done well, but when work becomes routine, it is time to move to other priorities. For example, Mercer has studied HR practices in the region known as EMEA (Europe, Middle East, and Africa) and found that although most HR departments there are moving beyond the administrative role, 16 percent still have no current interest in changing that role.[1] HR effectiveness in wave 1 is doing more with less, and HR credibility comes from flawless administration of transactions.

Wave 2 emphasized the design of innovative HR practices in sourcing, compensation or rewards, learning, communication, and so forth. Innovations have occurred in rewards, development, communication, succession planning, and other HR practice areas. While each of these HR practice areas

Figure 1: Evolution HR Work in Wave
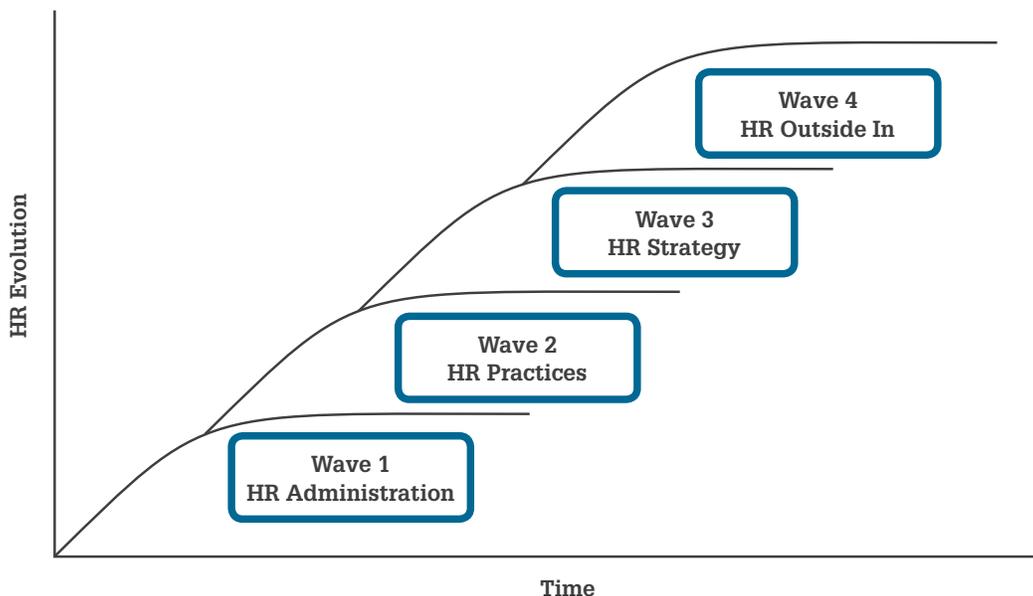
innovated in terms of what and how things were done, they also were interacted with each other to provide a consistent approach to HR. HR effectiveness in wave 2 is from innovating and integrating HR practices, and HR credibility derives from delivering best practices.

Wave 3 has focused on the connection of individual and integrated HR practices with business success through strategic HR. For the last 15 to 20 years, HR has worked to link its work to the strategy or purposes of a business. Given a business's strategy, HR professionals would be charged with assessing and improving talent, culture, and leadership to accomplish the strategy. In this wave, HR professionals turned strategies into HR priorities to deliver on strategic promises.

Wave 4 uses HR practices to derive and respond to external business conditions. We call this wave "HR from the outside in." Outside-in HR goes beyond strategy to align its work with business contexts and stakeholders. We acknowledge that the three earlier waves represent HR work that still has to be done well—HR administration must be flawless; HR practices must be innovative and integrated; and HR must turn strategic aspirations into HR actions. But rather than rely on these waves, we see future-facing HR professionals looking outside their organizations to customers, investors, and communities to define successful HR

Working from the outside in shifts the emphasis in a number of subtle but important ways:

- *Placement and promotion from the outside in:* Customer expectations set the standards for bringing new hires into the organization and for promoting people into higher ranks. The new maxim is: Rather than be the employer of choice, we want to be the employer of choice of *employees our customers want to work with.*

- *Training from the outside in:* When experts teach, delegates learn; when line managers teach, delegates act; when external stakeholders teach, delegates *act on the right things.* So customers, suppliers, investors, and regulators are invited to help design the content of training to make sure that what is taught meets external expectations. They also participate in training sessions as delegates who are colearning with organi-

zation employees, and they present materials either as a live case study or as visiting faculty.

- *Rewards from the outside in:* Customers help determine which employees are rewarded for their efforts. For example, an airline we often travel with allocates a portion of its bonus pool to its most frequent fliers, inviting them to distribute bonus coupons worth varying degrees of value to deserving employees. By essentially allowing customers to control two percent of the airline's bonus pool, company leaders remind employees that the outside matters.

- *Performance management from the outside in:* Rather than setting standards by HR doctrine, the department gives key customers the opportunity to assess its performance review standards and tell the company if those standards are consistent with their expectations. When external stakeholders participate in assessing performance review standards, leadership 360-degree reviews may be shifted to 720-degree reviews that include customers and other external stakeholders.

- *Leadership from the outside in:* HR helps the company focus on developing a leadership brand, where external customer expectations translate to internal leadership behaviors. We found that a large portion of the top companies for leadership involved customers in defining competencies for their leaders.

- *Communication from the outside in:* HR makes sure that messages presented to employees are also shared with customers and investors, and vice versa.

- *Culture from the outside in:* We like to define culture as the identity of the organization in the mind of key customers, made real to every employee every day. This is a far cry from the inside-out approach that focuses on how a company thinks and acts, as embedded in norms, values, expectations, and behaviors.

Our message of HR from the outside in is simple to say but not easy to do. Outside-in HR is based on the premise that the business of HR is the business. This logic goes beyond the current state of the HR profession, where the focus is on connecting strategy to HR.

REFERENCES

1   *HR Transformation in EMEA* (New York: Mercer, 2010).

About the Author

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Dave has consulted and done research with over half of the Fortune 200. Dave was the editor of the *Human Resource Management Journal* 1990 to 1999, has served on the editorial board of four other journals, is on the Board of Directors for Herman Miller, is a Fellow in the National Academy of Human Resources, and is cofounder of the Michigan Human Resource Partnership.

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