

HR Transformation



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THE RBL INSTITUTE | MINI FORUM WHITE PAPER | NOV 2009

As the pace of change increases in global markets, economic uncertainty, technological advances, leaders must both adapt their organizations and help their employees respond to change. To build both organization capabilities and individual competencies, HR departments, practices, and professionals must be transformed to respond to the challenge of change. In this article, and in more detail in our book *HR Transformation* (Ulrich et al., 2009), we synthesize and summarize the lessons we have learned about HR transformation. We have learned these lessons but by working with thoughtful and innovative HR executives and from over twenty years of research on and writing about the HR profession.

We begin by defining HR Transformation and then propose a four-phase model to ensure that HR drives business success and avoids the common pitfalls of such efforts. This model (see Figure 1.1) addresses four simple questions about HR transformation:

- **Phase 1: Build the business case.** (Why transform?)
HR leaders must know business context and build a case for change.
- **Phase 2: Define the outcomes.** (What are the outcomes of transformation?)
HR leaders with business leaders define the outcomes of HR transformation as the capabilities of a firm.
- **Phase 3: Redesign HR.** (How do we transform HR?)
HR leaders redesign their HR department, reengineer their HR practices, and upgrade their HR professionals.

- **Phase 4: Engage line managers and others.** (Who should be part of the HR transformation?)

HR leaders combine with line managers, employees, and advisors to frame and deliver transformation.

This model captures both the theory (ideas, rationale, and approaches) and the practices (tools, processes, and actions) for creating a successful HR transformation. Transformation theory draws from change literatures found in sociology, psychology, anthropology, organization development, systems theory, high-performing teams, and economics. Transformation theory in practice comes as we have applied these ideas in dozens of organizations. Theory without practice is conjecture and is usually irrelevant. Practice without theory is idiosyncratic and isolated. We aim to combine theory and practice so that those charged with and affected by HR transformation can make sustainable progress.

HR TRANSFORMATION DEFINED

A true HR transformation is an integrated, aligned, innovative, and business-focused approach to redefining how HR work is done within an organization so that it helps the organization deliver on promises made to employees, customers, investors, and other stakeholders. This work begins by being very clear about the rationale for doing HR transformation. The rationale for HR transformation is too often from inside the company (say, when a senior business leader complains about HR practices, structure, or people), whereas the rationale should come from outside the company.

Figure 1.1 Model for HR Transformation



Therefore, as the first step to any transformation, HR leaders must clarify the business context. Next, they must be clear about the intended outcomes (or organization capabilities) of the transformation. With outcomes in mind, leaders must align HR to deliver the outcomes by redesigning the HR organization, revamp HR processes, and refocusing HR people. Finally, true HR transformations ensure that long-term initiatives are led by line managers and enabled by HR.

Ultimately, a successful HR transformation increases the value HR adds to the business. This is a simple statement and one that is easy to gloss over, but it reflects an approach to transformation that is not always practiced. Simply stated, we propose that the biggest challenge for HR professionals today is to help their respective organizations succeed, and an effective HR transformation will ensure just that.

PHASE 1: BUSINESS CONTEXT

When people understand the why of change they are more likely to accept the what. A broad range of change specialists teaches this simple principle, from the most academic of cognitive psychologists and change theorists to the most popular of self-help gurus. It is true not only in personal change (exercise, weight loss, anger management) but also in HR transformation. For

personal change, when we fully grasp why we should change a personal behavior, we are more likely to change what we do. The context of a business setting captures the “why” of HR transformation. When HR transformation connects to the context of the business, it is more likely to be sustained because it responds to real needs. This means linking HR efforts not only to the business strategy but also to the environmental factors that frame the strategy.

Therefore, HR should begin from the outside in. We should be at least as worried about the outcomes of our activities as about the activities themselves. So, we ask people to add two simple words to the biggest challenge at work: “so that . . .” The “so that” query shifts from a focus on what we do to what we deliver, from the activities we perform to the value that these activities create.

Hence, an HR transformation should begin with a clear understanding the business context because the setting in which you do business offers the rationale for the HR transformation you will do. 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 on the inside does not create value on the outside, in the ability of the company to attract, serve, and retain customers and investors, its value is zero.

While we are staunch advocates of aligning HR with business strategy, we recommend that HR leaders not only look at the business strategy but also look through the strategy to see and understand the business conditions or external realities that shape it. Traditional strategy is like a mirror where HR can reflect its investment. We recommend looking through the mirror (strategy) to external customers and investors to fully understand the antecedents of the strategy. Understanding and linking HR with these contextual constituents helps HR not just implement the strategy but play a key role in defining it. By focusing on the business context, HR can avoid the common mistake of seeking to implement internally focused ideas and concepts that come across as solutions looking for problems.

When HR professionals start by thinking about the outcomes of their work as defined by the business context,

they change their conversations with line managers and are able to better justify why an HR transformation should occur.

Consequently, for change to lead to sustained transformation, we believe that when the presenting problem for HR transformation comes from the context of the business and from the expectations of key stakeholders, then the case for transformation is stronger than if the presenting problem originates primarily inside the business. Ultimately, HR transformation is not about doing HR; it is about building business success.

PHASE 2: OUTCOMES

HR transformation is not a single event—it’s a new pattern of thought and behavior. As discussed above, the rationale for the transformation comes from general business conditions and the ability to increase value to specific stakeholders. Once business leaders acknowledge that HR transformation will help them respond to business challenges, they will inevitably want to know how to measure the impact of the transformation.

We suggest that HR transformation has two types of outcomes. First, the stakeholder expectations identified in above should be realized. HR transformation should play a significant part in determining stakeholder results. Second, HR transformation can be tracked by the capabilities an organization creates.

Stakeholder Outcomes: To address the first outcome type, we recommend you pick the stakeholders you are most worried about and then discuss and define the outcomes that will be most important for them. These outcomes should be operationally defined, measured, and tracked over time to quantify the progress of your HR transformation.

With stakeholders’ outcomes identified, divide 100 points among the possible stakeholders. Your team should come to a shared perspective on weighting which stakeholders (employees, line managers, customers, regulators, investors, communities) matter most and will be most affected by the transformation.

For the stakeholders who matter most, agree upon measures that are reliable, accurate, transparent, and easy to collect for each key stakeholder. As outlined in Table 1.1, your team should select the two or three key indicators that will track progress of the transformation.

Finally, identify how will you collect the data so that you can benchmark where you are now and track where you are going in the future.

As you follow these steps, you can begin to see the impact of your HR transformation in terms of outcomes as seen by the stakeholders you serve.

Stakeholders	Possible measures
Employees	<ul style="list-style-type: none"> Greater competence for present and future jobs Increased retention of talented employees
Leaders and leadership	<ul style="list-style-type: none"> Measure of backup talent (number of qualified people for key jobs) Able to “export” top talent to the rest of the company
Customers	<ul style="list-style-type: none"> More customer share of targeted customers (share of wallet) Willingness to recommend firm to others
Regulators	<ul style="list-style-type: none"> Give the firm voice in defining regulations Perceive the firm as one that abides by laws and regulations
Analysts/Investors	<ul style="list-style-type: none"> Higher Price to Earnings (market to book) value Trust quality of leadership to make the right decisions about strategy, people, customers, and operations
Community	<ul style="list-style-type: none"> Manage environment responsibly (reduces carbon footprint) Gives back to the community (philanthropy) in terms of money and time

Capabilities as Outcomes: While stakeholder measures track the outcomes of HR transformation as seen by the recipients of the transformation, we believe that the HR transformation should also change the fundamental identity, culture, or image of the company. We refer to this outcome of HR transformation as defining and building capabilities. Capabilities shape the way people think about organizations.

These capabilities also become the identity of the firm, the deliverables of HR practices, and the keys to implementing business strategy, and senior leaders must be clear about the two or three “most critical” capabilities the firm must have in order to execute the strategy. Then, they can and should be monitored by measuring and tracking them. There is no magic list of desired or ideal capabilities, however, the following capabilities and their measures seem to be inherent in well-managed firms:

Capability	Description
Leadership	We are good at building leaders that generate confidence in the future.
Strategic Unity	We are good at creating a shared agenda around our strategy
Customer Connectivity	We are good at fostering enduring relationships of trust with target customers
Corporate Social Responsibility	We are good at establishing a strong reputation for sustainability, philanthropy, and employability in our industry and community
Shared Mindset	We are good at ensuring customers and employees have a consistent and positive experience of our firm identity
Collaboration	We are good at working together across boundaries to ensure leverage and efficiency
Learning	We are good at generating, generalizing, and implementing ideas with impact
Innovation	We are good at doing something new in both content and process
Talent	We are good at attracting, motivating, developing, and retaining talented and committed people
Speed	We are good at making important changes rapidly
Efficiency	We are good at reducing the costs of our business practices
Accountability	We are good at creating and enforcing standards that lead to high performance and execution

The two to three most critical capabilities represent the outcomes of the HR transformation. They are the deliverables of HR and they lead to the outcomes for each stakeholder. In focusing on capabilities as outcomes, the HR transformation team should do a capability audit where they identify which capabilities are most critical to their organization’s future success given business conditions and business strategy. With those prioritized capabilities, scorecards can be created to track baseline and progress in the critical capabilities. By focusing on both stakeholder and organization capability outcomes, the result of the HR transformation can be defined and tracked.

PHASE 3: HR REDESIGN

The first two phases of HR transformation answer the questions Why (business context) and What (outcomes of HR transformation). The third phase addresses How to do the transformation. This phase has three components, each of which is a way of defining what we mean by HR:

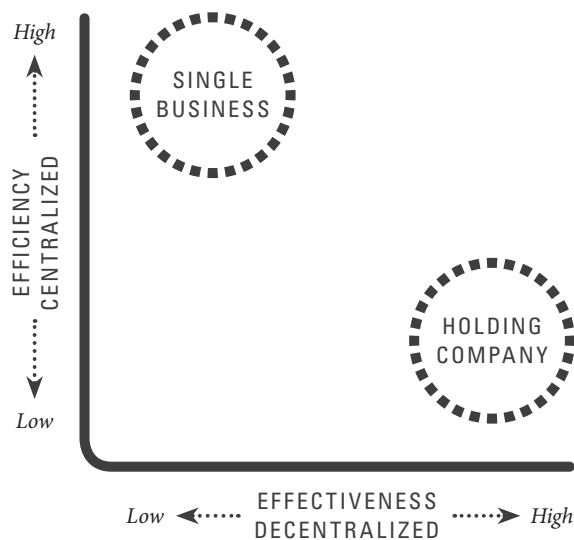
- a. The HR function or department may need to be redesigned.
- b. HR practices may be transformed to be more effectively or more fully aligned, integrated, and innovative.

c. HR professionals may be upgraded to possess the competencies required to do their work.

(a) Redesign the HR Department: Transforming an HR department requires building an HR organization that reflects both the business organization and the HR strategy. We have found three overriding organization design principles: first, make the HR organization follow the logic and structure of the business organization. Second, make the HR organization follow the flow of any professional service organization. Third, differentiate between transactional and transformational HR work.

The HR organization adds value when its logic and structure reflect the logic and structure of the company that it serves. We have found that companies often organize their businesses along two dimensions: centralized (to drive efficiency and control) and decentralized (to drive effectiveness and flexibility).

Figure 1.2 Types of Organization Design



A company whose portfolio strategy is based on a holding company configuration consists of multiple business units who are independent of each other (bottom right of Figure 1.2). In such cases, HR logic and processes are likewise to be found in the business units. At the other extreme is a corporation that consists of a single business (top left). In this case, the corporation and the business unit are the same. Thus corporate HR and business unit HR are likewise the same. The relatively more complicated portfolio configurations are alterna-

tive levels of diversification that range from unrelated to highly related (top right of Figure 1.2). Care must be taken to ensure that HR strategies and practices are customized to fit the logic of business requirements.

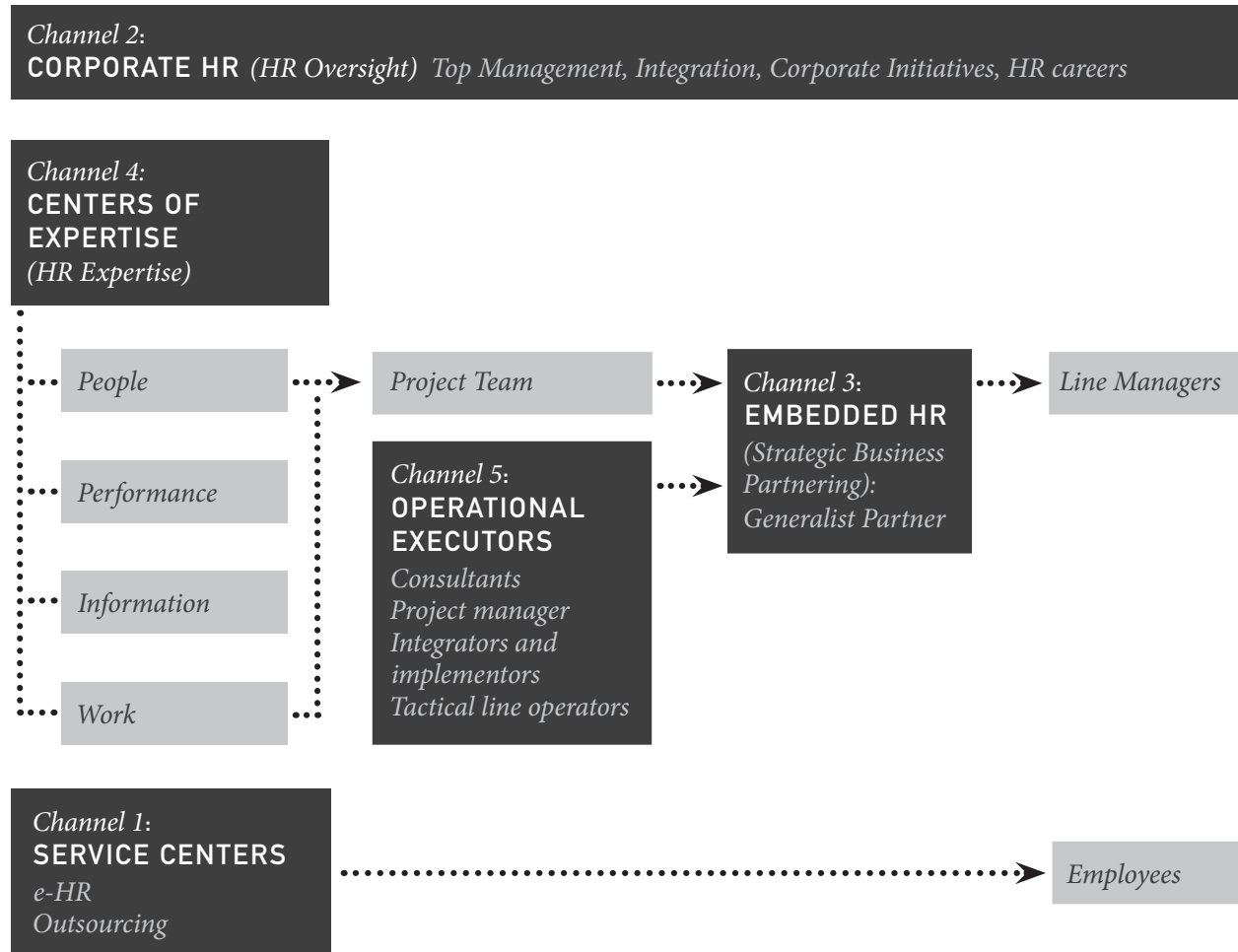
The second organization design principle for HR is that of any professional service firm: making knowledge productive. Knowledge represents the collective information and insights of the profession. Productivity occurs when these insights become standards for how to work with clients and when these insights help clients reach their goals. HR rests on a body of knowledge about how people and organizations operate. These insights become productive when clients of the HR department use that knowledge to improve their effectiveness and efficiency. The stakeholders described in above should be able to reach their goals more smoothly because of the way the HR department is organized, its work processes, and how it operates on a day-to-day basis. Strategic HR work done well makes achieving business results easier for business leaders.

A third design principle for successful HR transformation is differentiating and managing both strategic and transactional work effectively. Defining what work is strategic and what is transactional is not a simple task, but it is paramount in transformation. A common mistake of HR transformation is to make administrative HR changes without addressing more strategic issues. Clarifying the business context (phase 1) and identifying key capabilities (phase 2) creates the context for knowing what HR work in your business is or should be strategic. Once this is done, the process involves evaluating each and every HR output and determining how the output contributes to the business. Unless strategic work and transactional work are separated, neither gets done well.

Building on these three design principles, the evolving HR organization can have five distinct and at times overlapping sets of responsibilities. These five responsibilities represent channels or ways of doing HR work, as outlined in Figure 1.3. The critical issue is to identify the flow of work for each of the five channels in the HR organization, and upgrade each channel to deliver the outcomes from Phase 2. Additionally, awareness of all five channels is helpful in identifying both current and future HR outputs to ensure all outputs are included in

your analysis. At times, some try to transform the HR department by focusing on one channel. For example, putting in a new HR information system (Channel 1 in the figure) can increase the efficiency of doing HR

administrative work, but this is not a complete HR transformation unless the other roles are also redesigned (as specified in the third design principle).



(b) Revamp HR Practices: People talk about the work of HR as activities, systems, processes, decisions, or initiatives. We have chosen to talk about the work of HR as a set of HR practices because a practice is something that is continually being learned (we practice a musical instrument or sports). A practice is also activity within a profession (the practice of law), and the concept of best practice defines an activity that delivers an outcome better than some other activity. Transforming HR could mean changing as many as 120 separate HR practices. In *The HR Value Proposition* (Ulrich & Brockbank, 2005), we synthesized this vast array of HR work into four domains that represent the flows or processes central to organization success.

- *Flow of people:* What happens to the organization's key asset—its people—including how people move in, through, up, and out of the organization. Proper attention to people flow ensures the availability and development of the talent the organization needs to accomplish its strategy.
- *Flow of performance management:* What links people to work—the standards and measures, financial and nonfinancial rewards, and feedback that reflect stakeholder interests. Proper attention to this flow promotes accountability for performance by defining, noting, and rewarding it—and penalizing its absence.
- *Flow of information:* What information do people need to do their work and how do they get the requisite

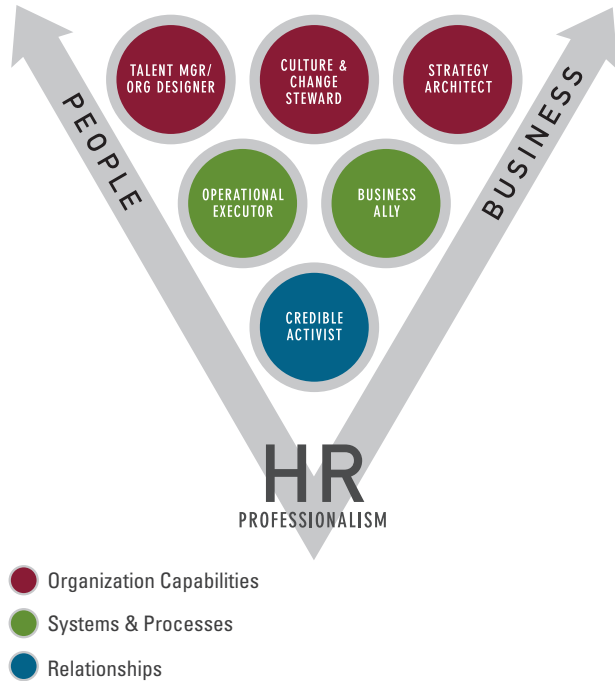
information. Information can flow up, down, or laterally. It can flow from the outside in or from the inside out. Proper attention to information flow ensures that people know what is happening and why, and can apply themselves to what needs doing to create value.

- **Flow of work:** Who does work, how work is done, where work is done, and how work is supported through business and operating processes to combine individual efforts into organizational outputs. Proper attention to work flow provides the governance, accountability, and physical setting that ensure high-quality results.

Transformation of HR practices requires recognizing emerging trends in each category and the revision of HR practices to be consistent with those trends. It is tempting in the field of HR today to separate and isolate these four streams. For example, a company might invest in talent management (hiring, promoting, retaining people), without expending the time, effort, and resources necessary to ensure that people have both the internal and external information required for high levels of commitment and performance. HR transformation is incomplete unless alignment, integration, and innovation occur for all four categories of HR processes. In our workshops with HR leaders and professionals, we find that only the best companies identify the synergies they might capture by working more closely together. For example, in a recent conference at British Airways, functional experts from across the four domains found a number of ways that staffing (people), compensation and benefits (performance), and organizational development (work) could very fruitfully collaborate. Narrow definitions of HR work result in narrow scopes of HR transformation.

(c) Refocus HR People: Ultimately, HR transformation depends on the quality of HR professionals. Given the challenges of understanding the full business context (phase 1), defining important business related outcomes (phase 2), and redesigning the HR department and state-of-the-art HR practices (phase 3), the bar has been raised for HR professionals. What it took to succeed in HR in the past has changed with the emerging challenges that we address in this article. By following the four steps outlined below, leaders can learn to build the competencies of HR professionals. For more information, see HR Competencies (Ulrich et. al., 2008)

Step 1: Articulate a theory and set a standard. In the last 20 years we have regularly assessed the competencies that make HR successful through the Human Resource conducted in 2007, we have identified the competencies required of HR professionals based on data from just over 10,000 people around the world. Our findings are summarized in Figure 1.4. Ultimately, successful HR professionals must demonstrate all competencies outlined in the model, and in particular, they must be credible activists and strategic architects.



Step 2: Assess individuals and organizations. Establish a methodology for determining how well individual HR professionals do or do not meet the required standards. It is important to receive feedback from a variety of different sources, and consequently, 360-degree feedback processes tend to provide helpful data at a minimal cost. Other assessment methods include self assessments, psychometric testing, intense behavioral based assessments, and job performance assessments.

Step 3: Invest in talent improvement. After a gap has been identified—both for each individual and for the department as a whole—the next step is investment. Investing in HR professionals means allocating time and resources to upgrading their skills. We have found three approaches to developing HR professionals: job experi-

ence, training experience, and life experience. Whether creating a comprehensive HR development program or simply helping one HR professional improve, it is critical to ensure that investment includes activities in all three categories.

Step 4: Follow up and track competence. The final step in any talent improvement model is measuring and following up. Measurement means tracking the quality of the HR professionals and of the investments to develop the HR professionals. We have worked with a number of companies that have consistently done HR 360-degree reviews to track the quality of their HR professionals. Having a baseline of HR performance and then regularly benchmarking against that baseline allows HR leaders to present progress to their business leaders. Additionally, it is important to test the extent to which HR investments yield results outlined in Phase 2. Actively measuring the impact of investments in HR people against the stated outcomes of the transformation will ensure alignment and create continued emphasis on the right results.

PHASE 4: ACCOUNTABILITY

A successful process of HR transformation involves the right people at the right time in the right way. We call this phase 4, but it is a critical feature of all phases. The importance of involvement in successful change management is well established. We know from decades of social-psychological research that people are more likely to be committed in activities or decisions in which they are involved. This has particularly important—and not entirely obvious—implications for HR leaders and professionals engaged in transformation. If HR professionals plan the transformation in a vacuum, others whose perspectives are needed during planning or whose commitment is needed during implementation are apt to resist the changes required of them; they will be less likely to support the more controversial or difficult elements of the plan, and they certainly will be less supportive or helpful as problems or challenges arise in the course of implementation.

Four groups of stakeholders should be involved with the HR transformation: HR, Line Managers, Customers and Investors, and External Consultants.

HR leaders and professionals: HR's role is to design the process and enable the implementation of the transformation. HR transformation depends on the quality of HR professionals and their relationships with line managers. If they cannot respond to the increased expectations raised by transformation, they will quickly lose credibility and be relegated to second-tier status. Four roles are important to this process: the chief HR officer (CHRO), the HR leadership team, the head of HR for HR, and HR professionals.

Line managers: Line Managers must make sure the transformation aligns to business goals and work with HR to implement the transformation. Line managers are ultimately accountable for ensuring that the organization has the right talent and right organization in place to deliver on expectations to customers, shareholders, and communities. They have the responsibility to provide a clear business focus for the transformation, to ensure that the transformation team has access to both external and internal information, to ensure that the right people are involved in the transformation process, and to require clear and measurable results from the transformation. Numerous efforts like the war for talent, balanced scorecards, and “top company” lists have prescribed how line managers can better manage their people and organizations. The stated outcomes of the HR transformation will articulate what line managers can expect from investments in HR. A true HR transformation will reinforce the line managers' ownership and responsibility for delivering the right organization and talent to meet stakeholder needs.

External customers and investors: HR Leaders and Line Manager must seek the guidance of external customers and investors throughout the HR transformation to ensure relevance. Often HR transformation comes from and is driven by an internal logic. Frequently logic, language, and practices of HR focus on employees' needs. As an alternative, as stated above, HR must be built from the outside in and should focus on its impact on external stakeholders who matter to the company. We build on the basic economic principle that ultimately anything we do on the inside of a company must create value for those on the outside, or what we do is irrelevant. Organizations exist not to fulfill their own

purposes but to fulfill the purposes for which society allows them to exist. The clear understanding of business realities so essential for real HR transformation is generally rooted in the expectations and experiences of customers and investors.

Consultants and advisers: We recommend the judicious and targeted use of outside consultants as partners in advancing the HR transformation. As consultants and educators, we have seen clients who employ the services of consultants effectively and also those who do not. Those who have successfully engaged external consultants hire them with the specific request to offer frameworks and insights developed and proven over time, and point out potholes that others have stumbled into. If focused, our experience suggests that consultants can add value in a number of specific ways and at a number of specific points in the process.

With clear role definition and rigorous accountability, an HR Transformation can and will be successful as each player plays the specific role they are called to fill.

CONCLUSION

As depicted above, a true HR transformation is an integrated, aligned, innovative, and business-focused approach to redefining how HR work is done within an organization so that it helps the organization deliver on promises made to customers, investors, and other stakeholders.

Ultimately, a successful HR transformation increases the value HR adds to the business. As leaders complete the four phases of HR Transformation, HR professionals become full partners in helping a business move forward. HR can help organizations get the maximum value from their people and their organization while ensuring they treat them as individuals with unique needs, aspirations, and dreams. What a privilege to be able to be HR professionals who can achieve goals that improve both the world of business and world of people!