

# A Blueprint for Transforming the HR Function

By Ronald J. Recardo

What do IT, Finance, Human Resources, and Procurement all have in common? In recent years most staff functions have come under fire to: 1) add more value to the enterprise by rethinking their strategy and the products/services they offer to their customers; 2) streamline their business/service delivery model, structure, and processes to become more efficient; and 3) reskill their staff to be able to deliver higher value offerings.

This case study discusses a data driven, fast track approach that can be used to assess and transform the Human Resources function in 6 months or less. The approach can be further customized for application to most staff functions.

## Background on Case Company

Research 1 is a pseudonym for a global company that employs over 3,000 employees and operates in the publishing and media market space. The CEO of the business sector had multiple operating companies reporting to him and was increasingly frustrated with the HR function. Specifically, he was concerned that the function was too compliance, tactical, and administratively focused, and too many of the HR staff did not balance being a “business advocate” versus an “employee advocate.” The HR function did not have credibility with the line management.

The CEO along with the SVP HR commissioned an assessment of the HR function to identify capabilities and performance gaps and to ultimately evolve the HR function to a strategic partnership

role. During one of the planning meetings with the consulting company, the CEO summed up his concerns as follows, “We have to reposition this function because many organizational/people issues underlie the successful execution of our business strategy.”

## The Evolution of The HR Function

For the last several years many HR functions in the United States have reached a crossroads where they are fundamentally rethinking how they add value to the overall business. Historically, in most organizations, the HR function tended to be tactical. Professionals in HR tended to have strong functional expertise in such areas as benefits, compensation, talent management, and employee development, and because of the administrative nature of much of HR, the function was activity focused. Although this met the needs of line management for some time, stereotypical perceptions began to emerge that were less than complimentary. HR in some organizations was perceived as “touchy feely,” “social workish,” and “paper pushers.”

Today world-class HR functions are comprised of individuals who have strong industry, cross-functional, and HR expertise. The function is more proactive and strategic in nature. It has evolved to become a strategic partner or internal consultant that is much more focused on bottom-line results.

Leading edge HR functions are adding value to the business in a myriad of new ways. The functions:

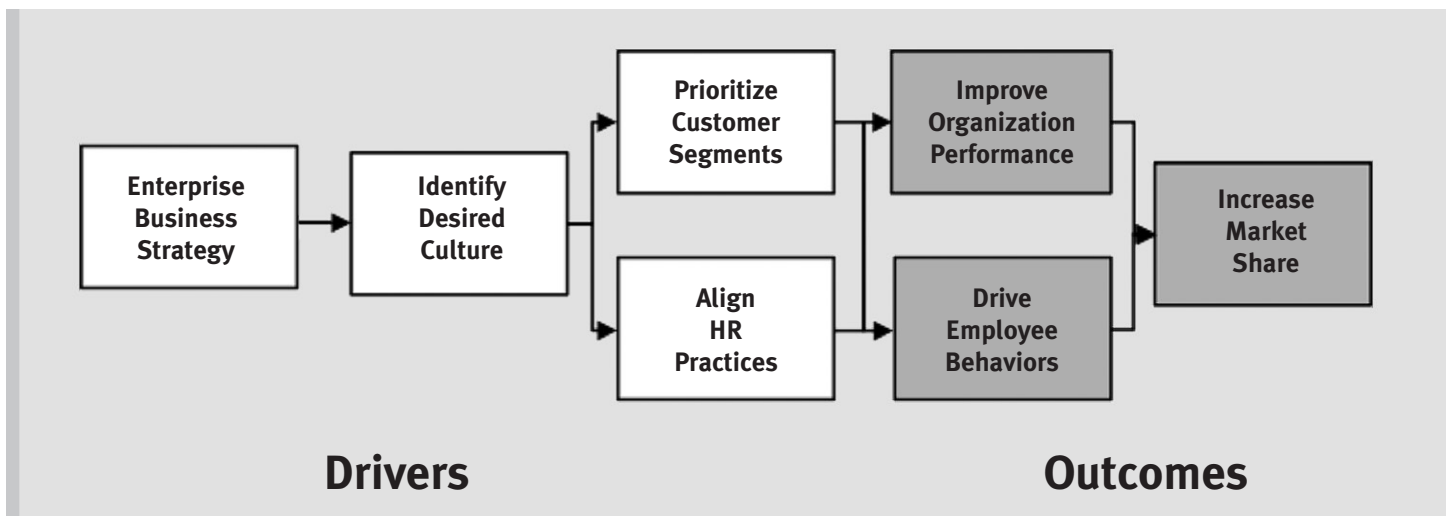


Figure 1. The HR Value Model

1. **Strategically prioritize their resource allocation.** If you ask any other function they acknowledge that not all parts of an organization are equally strategically important. With that said, they consciously allocate resources based on the impact to organizational performance. This flies in the face of traditional HR which has had an open door policy. With 100% availability comes sub-optimization of resource allocation.
2. **Do not just provide Baseline HR.** The minimum expectations of HR are you get your check on time, benefits are being processed, and all of the administrative is being addressed. Too often the Baseline HR ends up being all HR does. World class HR functions provide a menu of strategic services, starting with talent management and succession planning. The best HR functions realize that talent management is much more than just completing a 9 box model and putting names in each

respective quadrant. Too many organizations end up with a leadership pipeline of “empty suits” who reached the top of the list by having the right pedigree (i.e. they went to the right schools), managed up the best (they were outstanding at upward management and building relationships with executives who pulled them up by their coat tails), or had the right socio-demographics. The best HR functions provide internal consulting that does not overly focus on the soft side (team building, conflict management, MBTI, and meeting facilitation) but provide more strategic consulting offerings (e.g., organization restructuring, business transformation, and M&A acquisition integration)

3. **Get more involved in strategy development/execution by identifying the people issues that underlie the strategy, aligning culture to support the strategy, and alleviating gaps between the current and needed HR systems.**

Organization alignment is the purview of HR and they must provide thought leadership around how to align all facets of an organization to closely support the business strategy.

### The HR Value Model

Line management is placing demands on HR that it never made before. They want HR to provide change management leadership, demonstrate their ROI, successfully implement organizational interventions, and provide actionable counsel in helping line managers address key people issues.

We have developed a model (see Figure 1) which we use to illustrate the conceptual relationship between good HR and strong organizational performance.

Our model starts with the assumption that strategy is the primary driver of the business and one of HR’s key roles is to identify what type of culture is needed to successfully execute the enterprise-wide strategy. By conducting periodic gap analysis, HR should identify which HR systems are not aligned and modify them accordingly. HR’s next key role is to allocate their resources strategically. In many leading HR functions there is a conscious effort to allocate a certain percentage of their resources according to the organization level (executives), function (R&D), brand, or even geography or customer segment. An oversight that is commonly made is to allocate Human Resource capacity based on “whoever walks in the door first.” Once prioritization has been completed, HR should then assess the value each of the

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Table 1. *HR Audit Dimensions*

- 1. HR competencies**
  - HR functional knowledge
  - Industry/business knowledge
  - Cross functional knowledge
- 2. Strategic alignment**
  - Formalized HR business plan
  - Strategic customer segmentation
  - HR metrics
- 3. HR infrastructure**
  - Intellectual capital
  - Technology enablers
- 4. HR policy development**
  - Formalization of policies
  - Amount of standardization
- 5. HR service offerings**
  - Services offered
  - Percentage of HR capacity allocated to each quadrant of the HR model
- 6. HR structure**
  - Reporting levels
  - Spans of control
  - Staffing levels/ratios
  - Clarity of roles
- 7. HR process efficiency**
  - Process efficiency (cycle times, cost)
  - Functionality centralized, decentralized, insourced/outsourced, on-shored/off shored
  - Process effectiveness
- 8. HR systems design**
  - Comparisons of HR systems to best practices
- 9. HR management effectiveness**
  - Strategic partner
  - Quality of HR leadership
  - Depth of talent/bench strength

services they provide to their customer groups. New services may need to be developed and capacity shifted to provide more value to the business.

The outcomes of our model consist of the last three segments that are highlighted in grey. The drivers will tend to cause the desired employee behaviors to emerge and undesired ones to reduce over time (ensuring cultural alignment). This will in turn improve organizational performance and finally increase market value.

## Using The HR Model with Research 1

### Step 1: Assess the Current Capability of the HR Function

In an effort to identify a baseline of Research 1's HR's current capability and develop a case for action, a data based process was used to collect data across nine Human Resource dimensions (see *Table 1*). Our approach used a variety of data collection methods that included observation, a review of appropriate documentation (e.g., business strategy, HR budgets, HR structure charts, a review of existing HR processes/systems), and interviews with a vertical cross section of HR 's internal customers. A cornerstone of the data collection process was a short, targeted intranet survey to key customer segments of Research 1's HR that identified the importance/level of satisfaction of current services HR provided, identified new HR products/services, and assessed how much capacity HR was allocating to each service/customer segment. Customers were also queried regarding their perceptions of HR's competency levels, HR's strengths/weaknesses, and specific opportunities for improvement.

An administrative task analysis was conducted of Research 1's HR to identify the number of forms used and time HR staff allocated to each activity. The HR staff

was also asked to provide their perceptions of their core competencies, their customers level of satisfaction for each HR service, and lastly the amount of their capacity they spend with each customer segment and product/service. This was used to gauge how connected the HR staff was to the needs of their client groups.

### Step 2: Identify and Prioritize Capability Gaps

The anchors used to identify capability gaps included Research 1's enterprise business plan, the summary of HR's internal customer assessment, and comparison of internal capabilities to our proprietary HR best practices data base. From this strengths, weaknesses, root causes, and opportunities for improvement were noted for the overall HR function and for each operating company's HR function.

A structured meeting was held that included the senior executive team to present findings, understand cause and effect relationships, and prioritize the most strategic performance capability gaps within the HR function. Since this information is highly proprietary we have included a generic example of the tool we used to facilitate the gap analysis decision process (*Figure 2*).

Based on our work with many HR organizations we have developed a

|                                        | HR Best Practice 1 | HR Best Practice 2 | HR Best Practice 3 | HR Best Practice 4 | CRITICAL GAP |
|----------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------|
| <b>HR Strategic Alignment</b>          | L                  | M                  | L                  | L                  | YES          |
| XXXXXX                                 |                    |                    |                    |                    |              |
| <b>Competencies of HR staff</b>        | M                  | M                  | M                  | H                  |              |
| XXXXXX                                 |                    |                    |                    |                    |              |
| <b>HR business model/structure</b>     | M                  | L                  | L                  | L                  | YES          |
| XXXXXX                                 |                    |                    |                    |                    |              |
| <b>HR usage of enabling technology</b> | H                  | H                  | H                  | M                  |              |
| XXXXXX                                 |                    |                    |                    |                    |              |
|                                        |                    |                    |                    |                    |              |

Figure 2: Gap Analysis Decision Tool

## Strategic Partner

## Baseline HR

### Q 3: Consultative

#### Examples of Roles:

- Talent management (strategic)
- Alignment of HR practices to business plan
- Change management/transformation
- Leadership development/coaching

### Q 2: Compliance

#### Examples of Roles:

- Communications
- Employee relations
- Diversity/sexual harassment
- Tactical consulting (teambuilding, meeting facilitation)

### Q 4: Strategic Partner

#### Examples of Roles:

- Organization alignment
- HR metrics/analytics
- Human capital planning
- Strategy execution
- Strategic consulting (M&A, restructuring)

### Q 1: Transactional

#### Examples of Roles:

- Talent acquisition
- Payroll
- Benefits administration
- Talent management (paper chase)



Figure 3. HR Quadrants of Evolution

4-quadrant model that can be used to visually depict the capability of any HR function (see Figure 3). The quadrants do not represent good, better, and best. The model is based on the underlying concepts of balance and strategic value creation.

The model is used to create dialogue around whether an HR function is allocating enough capacity and capability to provide support in each quadrant. The allocation of capability across the four quadrants is company specific based on a myriad of variables such as external environmental demands, their business plan, the size of the company, and the complexity of the operations.

For example, a small emerging company's business plan might require 90% of HR's focus to be in quadrants one and two. Conversely a mid-cap global company in all likelihood might require only 30% of its focus on quadrants one and two opting for a much more strategic set of offerings and a very different service delivery model.

The model can be best understood by breaking the quadrants into a right and left side. The right side or quadrants 1 and 2, represent the baseline or minimum

threshold of HR functionality. The focus of these activities are on administration and compliance – you have to do these activities and do them right. Examples of services commonly delivered include staffing, benefits administration, litigation prevention, and employee relations. The key is to make sure HR is spending their time doing the right things. We had another client in the Life Sciences industry that went through HR transformation and one of their key findings was their HR Directors were spending 50% of their time on employee relations. The average total compensation (base, bonus, equity) of HR Directors was over \$300K. The President of the division was quite upset to find out this high priced talent was spending so much time on these activities at the expense of doing such things as providing change management support for their ERP project, leading a major right sizing initiative, and ensuring the organization had a robust pipeline of “ready now” successors for key positions.

The left side of the model represents roles and services that are much more representative of a strategic partner role. These include such things as leading change

management/business transformation initiatives, strategic consulting (e.g., M&A integration), organization restructuring, and other organization alignment efforts. Think of the quadrants as a pie. The key question then is what percentage of HR's overall capacity is spent delivering each service. Since some of these services are targeted at a vertical cross section of management and others targeted more at the employee level, it can also be used to gauge strategic prioritization of effort.

Each of Research 1's HR functions operated almost exclusively in quadrants one and two. The strengths of the HR functions varied across each operating company but at an aggregate level the key strengths included a strong employee relations capability, capability to develop/maintain business relationships, the staff was well liked and empathetic, strong litigation prevention, and HR policy development/interpretation skills.

The key performance gaps clustered around three distinct themes;

1. **Too much administration:** An analysis of HR's time by activity revealed that nearly 50% of their time was spent on

| Key: High=3;<br>Medium=2;<br>Low=1 | OPERATING COMPANY 1 |              |            |              | OPERATING COMPANY 2 |              |            |              |
|------------------------------------|---------------------|--------------|------------|--------------|---------------------|--------------|------------|--------------|
|                                    | HR                  |              | Line Exec  |              | HR                  |              | Line Exec  |              |
|                                    | Importance          | Satisfaction | Importance | Satisfaction | Importance          | Satisfaction | Importance | Satisfaction |
| 1. Recruiting                      | 2.8                 | 2.3          | 3.0        | 1.2          | 3.0                 | 1.5          | 3.0        | 2.0          |
| 2. Compensation                    | 3.0                 | 1.0          | 3.0        | 1.7          | 3.0                 | 3.0          | 3.0        | 1.0          |
| 3. Benefits Admin                  | 2.0                 | 2.3          | 2.8        | 2.2          | 3.0                 | 1.5          | 3.0        | 2.0          |
| 4. Payroll Problem Resolution      | 2.5                 | 1.2          | 2.2        | 2.0          | 3.0                 | 1.5          | 2.0        | 2.0          |
| 5. Training                        | 2.5                 | 2.0          | 3.0        | 1.4          | 3.0                 | 1.0          | 2.0        | 1.0          |
| 6. Succession Planning             | 2.5                 | 1.5          | 3.0        | 1.2          | 2.0                 | 2.0          | 3.0        | 1.0          |
| 7. Employee Relations              | 3.0                 | 2.8          | 2.7        | 2.1          | 3.0                 | 2.0          | 3.0        | 1.0          |
| 8. HRIS Admin                      | 1.0                 | 1.0          | 2.2        | 1.5          | 1.0                 | 2.0          | 3.0        | 1.0          |
| 9. HR policy dev/ interpretation   | 3.0                 | 3.0          | 2.4        | 1.9          | 3.0                 | 2.0          | 3.0        | 2.0          |
| 10. OD                             | 3.0                 | 2.0          | 2.7        | 1.2          | 3.0                 | 2.0          | 3.0        | 1.0          |

Figure 4. HR Service Gap Matrix

administrative related activities. This encompassed a wide range of administrative activities ranging from making changes to employee benefits files to inputting data to SAP and collecting time sheets.

2. **Lack of alignment between HR and the business:** There was no formal HR strategy (their HR strategy was just a list of projects they were supporting) in place and the metrics that were used were tactical and not aligned to the business strategy. Additionally, there were opportunities to redefine the current HR product/service offerings and rethink how these services were delivered. HR was delivering lower level products and services (quadrants 1 & 2) while their line customers wanted higher-level HR services (internal consulting, strategic talent management, new HR processes). HR also lacked a competency model to identify knowledge, skills, and abilities their staff would need in the future. This complicated the development efforts of the Human Resources function. Lastly, the current staff did not have a sense of urgency and were

not results focused. They were unable to be thought leaders because they lacked cutting edge intellectual capital their line customers would value. They were experts in the specializations of HR but were very weak with regards to business knowledge (they could not read a financial statement, they did not really understand how the business made money and how HR impacted that outcome).

3. **Core HR processes are inefficient:** HR's key systems varied markedly across each operating company and were not

state of the art. Customer requirements were not formalized and there was little opportunity for focusing effort or holding the HR staff accountable for delivery. Since HR was utilizing old legacy systems there was limited HRIS data integrity, creating frustration in line managers being able to access people data to make timely business decisions.

One of the most enlightening meetings we facilitated revolved around the differing perceptions between what the HR staff delivered and what the line management

**The revised employee development strategy included a much more balanced set of development channels that included self-paced learning, a formal mentoring/coaching program, on-the-job training, and a much more targeted curriculum of classroom based training. Instead of using trainers with exceptional platform skills and academics from the local universities, much of the new classroom training was designed and facilitated by consultants who had considerable practitioner experience and toolkits that were based on real world experience.**

|     |                                                    | No strategic customer segmentation | Too much administrative burden | HR staff has weak business skills | Cost/headcount outside of benchmarks |
|-----|----------------------------------------------------|------------------------------------|--------------------------------|-----------------------------------|--------------------------------------|
| 1.0 | <b>Develop HR business plan</b>                    |                                    |                                |                                   |                                      |
| 1.1 | Develop planning process with supporting templates |                                    |                                |                                   |                                      |
| 1.2 | Develop 3 year BP                                  |                                    |                                |                                   |                                      |
| 1.3 | Develop HR scorecard                               |                                    |                                |                                   |                                      |
| 2.0 | <b>Upskill HR staff</b>                            |                                    |                                |                                   |                                      |
| 2.1 | Develop curriculum tied to career ladder           |                                    |                                |                                   |                                      |
| 2.2 | Design/purchase/deliver education                  |                                    |                                |                                   |                                      |
| 3.0 | <b>Modify service delivery model</b>               |                                    |                                |                                   |                                      |
| 3.1 | Establish COE's                                    |                                    |                                |                                   |                                      |
| 3.2 | Reengineer HR core processes                       |                                    |                                |                                   |                                      |
|     |                                                    |                                    |                                |                                   |                                      |

Figure 5: HR Change Roadmap Matrix

wanted from their HR colleagues. We created a number of data arrays to summarize key findings. Figure 4 illustrates an excerpt of a service gap analysis matrix. Services that had high importance but were evaluated as low satisfaction were a gap area. The dark highlighted services represent gaps that HR staff perceived as being mission critical, while the lighter shaded areas summarized the perceptions of the line leaders. One of the most insightful findings was the disconnect HR had from what the true needs of the business. These learning's were incorporated into a detailed HR transformation roadmap and transformation plan we developed later in the project.

### Step 3: Design & Implement Approved Solutions

The recommended changes were mapped to the performance gaps and centered around several themes not the least of which was that HR was not tightly aligned to the business strategy. (See Figure 5). The initial redesign work centered around developing a process with supporting data collection/analysis tools for developing a much more robust HR strategic planning process. This process was then pressure tested to develop their HR business plan, including an HR balanced scorecard. As

you would expect, a component of the HR business plan was a segmentation and strategic prioritization of HR's customers, proactive allocation of resources to each customer segment, and over time new HR service offerings that focused on quadrants 3 and 4.

Quite a bit of work went into rethinking the HR business model. Administrative functionality was both centralized and outsourced where it made sense. Shared services and Centers of Excellence were established to leverage specialized skills and realize efficiencies. Certain HR functionality such as employee development was centralized and aligned with updated career ladders. In the past too much of the employee development utilized expensive classroom instruction. The revised employee development strategy included a much more balanced set of development channels that included self-paced learning, a formal mentoring/coaching program, on-the-job training, and a much more targeted curriculum of classroom based training. Instead of using trainers with exceptional platform skills and academics from the local universities, much of the new classroom training was designed and facilitated by consultants who had considerable practitioner experience and toolkits that were based on real world experience.

The alignment of the HR function is centered around the creation of a formal HR strategy with a balanced scorecard of measures. The intent of the HR scorecard is to align related HR systems like resource allocation, performance management, and compensation to focus efforts. Service level agreements were developed to clarify the expectations between HR service providers and each key customer segment. In an effort to clarify the roles, responsibilities, and limits of decision-making authority of the transformed HR function role/responsibility matrices were created to reduce role ambiguity.

A competency model was developed along with a curriculum of education that provides the current HR staff with a number of development opportunities to enhance their skill sets. HR staff who can't or are not interested in the new HR role will be transitioned out of the organization. HR is also in the process of codifying key learning's within the organization and purchasing tools, instruments, and methodology that will be used to facilitate knowledge transfer with line employees.

Historically the average time to redesign an HR process was 6–9 months. Since Research 1 needed to redesign their most strategic HR processes/practices, we used a fast track design process. An HR design team was established to develop a standardized approach for human capital planning, succession planning, talent acquisition, and performance management. The team began its efforts by thoroughly understanding each current HR system, carefully noting its strengths/weaknesses (to not lose the strengths but design out the weaknesses). Data was collected from HR's customers that identified the customer likes/dislikes of each existing HR system, desired functionality, and proposed changes. This input was augmented by best practices that were used to guide the high level design of each system. These were again shared with key customers to solicit their feedback. The detailed design was then completed, which consisted of the detailed policy, future state processes, guidelines, instructions, forms, and instruments to support each system. These were once again shared with HR's customers

and their feedback was incorporated to finalize the design. The above four major HR processes were designed in three months using this process.

## Benefits

The benefits that accrued from this transformation are both qualitative and quantitative in nature. Many occurred almost immediately after changes were executed while others will most likely occur in later stages.

The development and communication of HR's robust business plan struck a chord with line management and almost immediately their perceived value add increased dramatically. This plan strategically prioritized HR's customer segments, including a plan for continuing to up-skill the HR staff, allocated HR's resources based on impact (no longer would HR be allowed to spend so much of their capacity on Employee Relation issues)

Qualitative benefits start with implementation of several initiatives designed at providing better direction to the HR staff and strong alignment to the business strategy. The creation of a formal HR strategy that is translated into a scorecard of metrics will allow the HR function to strategically allocate their resources and more importantly measure value creation. More of their capacity will be directed toward meeting the needs of management and new, more value adding services will be provided to the customers they serve. Service level agreements and role/responsibility matrices will focus and hold the accountability of the HR staff. This is expected to considerable increase customer satisfaction levels.

The administrative burden of the HR function was reduced in two stages. Short-term, self service delivery platforms were being used so that managers and employees have access to selected data to update themselves, shortening cycle times and the touch time of the HR staff. Additionally, much of the remaining HR administrative burden has either been outsourced or centralized into a COE to reduce costs and obtain economy of scales. This will reduce

both headcount and the overhead HR allocates to the line.

The net effect of this is the number of documents used in core HR processes is expected to be reduced by 40–75% and the amount of overall HR capacity directed at administration is expected to decrease by 80%. Centralization will provide better economies of scale and improve response time.

A major part of the transformation is the redesign of key HR business model. The talent acquisition process will be centralized via a COE. Instead of utilizing external executive search firms, all recruiting will be brought in house, and through the adoption of an enabling technology, average time to hire cycle time is expected to decrease by 20–40%. Candidate sourcing costs are also expected to decrease by 20%.

The performance management system has also been redesigned and utilizes a forced distribution model and is intended to promote behaviors that are tightly aligned with the business strategy. This objective of the performance management system is to raise the bar of performance expectations by 10% per year.

All of the changes are expected to considerably enhance the image and perceived value added of the HR function over time. When all of the transformation efforts have been completely assimilated the expectation is that HR will be viewed as providing consultative support around organizational/people issues, be extremely customer focused, and very responsive to the needs of the business.

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