

Building Better HR Departments

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In the last 15 to 20 years, the HR profession has been shaped by remarkable work captured in the 'war for talent.'ⁱ However, in today's business, HR professionals need to turn individual talent into stronger organizations. Talent is not enough. The whole organization should be greater than the separate parts. Teams outperform individuals. Individuals are champions, but teams win championships. Some simple statistics show the importance of teamwork over talent:

- In soccer, the winner of the Golden Boot (leading scorer) is on the team that wins the World Cup 20% of the time;
- In hockey, the leading scorer is on the team that wins the Stanley Cup 22% of the time;
- In basketball, the player who scores the most points is on the team that wins the NBA finals 15% of the time;
- In movies, Best Movie of the year also has the leading actor (25%) and actress (15%) of the time.

We believe that similar findings exist in organizations. People matter; organizations matter more. While the war for talent may bring great people into an organization, the victory will likely come from the right organization.

The importance and value of the organization beyond merely focusing on individuals is reaffirmed in recent Michigan / RBL research on HR.ⁱⁱ This found that the quality of the HR department had two times the impact on business performance than the competencies of the HR professionals within the department. This research also found that the value created for stakeholders (employees, line managers, customers, investors, and communities) was 3 to 5 times more impacted by the HR department than by the HR professionals (see Table 1).

Table 1:
Relative Impact of Individual Competences vs. HR Department Activities
On Business Outcomes¹

	Overall business performance	Value created for Stakeholders					
		1 External Customers	2 Investors/ Owners	3 Communities	4 Regulators	5 Line Managers	6 Employees
HR Professional Competencies	22.3	24.8	15.3	22.0	33.5	10.0	7.6
Activities of HR Departments	41.7	59.1	69.2	76.6	39.5	89.2	89.6
Other Variables (e.g. strategy, culture)	36.0	16.1	15.5	1.5	27.0	0.8	2.8
<i>Multiple Regression adj. R²</i>	<i>0.243</i>	<i>0.481</i>	<i>0.424</i>	<i>0.364</i>	<i>0.283</i>	<i>0.485</i>	<i>0.570</i>

Upgrading HR professionals matters, but upgrading the HR department matters even more.

For HR leaders committed to delivering business results and serving stakeholders, building better HR departments is becoming an increasingly important challenge. In this article, we want to answer four questions on building a better HR department: why?, who?, what?, and how?

Why: Why does HR matter?

Businesses win by providing unique value to customers in ways that competitors can not easily match. Traditionally, sources of competitiveness include access to financial capital, strategic differentiation, and operational excellence. Increasingly, competitors can match financial, strategic, and operational systems; so companies are turning to organization as a source of competitiveness.

In building organizations HR delivers talent (right people, right place, right skills), capability or culture (“culture eats strategy or lunch” and outlasts individuals), and leadership (the key individuals who model good talent and shape the culture).

HR matters when it can clearly articulate why it exists in terms of outcomes it produces and how these outcomes support and inform competitiveness. When HR leaders build

¹ These rows sum to 100%, representing the percentage of explained variance in the model that can be explained by each variable category

mission, vision, or strategy statements for their departments, they should focus on delivering talent, leadership and, with increasing emphasis, the capability that enables the business to win.

Capability represents what the organization is known for, what it is good at doing, and how it allocates resources to win in its market. Organization capabilities might include the ability to respond to or serve customers, access and use information (analytics), drive efficiency, manage change or agility, collaborate both inside and outside, innovate products and business models, and establish the right culture.

Providing value through organization should be less concerned with picking the right structure and more focused on establishing capabilities. Value through organization should also be less to do with roles in an organization structure and more about improved relationships between people undertaking these roles. For organizations to be more than the sum of its people, individuals need to find meaning from work and to focus on relationships more than roles.

This is particularly important given the increasingly diverse nature of people working in organizations. Employees originate from different countries and cultures, have different demographics (age, lifestyle), and work with different working arrangements (contingent workers, including contractors, consultants and self employed contributors). This context increases the difficulties involved in creating organizations that go beyond talent and leadership by developing the right relationships.

Better HR departments create better organizations and will often do this by enabling better relationships between the people working in them. Developing the right relationships is also an increasingly important part of creating an effective HR organization, and provides the main basis for answering the remaining questions on the who, what, and how of building a better HR department.

Who: Who are the stakeholders for HR?

Traditionally, HR policies uniquely impact employees within an organization. Increasingly, talent, leadership, and cultural outcomes connect HR work to those both inside and outside the company (for example, see Table 1 for HR's impact on external stakeholders of customers, investors, communities, and regulators). HR professionals therefore need to ensure they have the right connections with those they need to know, have access to, and influence to be effective.

HR still needs to collaborate with and serve employees. In building employee productivity, HR should increasingly prioritize on value creating employees in key positions. Some HR departments spend too much of their time focusing on poor performers. A more useful approach would be to focus on employees in key positions who deliver the most value to their organization. These may be individuals identified

through tools like social network analysis as connectors and network brokers.

HR collaboration also needs to exist between the HR department and line managers as well as with business leaders and heads of other functions. HR has often pictured itself to be part of a special triad with the CEO and CFO. These days HR professionals need a broader set of connections, which will often include:

- Procurement, to ensure that full time and contingent talent are managed with appropriate similarities and differences so that both groups develop good relationships with one another.
- IT, to ensure that HR can benefit from the development and availability of new digital and other technologies. These can be applied to the management of talent and development of organization.
- Marketing, to build integrated approaches to internal and external management. This means culture can be matched with the brand of the business in the mind of its customers.
- Property / Facilities, to align the physical workplace with the rest of the organization design. This has always been important as a means to engage talent. Today it is even more central to support organizational relationships. Research shows that physical distance from other people has a steep impact on their propensity to collaborate together.ⁱⁱⁱ

This collaboration with other staff leaders helps build better business teams.

Increasingly, HR should also collaborate with external stakeholders. HR connects with customers by ensuring that HR practices align with customer expectations. Hiring, paying, and promoting should be done to increase customer commitment. HR connects with investors by giving investors more confidence in the quality of leadership and talent which affects market value. HR connects with the community by building a more socially responsible organization.

From thoughtful collaboration and rigorous HR practices, all stakeholders will benefit:

- Employees become more productive;
- Organizations implement their strategies (strategy execution matters as much as strategy formulation);
- Customers increase their commitment to the company (customer share goes up);
- Investors have more confidence (we have found that 25 to 30% of market value can be attributed to leadership capital);^{iv}
- Communities strengthen their belief (firm reputation goes up).

To make these multiple HR connections work, HR needs to establish collaboration within the HR department. This means that specialists (functional experts, centers of expertise) and generalists (embedded HR professionals) need to learn to work together

to add value to stakeholders.

Better HR departments model collaboration within their department and between their department and business leaders. Through these connections, they deliver value to multiple internal and external stakeholders.

What: What should HR do to provide value to its stakeholders?

HR provides value through improved talent, leadership, and organization. A host of HR practices help deliver these key outcomes. HR practices include those for bringing people into the organization (sourcing, screening), moving them through the organization (development, performance management, engagement), and removing them from the organization (outsourcing).^v These HR practices should be focused on delivering the right talent, leadership, and capabilities for an organization to succeed (see Table 2).

Table 2:
HR outcomes by HR activities (practices)

		HR outcomes HR will deliver value in ...		
		Talent (competence and commitment)	Leadership (leadership at all levels)	Capability (information, culture, change/agility, collaboration)
HR practice areas	Sourcing			
	Screening			
	On boarding			
	Training			
	Development			
	Performance management			
	Rewards			
	HR policy			
	Information/ communication			
	Organization design			
	Organization development			
	Other HR practice areas			

Many of these activities (rows in Table 2) need to be adapted to fit new contexts and requirements. For example HR practices around sourcing are having to be extended to cover not just traditional but contingent workers; training must include technology based education; organization development needs to become even more centered on relationships, trust and high quality conversations.

A particularly topical example concerns how HR practices related to organization design are changing with new design principles emphasizing simplicity, emergence and self management. New organizations models are also evolving out of four main forms:

- Functional – based on functions and divisions. This tends to be the best form of organization or highest priority dimension in a matrix when the main focus of the organization is its own configuration (professional departments, policies, efficient management).
- Horizontal – based on cross-functional teams. This form or dimension of a matrix tends to be most appropriate when the organization's focus is on its processes or activities (customers, operations, projects).
- Community – based on voluntary groupings. This tends to be the best organizational form for short-term collaborations and a useful dimension of a matrix when an organization's focus is on its people (skills, interests, collaboration).
- Network – based on formal or informal connections between people. This tends to be an appropriate form for enabling research or idea creation and a useful dimension of a matrix to focus on relationships between individuals (knowledge, co-development, innovation).

Again, the organization design choice should deliver the outcome of talent, leadership, and capability that allows the organization to win in the marketplace.

Analytics should focus less on the activity (rows) and more on the outcomes (columns). It is less relevant how many are hired or how they are contracted than if they have the right competence and commitment to help the organization win or if they build the right organization capability for success. An important example is social network analysis, conducted via a survey or provided real-time out of the use of digital communication tools.

The logic of focusing HR practices (rows) on HR outcomes (columns) changes conversations HR professionals have with their various stakeholders.

We suggest these are four particularly valuable themes for HR to stakeholder conversations:

- The business: enabling HR to take an outside in perspective. This means that HR aligns to customers, investors, and other external community stakeholders. Outside in HR is based on the premise that the business of HR is the business.

Outside in logic goes beyond the current state of the HR profession, where the focus is on connecting strategy to HR. We now believe that rather than a mirror in which HR practices are reflected, business strategy should be regarded as a window through which HR professionals observe, interpret, and translate external conditions and stakeholder expectations into internal actions. The outcomes (columns) should be tied to external stakeholders.

- The people: individuals in the business and how they, and their relationships, are being managed and developed. HR should talk to its stakeholders about changes in aspects of competencies such as skills, engagement levels, diversity, health and wellbeing, trust and collaboration. These conversations should still be in the context of the business and its customers and investors' needs.
- Integration: the alignment between HR activities (rows) and HR outcomes (columns) require an integrated view of HR. People who talk about delivering outcomes are always seen as more credible than people who talk about undertaking activities. Talking about outcomes also provides HR with an opportunity to refer to its accountability for these. For example rather than talking about facilitating appreciative inquiry sessions, HR should discuss the outcomes of the inquiry in terms of talent, leadership, or capability.
- Creating value: opportunities to build the business based upon what people and HR can do. It is great for HR to support the business to achieve existing business objectives. However to be truly strategic, HR should also aim to find new value that it can create in talent, capability and leadership which would enable the business to set new or more stretching business goals.

The need to focus on conversations also reinforces the need for HR to think through how it presents findings from its analytical work. Data makes best sense and leads to good decisions about talent, capability and leadership when it is used to tell stories which identify how HR can provide value to its stakeholders.







Better HR departments deliver talent, leadership, and capability through innovative HR practices and high quality conversations.

How: How can HR departments make good governance actually work?

To deliver outcomes (talent, leadership, capability) that create value for multiple stakeholders (internal and external), HR needs to shift its department focus from roles to relationships. This means that there are clear expectations, responsibilities, and accountabilities. When we assess if HR is organized to deliver value, we start by reviewing how the business is organized: is it centralized with a focus on efficiency (e.g., functional)? Is it decentralized with a focus on effectiveness (e.g., holding

company)? Is it multi divisional with a focus on both efficiency and effectiveness (e.g., matrix)? The HR department organization should reflect the business organization (Table 3).

Table 3:
Aligning Business Organization and HR Department

Business organization form		HR department
<ul style="list-style-type: none"> Centralized functional organization 		<ul style="list-style-type: none"> HR organized around HR specialty (recruiting, training, compensation)
<ul style="list-style-type: none"> Horizontal process / project based organization 		<ul style="list-style-type: none"> HR operating in multi-functional teams dealing with HR-related issues or outcomes
<ul style="list-style-type: none"> Community based organization 		<ul style="list-style-type: none"> HR professional groups eg projects on digital HR or HR analytics
<ul style="list-style-type: none"> Network based organization 		<ul style="list-style-type: none"> HR professionals connected across organization to deal with particular issues or requirements
<ul style="list-style-type: none"> Decentralized independent businesses (autonomous business units, holding company) 		<ul style="list-style-type: none"> HR specialists operating within each business unit (eg recruiting, training, compensation functions for each autonomous business)
<ul style="list-style-type: none"> Related / diversified organization (matrix, multi divisional company) 		<ul style="list-style-type: none"> HR organized as a professional services firm with centers of expertise (specialists) and embedded HR (generalists) plus project teams, networks and communities

Once HR department roles have been clarified, HR work may be assigned to the different HR groups based on answers to some key questions:

- Is the work strategic or foundational?
- Is the work proprietary or generic?
- Where is the work best located to increase efficiency or effectiveness?

However our research on 12 key foci of an HR department has found that “Has clear roles and responsibilities for each of the groups within HR” ranks as among the best performing areas but is least impactful on business impact.^{vi}

Organization charts with clear roles, relationships, and accountabilities show the physiology of HR departments, but the psychology of how they work depends more on relationships. Most recognize the difference of a formal organization (form and morphology of the organization) and an informal organization (how things really happen). We have examined a number of principles of relationships that characterize an informal organization and can be applied within the HR department, between the HR department and business leaders, and across the organization where HR resides and external stakeholders.

Partners in a relationship have different roles to play, but they succeed when they realize that they are stronger together than apart because they have superordinate and binding goals (e.g., raising children). Couples stay together when they share dreams, find meaning together, and create a culture of joint rituals and goals, while respecting individual skills.

Likewise, in HR each role has unique expertise (service centers with technology driven efficiency, centers of expertise with specialized HR insights, embedded HR with business insights). The challenge is to find a unifying purpose that brings together these different parts into a greater whole.

When these different groups respect each other, focus on what is right more than what is wrong, and yield to the influence of the other, they can form relationships that supersede their separate roles. When differences are respected, dissent becomes a positive not negative because there is tension without contention, disagreement without being disagreeable, dialogue without demeaning, confronting without being confrontational, challenge without condemning. Each of the groups within an HR operating model is a “partner” because each brings unique value to the overall goals.

In addition, to ensure good governance, HR professionals need to master key competencies so that they can engage in the right conversations. To be engaged in business conversations, HR professionals need to demonstrate the competence of being a credible activist where they are trusted because they take appropriate positions on business and HR issues. Credible activists can engage in building relationships and engage in appropriate conversations that give them access to business leaders.

With access, HR professionals need to be paradox navigators to deliver business results. Most businesses succeed by managing a series of paradoxes (e.g., being short and long term, growing top line and delivering bottom line, caring for customers outside and employees inside; creating strategic intent and delivering daily actions; being global and local, and so forth). HR professionals help business leaders navigate these paradoxes by engaging in appropriate conversations.

Better HR departments match their business organizations and gain clarity around which HR groups perform which work. They also apply principles of psychology and relationships to making the informal organization operate effectively.

Conclusion:

For businesses to receive full value from HR, it is very important to upgrade the quality of HR professionals. It is even more important to upgrade HR departments. Much attention has been spent on developing HR professionals. We also want to make HR departments better. Senior HR leaders charged with improving their HR department may do so with the roadmap we offer. It includes answers to why, who, what, and how. By answering these questions, we believe better HR departments will be created that deliver sustainable business value.

ⁱ Ed Michaels, Helen Handfield-Jones, Beth Axelrod. 2001. *The War for Talent*. Harvard Business School Press.

ⁱⁱ The RBL Group. 2015. *HRCS Round 7: Creating HR Value from the Outside-In*. RBL Group.

ⁱⁱⁱ Ben Waber, Jennifer Magnolfi and Greg Lindsay. October 2014. *Workspaces that Move People*. Harvard Business Review.

^{iv} Dave Ulrich. 2015. *The Leadership Capital Index: Realizing the Market Value of Leadership*. Berrett-Koehler Publishers.

^v Justin Allen and Dave Ulrich. 2013. *Talent Accelerator: Secrets for Driving Business Growth In Asia*. RBL Group and Ministry of Manpower (Singapore).

^{vi} Dave Ulrich, Jon Younger, Wayne Brockbank, Mike Ulrich. 2012. *HR From the Outside In: Six Competencies for the Future of Human Resources*. McGraw Hill Professional.