HR in Turbulent Times:
The Call to Lead

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Insights from the Clarion Institute

A Note to Our Readers:

Continual motion in the market and the current dramatic financial turmoil are causing leaders to assess their business models and question the longer-term economic viability of their core businesses. They are reevaluating strategies, organizational designs, and the alignment of behaviors and cultures to meet the emerging market needs. Dramatic changes in business models are driving the need for the commensurate level of change in how organizations' human capital is deployed and managed.

How are HR leaders stepping up to this? Reflecting on our client work, we have devel-oped some thoughts on the critical components of successful HR transformations, especially relevant in these turbulent times.

Pressure has been building for HR organizations to address strategic business needs in a more powerful and valua-ble way. There has been continual motion in the market: shifts in the mix of customers, segments, competitors and intermediaries; increasing scarcity of resources, interconnectedness, dependency and the threat of negative domino effects; and erosion of familiar sources of profitability. Impressive as these forces for change are, they preceded the dramatic financial turmoil we are currently facing. All these things, at a broad and fundamental level, are causing leaders to assess their business models. They are questioning the longer-term economic viability of their core businesses and what they, as senior leaders, must do well to guide their organizations through these unprecedented times. The result is a healthy reevaluation of strategies, organizational designs, and the alignment of behaviors and cultures to meet the emerging market needs.

How are HR leaders re-defining their purpose, services and value in this environment? We have done a substantial amount of work with HR executives over the past 15 years. Recently, we have seen a dramatic increase in the volume of HR transformation initiatives sponsored by both senior HR executives and business leaders. We believe this is the consequence of leaders realizing they must manage their human capital in a fundamentally different way.

Dramatic changes in business models and the turbulent financial times are driving the need for the commensurate level of change in how organizations' human capital is deployed and managed. While it is possible that a steady incremental approach to change worked in the past, our experience and the market are telling us that today, the business needs are greater, and more dramatic change is required. In short, HR executives are being called to co-create, with business leaders, new business models and to lead the organizational and cultural changes required to support those models. This presents an opportunity for HR to step up and increase its value dramatically.

Reflecting on our client work, we have developed some thoughts on the critical components of successful HR transformations, especially relevant in these turbulent times. Our clients have found the following ideas, tools and practices to be not only helpful guides, but thought provoking: HR Mandate, HR Value Pyramid, HR Delivery Model, Role of the Manager, and HR Leads/Leaders Own.

We also share with you some critical success factors which have emerged in our HR Transformation work. These frameworks and CSF's have helped HR and business leaders think about their situations and opportunities in clear and often different ways as they blaze their own unique transformation trails.

Business Link: HR Mandate

Experience shows that many transformation efforts have been insular: HR analyzing itself (however earnestly) and rebuilding from an inside-out point of view. Especially in turbulent times, when business models are evolving quickly, HR leaders must fully understand both the current and emerging business strategy, and must ensure their transformation work is aligned to the strategy. In other words, HR must determine its mandate. That mandate, along with the supporting strategic imperatives, becomes the North Star for transformation work.

The HR Mandate succinctly describes what the business needs from HR over a two-to-three year horizon. Imagine the mandate sitting under an HR organization's vision and mission, which should have a longer-term view. The mandate and imperatives create direction and focus for the transformation work. When done well, the imperatives will provide a way to prioritize transformation efforts, and lead to a comprehensive plan that business and HR leadership can execute against. The HR mandate must be established with senior business leaders who help to draft and refine it. Only then can both parties commit to the HR Mandate – a commitment which we have found to be essential to successful HR

transformations. In addition, the mandate definition process becomes the foundation for a long-term, ongoing dialog between HR and business leadership as business needs and conditions change. The mandate discussion then becomes integrated into the ongoing planning and governance system of the business.

### Examples of HR Mandates:

To help XYZ transform itself from its historical foundation in the Americas to operating successfully as a global entity doing business in all markets and being an employer of choice in each of these markets.

To help management realign ABC from an SBU-based operating model to a Manufacturer/ Distributor model and build the capability and systems to manage the increased complexity of the resulting matrix structure.

To be a catalyst that helps shift EFG, Inc., from being a product-driven business to a solutions business while ensuring our core competencies in product innovation are not eroded.

Focus and Priorities: HR Value Pyramid

Much has been written about the changing value proposition of HR. The HR Value Pyramid can be a helpful framework for HR and business executives as they make decisions about how best to deploy HR resources against the most valuable work.
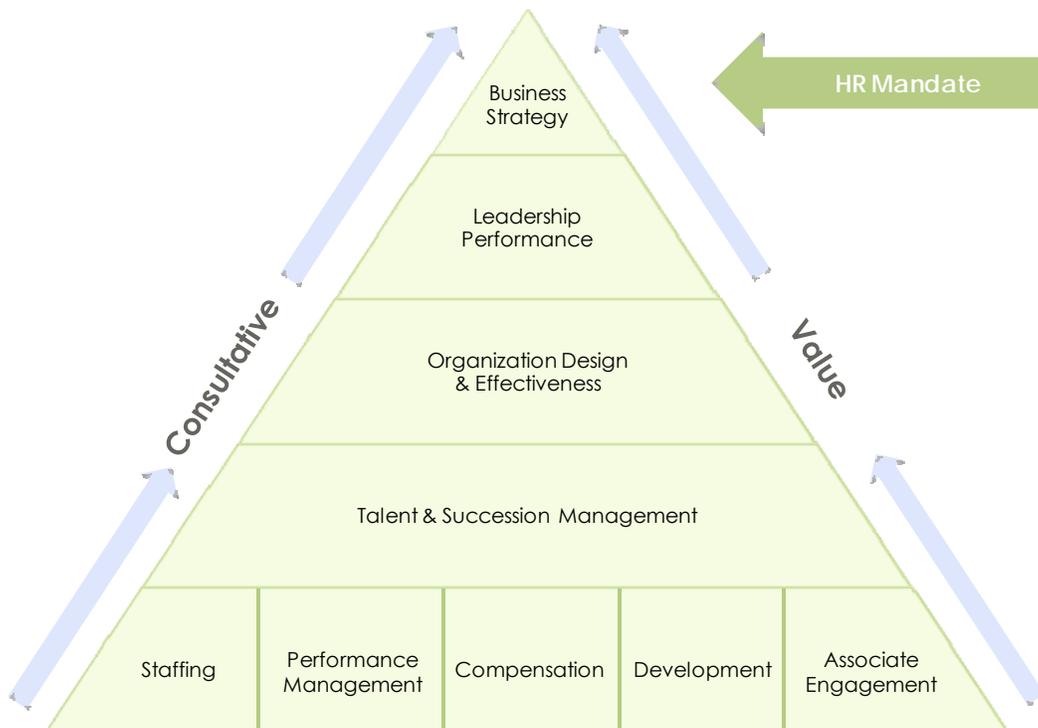
The core HR processes (staffing, performance management, compensation, development, and associate engagement) are the basis of HR value to the organization and they must be efficient and easy to use; however, providing only those processes is insufficient in the current environment. Recognizing that, the pyramid guides business and HR leaders in understanding the need for higher level services and the consultative approach that must come with them. Historically, the HR Generalist has been the buffer between the business and HR processes: helping to make the processes work for the line leaders, often by becoming an extra pair of hands to complete performance evaluations, calculate bonuses, and build development plans.

Moving up the pyramid, HR is increasingly looking at how to integrate its human resource processes into a robust talent management system to better support the needs of the business (even though not enough business leaders yet understand the potential benefit this has for managing their resources).

More companies are recognizing the need for and investing in internal organization design and effectiveness capabilities, but these resources are often neither well-positioned nor embedded into the strategic operating model discussions with leaders.

Towards the top of the pyramid, the need for strong leadership continues to remain a strategic business imperative for all organizations, especially for those experiencing turbulence. This is one of the opportunities for HR to contribute directly to business performance, by truly affecting individual and team performance at the top.

And, lastly, senior HR leadership should be positioned to be fully engaged in and lead critical components of the strategic conversations as new business models are developed, particularly from the view of the development, acquisition, retention and performance of talent, and the alignment of the organization and its culture to these new models.

For most companies, HR has yet to provide the services toward the top of the pyramid in a consistent and effective manner, so what business leaders see today is not HR at its most value-additive. The pyramid helps drive the conversation about what is needed and what is possible, and sets the stage for the transformation of the HR value proposition.

Execution: HR Delivery Model

There are numerous options for delivering HR services to a business organization. Much has been written about the various design choices that are possible, including establishing centers of excellence, redefining the role of the generalist, deploying generalists to executive levels only, outsourcing, creating self-service functions, and shared services. In addition, we have introduced the notion of Centers of Acceleration where resources representing different areas of expertise are formed into an organizational unit and then deployed to a business area on demand to support a specific strategic business need. (http://www.theclariongroup.com/institute/insights_acceleration1.html)

To design the most appropriate delivery model for your organization, it's important to think holistically about all of the HR service distribution channels and how they will integrate to provide fundamental and value-adding services. This means looking at all of the possible design options and understanding how, together, they will address the people management needs of the organization.

In addition, the way service is delivered should be consistent both with how the business goes to market and with its culture. For example, if the company has a customer-focused strategy and gets work done internally by leveraging relationships above all else, then the HR service delivery model should follow similar principles. If, on the other hand, an organization is shifting its strategy and culture, the HR organization has much greater latitude in the design it pursues; it can even help drive desired changes by the choices it makes.

One of the biggest mistakes we see made by HR when they are rethinking their deli-very model is seeking out best practices with the intent of copying what has worked well in other organizations, without applying the strategy/culture filter. What works really well in one organization can fail miserably in another if the environment and business objectives are substantially different.

Leverage: Role of the Manager

The line manager is an essential component of the HR service delivery model, and thus, is central to a transformation effort. However, the line manager often feels caught between the pressure to execute rapidly evolving business strategies and people strategies. We call this a Hinge Pin role because it lies at the intersection of the two planes of delivering business leadership and delivering on the growing expectations of people leader-ship. It is not an easy place to be, and it requires both strength and flexibility.

As the HR Generalist community's services mix migrates up the HR Value Pyramid and towards more consultative activities, the challenges for the line manager multiply, since some of the people management responsibilities that HR generalists may have assumed in the past will need to be assumed by the line managers. Dealing with ever-changing business strategies, refocusing how people relate to their customers and the market, and taking on more responsibilities for effectively managing their people – while still getting the day-to-day work done – is a tall order.

Compounding the dilemma of expanding expectations for managers is the fact that many moved into these roles based not on their people leadership skills, but rather on their technical knowledge and expertise. Many line managers are simply ill prepared to take on this other accountability. It calls for a very thoughtful, concerted effort to help line leaders understand the people management journey they are on, and then to give them the guidance and tools they need to step confidently and competently onto the path. These new expectations may require a very different line manager profile and, consequently, could have a significant impact on selection and promotion. Getting clear on the role and executing a substantial and long-term migration plan for managers is critical.

Ownership: HR Leads/Leaders Own

Successful transformation requires substantial shifts in behavior among HR pro-fessionals and line leaders. It requires that HR professionals move outside their com-fort zone of relationship-centered service and step into the less familiar territory of leading conversations which align people processes and organizations to support evolving business models.

Line leaders, in turn, must recognize that these people management responsibilities are as critical to achieving their strategy as their operational and/or market-facing responsibilities. In essence, the people view is as important as the customer view. Transformation compels HR executives to become active contributors to business strategy discussions and line leaders to become full owners of their organizations and people. Above all else, courage is required: to learn new skills, to enter into different conversations, to let go of familiar ways of behaving and, ultimately, to transform. HR can lead the change but all leaders must own it.

Sustainability: Critical Success Factors

How do you make HR Transformations stick? We have learned of a few things that sustain the transformation work over time.

◼ **Move through analysis**

It is important to understand the current level of performance of the core HR processes and the HR organization's performance across the HR Value Pyramid, but to resist the temptation to over-analyze. There is a propensity (and comfort) in looking at what exists for longer than necessary. Determine performance through focus groups and conduct some process assessment, for example, while developing the HR Mandate with business leadership, but move into the high-level design work quickly; this is best completed within a couple of months of initiating the work.

◼ **Integrate with existing business process and management systems**

Major HR processes, in particular talent and workforce planning and management, should be integrated with (and a natural outcome of) the business planning cycle. Monitoring and projecting outcomes and measures tied to these processes, alongside financial and operational measures, provides a complete picture of the performance of the business. This requires partnerships with key functional areas, particularly finance and strategic planning. (See the Fall 2008 *Clarion Call*: *Talent, a Key Ingredient for Your Future*)

■ **Build the case for change**

Most business leaders are skeptical about allocating the resources required for HR to do transformation work. HR must build a business case that extends beyond cost savings – to adding value in business performance. The process of developing the HR Mandate often gets business leaders' attention. And the initial product, a thoughtful two-to-three year plan with staged invest-ments and deliverables, is critical to gaining the support and funding required. The planning and long-term project work is something HR often struggles with, so build the case and bring in qualified project managers to guide the transformation work.

■ **Align the HR Leadership Team**

Given the historic silos that often exist in HR organizations and the natural inclination of HR to be "in service" to others, HR leaders naturally develop allegiances to different parts of the business. This may be good for the business if you look at it in parts, but detrimental to achieving higher levels of impact across the enterprise.

One key to breaking down silos is convening the HR leadership team around its mandate, establishing joint accountability for achieving it, and addressing any operating norms that could be getting in the way of effective problem-solving and decision-making.

In conclusion, the head of HR will need to step with full conviction into his/her lea-der-ship role to achieve successful transformation. This is not easy work and requires deep reserves of emotional and intellectual capacity to achieve the changes desired. There will be constant pressure to focus on the urgent, when the real need is to focus on the longer-term strategic mandate. Now is not the time for the risk-averse or the fainthearted; courage is required! In these turbulent times, business success – and, for some, survival – will greatly depend on all areas of the business doing their part to rebuild, refocus or realign; for HR, it's a call to lead and migrate quickly to higher value services and capabilities.