'Organisation performance through a human capital lens'

The Value-Based HR Function Part III:

Real HR Transformation

Volume 3

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The Value-Based HR Function white paper series

The Value-Based HR Function Part III

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'HR transformation' is a phrase that has increasingly gained currency over the last decade, often relating to the introduction of new HR technology and/or 'delivery channels' such as business partners. Yet often the reasons for undertaking such a journey are unclear, with criteria for success and their relevant measures ill-defined. This has unfortunately resulted in an internal or functional focus to many transformations that can result in limited impact on the organisation and people management practice, despite the effort required within the HR function to implement change.

This white paper, Part III in the series, explores the 'Why, What and How' of HR transformation, identifying 10 pitfalls that are typically overlooked, that can undermine any transformation efforts and degrade their impact. To achieve 'real transformation', a six-step outline methodology and related insights are introduced as a pragmatic guide to HR practitioners.

HR transformation

is a term we increasingly hear about and it has been with us for some time – certainly back into the mid-nineties. Quite often the phrase is used in parallel with HR restructuring. More recently, both of these phrases have been linked with the concept that the HR function has become more strategic. Yet ask any professional in the human capital field what his/her understanding of these three terms mean and you are likely to get a different interpretation every time.

HR Transformation – a definition

In the absence of definition, terms like HR transformation can reduce down to nothing more than marketing slogans, with the danger being that a robust concept remains marginalised. For HR functions this limits the propensity for knowledge share and learning. More seriously, it renders any attempt to become 'more strategic' or 'value contributing' as an empty aspiration.

Thus, it is important for the HR profession to

For example, strategic marketing or strategic finance can be defined by the associated structured exercise and the analysis/ implementation that ensue. I think this is a central point that has been missing from HR debate.

I think it is also important here to differentiate between the terms HR strategy and strategic HR/HCM which is often another source of confusion. Simply put strategic HR/HCM is essentially a continual, structured process of analysis, evaluation and decision-making as we shall see. It can also mean the level at which we view people management as a whole rather than by any particular activity.

HR strategy, by contrast, is really an output of the strategic HR/HCM process or simply a collection of objectives derived from the field in the absence of any structured process[1]. Many practitioners quite often refer to HR strategy as a plan of action as opposed to any 'position' on the organisation horizon.

It would be fair to say that strategic HR/HCM has really been an invisible layer as most in HR

It is true to say that HR transformation, HR restructuring and strategic HR(HCM) can be defined or identified as much by the process or journey one goes through as much as by any pre-conceived notion. This is an important observation.

have useable definitions supported by the requisite process or outcomes attributed to these terms. For the essence of defining these terms comes with the understanding that is so important and which provides the true learning for HR functions and their respective organisations to apply and optimise benefits of any subsequent initiative.

The other important aspect to definition is to be able to identify the attributes or outcomes associated with these terms – measurement being a particular example. For each of the terms transformation, restructuring and strategic, we need to know the why, what and how as a starting point. Thus the real focus should then be on the respective outputs or outcomes, i.e. the contribution(s) or change(s) associated.

Definition through process

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would admit to identifying with the HR strategy scenario.

Some HR practitioners would point towards a structured process they have used in devising HR strategy as being similar to the 'strategic' process. However, I would argue that there are three important pieces missing in relation to these exercises:

   i. a definitive appreciation of what strategic HR/HCM includes
   ii. the use of measurement and analysis
   iii. a framework that link all of these together

In previous articles, I have outlined what strategic HCM is with its 34 Premises[2] and the associated analysis together with a framework for what it includes (the 16 so called operational strategies a.k.a organisational engagement) and their associated measurement.

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[1] It is quite possible that the same outcomes could be generated though highly unlikely. The field output is also subject to distortion and a lack of robustness even though this may be seen as pragmatic. In any event the field output should already be encapsulated through the structured process.
[2] Competitive Advantage through Strategic Human Capital Management, Journal of Applied Human Capital Volume 1 Number 1 2007

To recap the 16 are:

- Employee engagement
- Diversity
- Employee centricity
- Employer brand
- Leadership
- Organisation climate
- Organisation communications
- Organisation design
- Performance orientation
- Resourcing
- Retention
- Reward
- Talent management
- Training & development
- HR governance
- HR operational excellence.

To avoid repeating everything here, I would request that the reader revisits these articles[3] to refresh their knowledge. Reproduced below is the strategic HCM process (at macro-level) with a corresponding definition of each step as outlined (opposite):
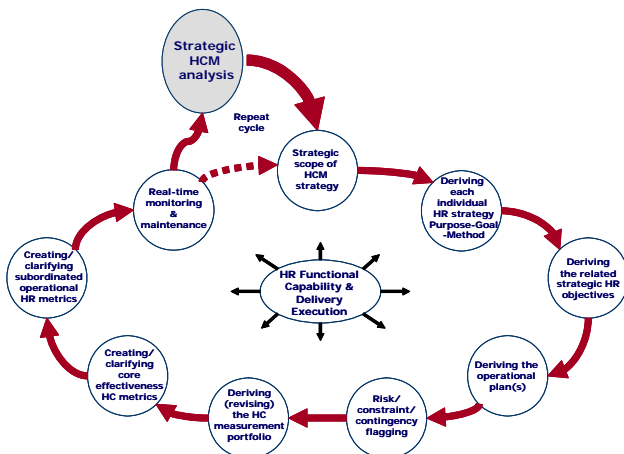
The table opposite provides more detail of each step. Working through this process provides a sense of definition and understanding.

A note on strategic HCM analysis

Each industry (and sub-industry) has its operating signatures, pressures and outputs. Each organisation within that industry has its unique set of capabilities and performance history and with it the requisite talent necessary for achieving both current and future expectations.

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[3] Competitive Advantage through Strategic Human Capital Management, Journal of Applied Human Capital, Volume 1 Number 1 2007; Devising an HCM Strategy: The Strategic HCM toolkit, Journal of Applied Human Capital Management, Volume 1 Number 1 2007; Organisation Engagement: Evaluating your human capital management signature, Journal of Applied Human Capital Management, Volume 1 Number 2 2007.

OS Parameter	Detail
1. *Strategic scope of operational strategies (external/internal appraisal)*	Definition of boundary levels and scope, i.e. business unit/region/country/directorate level and/or aggregate/ consolidated level
2. *Deriving the Purpose-Goal-Method of each strategy (reality check)*	Why are we utilising this strategy? (purpose) What is the strategy looking to achieve? (goal) How are we achieving it? (method)
3. *Deriving the related strategic objectives*	The derivation of objectives, their prioritisation and assignation. The application of SMART team/individual principles, extended to line where applicable is important.
4. *Deriving the operational plan(s)*	Ensuing related HCM actions and activities (again between HR function and line) with accountability and deliverables
5. *Risk, constraint, contingency flagging*	Elements of operational strategy, actions and measures may be subject to constraints and delivery risk which need to be explicitised. Also includes contingency planning.
6. *Deriving the measurement portfolio*	Derivation of core comparative KPIs as defined; Level and type of analysis: one-off/cross sectional and/or trend (longitudinal)?
7. *Creating/ clarifying core effectiveness HC metrics*	Derivation of objective/metric trees where appropriate; Selection to Value-based HC scorecard
8. *Creating/ clarifying subordinated operational metrics*	Derivation of objective/metric trees; Incorporation within HR operational scorecard
9. *Strategy-delivery monitoring and maintenance (real-time)*	Monitoring and maintenance protocol to ensure comprehensiveness and business reality, revising both operational strategy and plans where necessary
10. *Repeat cycle*	Updated as often as business/HR function requires

Each competing cluster of organisations adds to the intensity of managing people well or risks the consequences.

Thus the strategic HCM ('five HCM forces') framework proposes to acknowledge this constant 'push-pull' of existing forces that determine the top performing organisations from the also-rans, whilst at the same time providing the 'operating constraints' with which organisations have to negotiate.

These 'five HCM forces' dictate the parameters of organisation performance through a human capital lens, providing a battleground over which organisations 'fight' for and manage talent, and determine the optimal trade-off on human capital leverage as against human capital investment, and its ensuing impact on overall organisation performance.

Those organisations getting it right ultimately gain sustainable competitive advantage, i.e. a higher rate of return from their human capital, no matter the other pieces of an organisation's value proposition to its market-place/environment.

HR transformation fundamentals

There are three fundamental questions to ask regarding HR transformation. They are:

1. Why are we looking to transform?
2. What does this transformation look like?
3. How do we know that we will have achieved this?

Why are we looking to transform?
This is perhaps the most important question of all. In answering this question we must require two things: (i) a working definition of what transformation is and (ii) what difference will it make to the greater organisation 'system'?

So what is transformation? Transformation in business terms is normally used in the macro-organisation context. Reading through case studies or articles on transformation provides a 'storyline' of (improved) changes in
- Strategic positioning vis-à-vis market/industry (following analysis)
- organisation performance
- operational excellence (IT driven)
- customer or product
- supply chain (process)
- leadership
- business structure (reporting aspect)
- culture/philosophy
- human capital capability/mix
- staff roles and accountability
- some other specifically related attribute such as use of outsourcing that changes the business model
- a combination of these.

From an HR function standpoint, real HR transformation can thus be derived in a similar fashion as a combination of improved (changes) to:
- Strategic positioning in terms of value proposition to the organisation
- HR functional performance (in terms of 'value contribution'[4])
- Operational excellence (functional efficiency/effectiveness)
- HR Delivery (in product/service terms)
- HR Leadership
- HR operating culture/philosophy

- HR staff capability/mix
- HR roles and accountability
- A combination of these.

If we also remember that human capital management is about 'optimising the performance and capabilities of management and employees'[5]; then as the HR function is an influencer ('agent') in this objective, HR transformation must also provide some difference in this dimension.

This could be for example some demonstrable difference in the way in which line management takes ownership for people management issues (and which links back to the 16 operational strategies described earlier).

These areas or 'attributes' of HR transformation essentially provide us with a definition of what HR transformation is or should be. It is therefore logical to conclude that transformation requires a degree of change expected in each of these areas.

The question here is how many of these areas actually constitute HR transformation?

One could derive a formula to postulate a mathematical answer. However, in this instance it would be of little value since the emphasis is on the degree of change and outcomes rather than a tick-box exercise.

Looking through the list, one would suggest that the interactive nature of all of these areas would indicate that all are required to change to some degree to achieve real HR transformation.

Thus choosing this premise gives us a working definition as to the why.

A spin-off of this approach is the enabling of a business case to be underwritten. This is particularly important to avoid too narrow a definition of HR transformation (and thus limiting its impact).

What does the transformation look like?
This question really takes its roots from standard change methodology in terms of 'attribute change' and 'scale'. Thus defining a 'starting state' and 'end state' or interim 'end state' (those familiar with change methodology will recognise the 'As Is' and 'To Be' parallels) is important here and requires some degree of analysis and measurement.

Each of these areas needs to have defined attributes where change cannot only be differentiated but calibrated to some degree in to be evaluated.

How do we know that we will have achieved this?
Quite simply the only answer is through measurement and analysis – much of which can be done through use of existing tools and

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[4] See for example the HR value curve, in The Value-Based HR Function Part II

[5] As defined by The International School of Human Capital Management 2006 see www.ishcm.com

methodologies [6] . However, this can only be successfully done having worked diligently through the why- and the what- parts of the process. Failure to do sufficient due diligence will automatically invalidate the outcome of answering this question.

HR transformation: the fundamental knowing–doing gap

If the reader currently thumbs through the plethora of published case study material and presentations on HR transformation, he/she will be forgiven for thinking that we are not talking about the same thing.

Much HR transformation material contains reference to IT, outsourcing 'transactional' services, shared services, centres of expertise and Business partners.

None of these terms have been mentioned in the preceding paragraphs under HR transformation. And neither should they be. IT is not an attribute of HR transformation, it is merely a means to achieving other transformation attributes.

Shared services, centres of expertise and business partners [7] are too often erroneously referred to as 'structure'. They are actually delivery channels and they should occur only as a consequence of changes in the HR transformation attributes, e.g. particularly in terms of HR delivery, HR value proposition, operational delivery, line management accountability, and HR roles and accountabilities.

Thus, we appear to have a clear disconnect between what is being transformed (as described earlier) with how things are actually being implemented. The well-documented focus on structure is particularly baffling from a transformation perspective given our definition above. In HR terms, structure is a mere enabler (means) to improved delivery rather than any reporting configuration. Worse, the common interpretation of the three-legged stool structure is actually wrong and a false premise from which to work.

So the question is: 'why does HR transformation look so different in the field from the more structured and diligent approach as described here?' The answer lies in the complexities of everyday organisation life and certain legacy issues of HR functions. These dimensions include:

1. The degree of change required by HR functions to transform provides big challenges in delivering 'business as usual' whilst in the act of transforming

2. The wrong focus on structure provides some tangible though very limited rationale and in view of (i) is the easier 'fall-back' option
3. HR transformation provides a 'glossy story' to hide the more mundane reason that cost-cutting is the overwhelming business case for any material intervention in the HR function
4. Operational excellence is not viewed as a collective operating system as such but more a collection of disparate HR activity silos. Thus the question of overall operational excellence rarely gets answered
5. HR function value propositions and 'value curves' are a fairly recent phenomenon and have yet to become common currency; thus essentially downgrading the HR transformation scope
6. Little questioning of HR leadership takes place (particularly given the previous remit) and given a choice a risk-averse strategy is chosen
7. People management evaluations are a fairly new arrival with most HR functions unable to articulate any evaluation in this area
8. There is a high degree of documented resistance within HR functions which makes the HR transformation appear a higher risk strategy. Given the answers to (1) and (5) it is highly unlikely that real HR transformations are sought.
9. In relation to (8), individual HR capability and competency is a common issue found in various market surveys which provides further disincentives to truly transform
10. The WIIFM (what's-in-it-for-me?) question for HR leaders and staff is perhaps the most underplayed aspect which can restrict transformations.

This last point is perhaps significant. If most HR transformations are viewed from within the function as cost-reduction exercises rather than anything else, it is hard to see any positive WIIFM 'vibes'.

If the incumbent HR leader prefers 'steady-state' management rather than any truly aspirational sense of value contribution it is hard to see how any transformation would occur save from that mandated from outside the function.

The evidence from the market-place would suggest that little real HR transformation is actually going on.

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[6] see for example HR value curve, evaluation and analysis, role profiling competency assessments, transformation methodology
[7] referred to as the three-legged stool and also erroneously referred to as the 'Ulrich' model

HR restructuring: 'much ado about nothing'

Restructuring is an interesting theme in the HR world. Given that around two-thirds of HR functions have less than 20 staff[8] it is hard to see how the term restructuring can be used in an appropriate manner.

Also, as has been mentioned previously, the often touted shared services/centres of expertise/business partner model is often seen as structure when, in fact, these terms have more in common with 'delivery channels'. This doesn't necessarily make the model wrong, but it does ask the question about understanding.

The real problem is that in any transformation, structure is only part of the solution, if at all, and should not lead but itself be an outcome (structure follows 'process'/'role') of the transformation. Leading transformation with structure invites problems.

It is not surprising to find that one of the biggest challenges many HR structure-driven changes face is that of clarity and definition of roles as well as accountability boundaries and hand-offs. This effectively means that the 'cart' is pulling the proverbial 'horse'.

For many, this may be seen as a pragmatic approach but it invites the issue of sufficient due diligence being done. To leave roles and accountability as an afterthought would seem to fly in the face of any operational effectiveness that is being sought and to the rationale for the transformation.

HR transformation – doing it for real

So what does real HR transformation involve? I have already alluded to the fact that there are potentially a variety of areas in which HR transformation should impact upon. These include:

- Strategic positioning in terms of value proposition to the organisation
- HR functional performance (in terms of 'value contribution')
- Operational excellence (functional efficiency/effectiveness)
- HR Delivery (in product/service terms)
- HR Leadership
- HR operating culture/philosophy
- HR staff capability/mix
- HR roles and accountability
- A combination of these.

To be able to assess, plan, and implement any change requires a methodology. An example of a comprehensive transformation methodology is outlined below:

1. **Setting the transformation agenda and business case construction**
   i. Understand Business Context And Clarify HR Transformation Objectives
   ii. Develop project (programme) management
   iii. Create initial detailed transformation project (workstream) plan
   iv. Launch project
2. **Conduct fact-finding and evidence-based assessment; deriving the 'As Is'; identifying opportunities**
   i. Identify internal HR organisational issues
   ii. Assess value contribution of current HR products/services
   iii. Conduct business/client/customer needs analysis
   iv. Complete review of emerging HR trends and best practices
   v. Develop preliminary outsourcing recommendations
   vi. Communicate initial findings and opportunities

3. **Develop new HR strategic positioning, value proposition(s) and strategy(s)**
   i. Create HR vision, value proposition and strategic priorities
   ii. Define preliminary HR products/services portfolio
   iii. Develop a blueprint for HR service delivery
   iv. Communicate new design including impact analysis

4. **Constructing an integrated HR solution/'To Be' blueprint**
   i. Design of IT to support new HR positioning
   ii. Redesign processes/activities to support new HR positioning
   iii. Redesign of corresponding roles to support new HR positioning
   iv. Redesign structure to support new HR positioning
   v. Align HR staff with new HR positioning
   vi. Align HR operating culture to support new HR positioning
   vii. Conduct review scale of change and model impact on 'business as usual'
   viii. Revisit blueprint for practical implementation changes

5. **Developing an implementation and (change) impact plan**
   i. Create detailed implementation plan(s)
   ii. Complete Blueprint business case
   iii. Communicate Key Project messages

6. **Implementation and continuous evaluation**
   i. Develop coordinating framework for implementation activities
   ii. Address 'Quick-Win' opportunities
   iii. Initiate piloting/testing process
   iv. Launch change management strategy for implementation
   v. Complete detailed design of transformed HR function
   vi. Implement new HR organisational design blueprint

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[8] see various research studies/reports by CIPD/SHRM

Though the methodology contains many steps, in practice a number can be combined. Some don't take long to complete. The process is not necessarily linear either. Given the integrated nature of transformation it is not unusual to revisit or jump around within the methodology to 'get what you want'. The important point is that a structure exists to use which minimises the potential pitfalls awaiting those that enter the transformation journey.

The other key learning point here is the flagging or meeting of potential obstacles or 'showstoppers' which require rethink.

Transforming HR is no blue-sky exercise. It is an attempt to transform across a number of dimensions which invokes complexity and ultimately, pragmatism.

However, expediency should never mean that the key solution-thinking steps are given minimal attention. On the contrary, many a good pragmatic solution has come from a full appraisal of what is trying to be changed. Over-riding the due diligence here with 'expediency' leads only to trouble later. This is why many so-called HR restructuring projects hit the buffers or encounter big challenges. Retracing the footsteps of these types of projects inevitably uncovers the basic fact that only parts of the project methodology being used.

(through line management) and the HR function value the various HR inputs and their degree of integration will, to a large extent, determine the effectiveness (outcomes) of people management practice.

HR also has a dual role in the way in which the function itself operates from both efficiency and effectiveness perspectives. Note that people management throughput is a combination of HR and line management. There is a common misconception in management that HR is held accountable for outcomes beyond its control. However, the HR function does have a bearing on the people management outcomes.

People management throughputs can be combination of HR activities (as defined), or can be a singular activity. These are driven by organisation requirements and will be articulated through the HR strategy (if it is aligned and up to date).

A good HR function will make sure that the organisation, and its line management, is aware of HR delivery outcomes, managing expectation accordingly, through its various people value propositions and positioning.

A poor HR function will not and will suffer accordingly, i.e. will find it hard to manage stakeholder expectations and/or highlight organisation failing with any degree of authority;

Transforming HR is no blue-sky exercise. It is an attempt to transform across a number of dimensions which invokes complexity and ultimately, pragmatism.

Even if an HR transformation is to be limited in scope, say to one or two dimensions, this does not mean that the methodology should be scaled down accordingly. A full appraisal will at least provide you with any limiting effects of the proposed change. Forewarned is to be forearmed.

The problem in discussing HR transformation is the problem that too many still see it as a bit of 'eHR process revolving around self-service'. This unfortunately is such a small part of HR transformation that using the word in this context is quite misplaced.

HR function – remember why it's there

HR has a mandate, in conjunction with the line management (as agents) to ensure good people management practice. This incorporates many things relating to performance and capability of all employees. To support this HR has to ensure the workability of various systems and policies, referred to as 'inputs'.
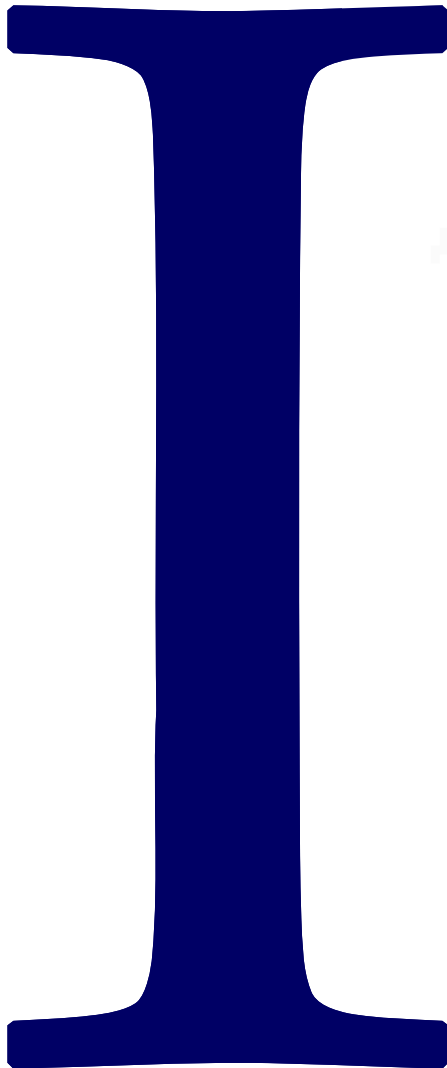
The degree to which both the organisation

its value contribution will normally be seen through cost-cutting exercises rather than through any other means.

This is an important point and why much attention needs to be paid to the way in which HR professionals and line management view the contribution of people management practice. Ultimately HR transformation is about getting the balance right. It is about getting an identifiable return on organisational spend. No function is an island.

There is no doubt that a well implemented HR transformation will result in improvement all around. A poorly executed transformation or a half-hearted attempt at transformation will quite possibly do the reverse.

HR professionals need to appreciate the full picture with which they deal. For if they don't it is unlikely that line management will see it either and opportunities to leverage HR's position will be missed.