



# Strategic HR white paper

2 February 2024

Transforming Engagements Ltd.

CEOs and CFOs are typically described as the most important people in any organisation.<sup>1</sup> The CEO is responsible for the organisation's strategy, while the CFO protects its capital. As organisations depend more on the skills of their people, CHROs are also being put forward as critical company leaders.<sup>2</sup> Companies spend a third of their revenue on salaries and organisational costs – their biggest investment.<sup>3</sup> The CHRO's job is to make sure that this investment performs well.

The strategic value of HR is not well appreciated in the business community. This is probably due to HR's long-standing responsibility for payroll and employee paperwork. As we will explore below, this perspective is very outdated. The administrative elements of the HR function should be automated wherever possible so HR professionals can focus attention on higher value talent and culture work.

This white paper shares evidence on the value of people-oriented strategies before considering what this means for the HR function, particularly in how it prioritises its work. It then discusses how HR departments can transform themselves and what initiatives they should put forward as priority investments to drive further business performance.

## 1. Investments in People and Culture deliver strong business results

In a recent study of 1,800 large organisations, the McKinsey Global Institute found that companies that emphasize performance and people deliver consistently higher economic profit than those that only focus on one or neither of these factors; they also experience 5% less attrition and 7% more employee career advancement than companies that only emphasize performance.<sup>3</sup>

Only 9% of the companies studied focus on both people and performance. These companies had a distinctive organisational profile that emphasizes challenging leadership, strong internal alignment, collaboration, transparent performance expectations and effective on-the-job training. Companies that focus only on performance (21%) also have challenging leadership but are more attuned to the needs of customers than to those of employees. Companies focused only on people (15%) do not have challenging and collaborative cultures, which negatively affects their performance.

The combination of performance and people is also highlighted in the Organizational Culture Inventory (OCI), a culture measurement instrument developed by Human Synergistics International (HSI).<sup>4</sup> The OCI helps companies determine whether their cultural norms are constructive or defensive. HSI identifies four constructive norms: achievement, affiliative, encouraging and self-actualising. Defensive norms can be aggressive (e.g. competitive, perfectionistic) or passive (avoidant, dependent).

Many studies show that constructive workplaces perform better than defensive ones. One of the most compelling measured the culture of 23 menswear retail outlets. It divided outlets into ones achieving sales growth and ones with no growth. Growing stores achieved higher scores on all constructive norms and lower scores on nearly all defensive norms than stores with no growth. In another study of 90 newspapers, constructive cultures were associated with higher profit, higher quality and lower attrition.<sup>4</sup>

The evidence presented here makes a strong case for the positive returns that companies can make from investing in people. This white paper now turns to the role that HR departments play in implementing and realizing the benefits of these investments.

## 2. Strategic HR requires new thinking on HR roles and activities

The most basic purpose of HR is to manage employment e.g. recruiting, training and payroll. In small organisations, this can be done within business administration or a small HR team. As organisations get bigger, HR services are often provided through:

1. **Business partners** that act as an HR service provider to business unit leaders & their teams
2. **Centres of excellence** that provide centralized L&D, recruitment or analytical services
3. **Service centres** that handle back-office functions like payroll & benefits.

These three structures are called the “Ulrich model” after Dave Ulrich, a professor and consultant credited with their creation in the 1990s.<sup>5</sup> Recent surveys show that there is increasing frustration with the Ulrich model, which can be reactive, get bogged down in low-value work and be unresponsive to the rapidly changing needs of businesses and their employees.<sup>6</sup> Thankfully, advances in process automation, data analytics and leadership science are enabling a radical rethink on how HR services can be delivered in future. Legacy, current and future HR services can be summarized as follows:

Legacy	Current	Future
<ul style="list-style-type: none"> <li>Recruiting</li> <li>Training</li> <li>Payroll</li> <li>Benefits</li> <li>Leave</li> </ul>	<u>HR Business Partners (HRBPs)</u> <ul style="list-style-type: none"> <li>Talent acquisition/retention</li> <li>Performance appraisal (annual)</li> <li>Development planning</li> <li>Succession planning</li> </ul>	<u>Talent-focused HRBPs</u> <ul style="list-style-type: none"> <li>Data-analytics to drive talent decisions</li> <li>Get top talent into highest value roles</li> <li>Role-model/drive culture change</li> <li>Build engagement &amp; initiative</li> </ul>
	<u>Centres of Excellence</u> <ul style="list-style-type: none"> <li>Recruitment</li> <li>Learning &amp; Development (L&amp;D)</li> <li>HR data analytics &amp; insights</li> </ul>	<u>Strategic Initiatives</u> <ul style="list-style-type: none"> <li>Culture change</li> <li>Employee experience</li> <li>Leader acceleration</li> </ul>
	<u>Shared services</u> <ul style="list-style-type: none"> <li>Payroll, Benefits, Leave</li> </ul>	<u>Automated / delegated</u> <ul style="list-style-type: none"> <li>P&amp;B, Leave, Recruiting, Training</li> <li>Performance appraisal (quarterly!)</li> <li>Succession planning</li> </ul>

The Future service model requires significant resources, but there is good evidence that people-focused investments deliver strong business returns as discussed earlier. To free up resources for higher value work, HR departments must automate routine functions, and train line managers to embrace self-service. These resources can then be deployed in strengthening HR Business Partners’ talent leverage, and in creating strategic initiatives to improve culture and employee experience.

It is hard to overestimate top talent's importance in driving business performance. Highest performers in any role are 800% more productive than average performers and just 5% of employees create 95% of a company's value.<sup>6</sup> Despite these striking statistics, companies still struggle to put the highest performers in jobs with highest potential for value creation. McKinsey reckons that up to 30% of critical roles aren't given to the right people.<sup>6</sup> In this context, the value that HRBPs can add to the business is profound, but it requires a data-driven and proactive approach that is very different to the low-value fire-fighting that occupies much of HRBP's time currently.

In the future, HR leaders will need to build much a deeper understanding of the business strategy, and to challenge business leaders to allocate talent to the roles that are most critical to making the strategy successful. In other words, the CHRO must challenge the CEO on whether the right people are leading business units. Likewise, HRBPs must become far more proactive, and evidence-driven, in pushing business leaders to move the highest performers to jobs that drive the biggest returns.

In addition to talent focused HRBPs, the Future HR Model should deliver initiatives that drive culture change, improve the employee experience and build a bench of future leaders:

- **Culture change** programs require a lot of work over many years, but can transform employee retention, engagement and collaboration. They requires clear communication of the culture the company is trying to build, followed by regular 360° feedback surveys to ensure that desired behavioural change is happening.
- **Employee experience (EX)** programs can play a valuable role in creating positive engagement with employees, particularly during the "moments that matter".<sup>5</sup> A critical moment that many EX programs focus on is employee onboarding. By taking an employee-centred perspective on all administrative, relational and training aspects of onboarding, companies can ensure new employees feel welcome & start adding value quickly.
- **Leadership acceleration** programs give talented mid-career professionals the opportunity to work in many parts of the business in a short period of time, preparing them for future leadership roles. These programs can be expensive and create high expectations in participants and potential resentment in employees that are not selected. Careful design can address these problems and ensure that the company has a deep, cross-functionally experienced bench from which to select future senior executives.

#### **4. Shifting from transactional to Strategic HR requires belief and investment**

Realising the vision and potential of the Future HR model requires senior leaders to make many simultaneous investments and organisational changes. The buy-in of the CEO and senior leader team are key success factors this transition as the change requires immediate sacrifice and uncertain future benefits. The first step in taking the transition forward is to develop a shared understanding on the important of talent and culture to the company's future. Once this is agreed, the company can set out a two-to-three-year plan, outlining the investments in systems, people and processes needed to put a new organisation in place. The table overleaf outlines some of the investments that the organisation could consider (and prioritize!) in putting together its plan.

<b>1. Reimagined HRBPs</b>  Change the HRBP role so that it holds greater responsibility for putting top talent in high value roles.	<b>2. Manager Self Service</b>  Train people managers to do basic HR transactions themselves, freeing up HR resources for more strategic work.	<b>3. Leader acceleration</b>  Introduce a two-year program that gives top mid-career talent exposure to multiple functions and leadership training.
<b>4. Perf management</b>  Automate performance management process, tied to consistent metrics and implement quarterly.	<b>5. Employee experience</b>  Create fast, high quality onboarding experience for new recruits.	<b>6. Culture change</b>  Implement a 360° feedback-driven program to build a constructive culture over two years.
<b>7. New HR Vision</b>  Build alignment on a new vision that puts HR at the centre of value creation for the business.	<b>8. HR Systems</b>  Invest in HR systems that can automate routine HR transactions and deliver real time insights & analytics.	

## References & further reading

1. Zeng, H., Zheng, L., Li, X., Zhang, Y. & Chen, L. Are optimistic CEOs and pessimistic CFOs the best partners? Evidence from corporate cash holdings. *Humanit Soc Sci Commun* **10**, (2023).
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5. A new approach to human resources | McKinsey.
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