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THE CALL FOR A MORE STRATEGIC HR: **HOW ITS LEADERS ARE STEPPING UP TO THE PLATE**

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Not Blow Up—But Grow Up: How HR Is Evolving and Maturing Throughout the Best Organizations

When people complain about their human resource department, they sometimes mutter that it's "time to blow up HR." At EY, we believe that effective HR is crucial to effective organizations—but it needs to evolve and mature. That's why we say instead that it is time to "grow up HR" so that it evolves to meet the real needs of the business.

In most best-of-breed organizations today, HR is taking on an even greater role. Indeed, HR is becoming a prerequisite competency for leadership, functional and operational decision making, and strategic planning. We need to accelerate the growth of this competency beyond the HR function to continue to drive its value. This was highlighted in our recent report *Partnering for Performance: The CFO and HR*, which evidenced that bridging the gap between the HR and finance functions (or enhancing their understanding of each other and increasing their level of collaboration) leads to better business performance and stronger improvement across a range of human capital metrics, including employee engagement and productivity.

One aspect of "growing up" is learning how to talk. Finance is the language of most organizations and boardrooms. HR leaders need to master this language and be able to translate what they do to show how HR impacts organizational results. Technology and analytics are needed to translate data, because deciding on human capital value is no different from deciding on capital investments in the business with an expected return on investment. HR is not always about cost but about actual people and the operational, strategic, financial, and nonfinancial risks inherent in having the wrong talent. Once HR masters the language of the organization, it will be able to measure the impact it has and prove its contribution was worth the investment. High-performing organizations speak in terms of metrics to measure return on invested talent, similar to the measure of return on invested capital, and utilize predictive analytics to model outcomes and behaviors for talent. This is a radical departure from the traditional view of talent as a cost as opposed to an earnings generator.

Growing up is also about learning how to "play" with a purpose. "Business leaders want to up their talent game and spend more time interacting with employees, rather than just managing them." HR can play a vital role by helping the overall organization's leaders understand how to interact with a future workforce that has more generations in the workplace than any other previous workforce, a more diversified and inclusive workforce, a more global and flexible workforce, etc. This level and type of play will be different within the country, within the business units, depending upon the strategy of the organization, within the functional areas, etc. It will demand that all leaders have the interpersonal and talent management skills (coaching, developing, motivating, etc.) to get the most out of the future workforce.

So it is not about blowing up HR but about growing up HR throughout every part of the organization. We believe tomorrow's HR will continue to be embedded in key functions and business units as HR business partners, but more important, the competency of HR will reside in all good leaders. HR as a function will still outsource, share services, and centralize the tactical components of HR, but the greatest value in the future of HR will be as an accelerated talent development center, ensuring that all leaders in the organization are effective people leaders who can understand, interact with, and enhance their organization's talent more effectively in the future.

THE CALL FOR A MORE STRATEGIC HR: HOW ITS LEADERS ARE STEPPING UP TO THE PLATE

AS TALENT BECOMES a primary source of competitive advantage in our rapid-cycle global economy, organizations are redefining the role that the chief human resource officer plays in leading the people dimension of business strategy.

Beyond flawless delivery of the transactional services such as payroll and benefits, CHROs are being asked to work in new ways to identify strategic workforce challenges and to create talent supply chains that can support innovation and growth. These leaders must frame and deliver strategic policies and processes while finding metrics and analytics that supply the boardroom with insights needed to gauge the effectiveness of the company's talent investment and management.

And while working at a new level of collaboration across the organization, CHROs also are focused on developing the talent management skills of the business leaders and boosting their ability to organize, develop, and deliver solutions for the global workforce.

These shifting demands are changing HR—a change that John Boudreau, management professor at the University of Southern California, compares to the evolution of the role of CFO. Decades ago, CFOs were pressured to become more strategic as investment demands for new technologies and other global opportunities rose. In response, CFOs expanded their purview from keeping the books to vetting the type and quality of enterprise investments and monitoring overall corporate risk management. A similar shift is occurring for CIOs as technology becomes a driver of competitive success and technology executives are charged with bolstering corporate innovation.

Now, as HR is asked to become more strategic and build new networked skills, the contours of the new breed of CHRO are already evident. This report, sponsored by EY, delves into its tools, its best practices, and the changing nature of HR leadership and collaboration.

BEYOND A “BUSINESS PARTNER”

Traditionally, the key strategic relationship in organizations has been that of the CEO and CFO. However, as talent has become a critical corporate challenge, Anthony Hesketh, a senior lecturer in management at Lancaster University, says CHROs are starting to enter what he calls a “golden triangle”—the inclusion of the CHRO in an informal triumvirate with the CEO and CFO that fuses strategic, financial, and people issues into business strategy.

In a recent study, Hesketh surveyed senior HR and other executives to find out what drives HR's credibility in the triangle and what competencies leaders must demonstrate.¹ He found that flawless delivery of HR services is a basic expectation, and financial acumen is critical. "HR leaders in the golden triangle understand the financial implications of their ideas for the entire enterprise, not just their own function," he says. "The language of the boardroom is finance, and HR leaders have to be able to speak it."

Beyond table stakes competencies, Hesketh also found that advanced analytics skills, strategy-specific knowledge, and excellent communication ability were among the top competencies that CEOs and CFOs felt were paramount for the CHRO.

But the most important competency for HR success in the golden triangle was the ability to be well networked with other executives in the company. The CHROs who truly exert strategic influence do so outside of formal settings in conjunction with the organization's movers and shakers. "This was a surprise at first," Hesketh says. "However, it makes sense that the real differentiator is the ability to gain trust throughout the executive ranks by understanding the business and adding value."

Martin Evans, executive vice president and CHRO at Exeter Finance Corp. and former Kimberly-Clark HR leader, agrees with the assessment. Phrases such as "business partner" can be clichés when used to describe HR and too often gloss over whether HR leaders are effectively collaborating with their peers. "In reality, you can see it, feel it, and know if it is working," he says. "The measure is whether business leaders feel they are talking with another executive who understands the business and can connect it to the work of HR."

When HR is part of the golden triangle, respondents in Hesketh's survey described HR leaders as playing a substantive role in strategy development, nearly tied with marketing and more so than IT directors. [figure 1](#) As one CEO put it, "There is nobody that I'm more intimate with than my HR director. Typically, the person the general manager is closest to is the finance director. Part of my philosophy is that the two people I'm closest to are my finance and HR heads."²

COMPETENCY GAPS STANDING IN THE WAY

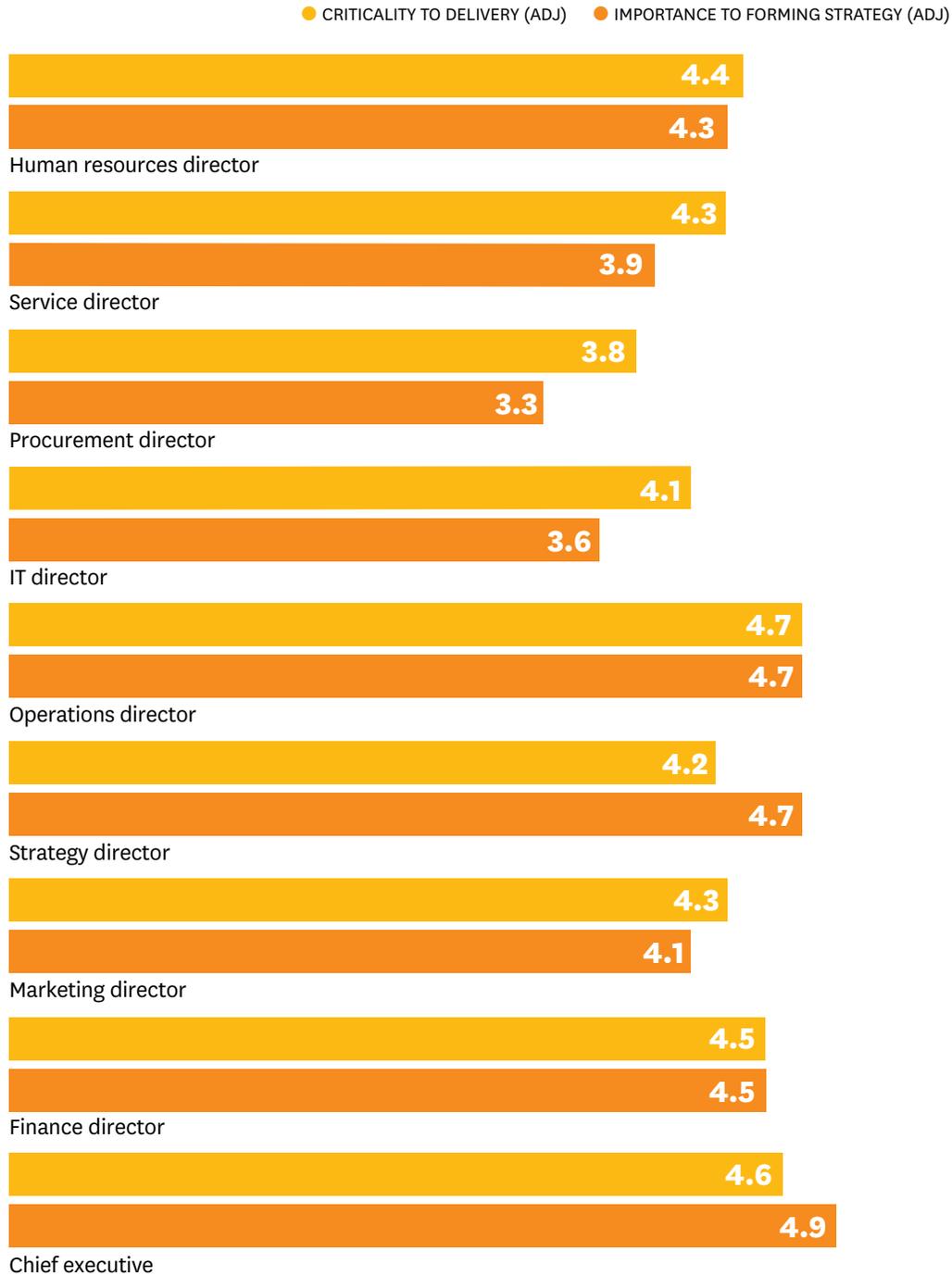
So what stands in the way of more CHROs entering the strategic leadership network? Evan Sinar, chief research scientist at Development Dimensions International (DDI), has been studying where HR leaders excel in comparison with their peers and where they fall behind. The research, based on 30,000 structured behavioral assessments across all functions and for all operational and strategic layers of management, is designed to capture a broad view of how HR professionals compare with their peers against a common set of competencies. "There is a great deal of anecdotal information about the performance of HR leaders," Sinar says. "We have put some rigor into assessing what competency gaps HR leaders will have to fill before they can orchestrate a broader perspective on talent management."

To date, DDI's research has found four major areas where HR leaders typically score below their peers in other functions. Business savvy topped the list; the performance reviews of CHROs often cite a lack of detailed knowledge about how the businesses run. Financial acumen was next, underscoring that knowledge of finance is central to HR's taking on greater strategic responsibility. HR leaders also lagged in global acumen, a finding of particular relevance to multinational organizations developing global talent programs and seeking to have HR lead the way.

FIGURE 1

PERCEPTIONS OF HR'S STRATEGIC ROLE COMPARED TO OTHER FUNCTIONS

How critical are the following individuals to the delivery of the company's performance against the strategic objectives it has set itself? To the strategy formulation process at your company?



SOURCE ANTHONY HESKETH AND CHRISTINE CLEEMAN, "TWO'S COMPANY, THREE'S A CROWD? THE EXECUTIVE SOCIAL LIFE OF THE HR DIRECTOR," IN PROGRESS. N=263

HR leaders should use tools that speak the language of business so they can easily relate to the issues.

Customer focus was the fourth area where performance reviews find that HR professionals trail other business leaders. “You would think that HR’s role in recruitment would drive an understanding of customers and markets,” comments Sinar. “However, the HR function seems to be insular and not as aware of customer and market trends as are other executives.”

HR THAT SPEAKS THE LANGUAGE OF BUSINESS

When the respect and collaboration between HR leaders and other executives is deep, HR can apply specific organizational knowledge and experience to identify friction points that other executives may not be as keenly aware of. When Martin Evans was a senior HR leader responsible for Latin America at Kimberly-Clark, for example, he observed that country and regional managers ran their own P&L, while product and brand management was centralized regionally. The result was a disconnect between regional marketing and product needs and local P&L autonomy.

To eliminate the disconnect, Evans proposed an entirely new set of matrix relationships that prompted marketing and country managers to work much more closely together. “We helped fundamentally change the balance of power across the region,” he recalls. “Everyone had to play nicely in everyone else’s sandbox.”

Dr. NS Rajan, group CHRO and member of the group executive council at Tata Sons, played a similar role when he supported Tata Group chairman Cyrus Pallonji Mistry’s efforts to revise the structure of the central holding company. Mistry wanted the structure to focus on long-term value and needed to decide how business sectors and strategic functions should be represented in the holding company to achieve that aim. “While organizations are increasingly outsourcing transactional HR activities, certain core aspects need to be delivered by the HR team in conjunction with business,” comments Rajan. “One area of critical significance for HR is organization design, which is a bridge between strategy and execution and requires HR to work closely with the CEO and leadership.”

STRATEGIC FRAMEWORKS THAT HARNESS HR EXPERTISE

John Boudreau, in his book *Retooling HR*, advocates that HR leaders use tools that speak the language of business so they can easily relate to the issues. Increasing the efficiency of talent recruitment and retention by reframing it in terms of logistics and supply chain management is a prime example.

In many organizations, talent acquisition and development efforts can easily work at cross purposes. Business units may be reluctant to encourage their employees to advance their careers by moving to other units even though such advancement opportunities increase the likelihood of people staying. By the same token, hiring managers may feel that there are too few good applicants for a position and will force HR to boost its recruiting activities and costs.

Supply chain logistics could provide a new lens on such challenges and reveal opportunities to manage talent sources and make logical trade-offs. Supply chains look at the entire process of creating something, from the raw material to a finished good. Supply chain managers ensure that the process meets quality and cost standards and delivers on time. When things aren't working, they look at every point in the system that can be improved. Boudreau suggests that companies look at talent as a similar set of production steps.

Thus, when the talent supply is viewed in its entire breadth, new opportunities and interventions become clearer. If the applicant pool is sufficiently large, for example, HR leaders can examine whether hiring managers have sufficient negotiating skills. If quality of applicants is an issue, the company can turn to different sources at the front end of the process. For example, GE often recruits from the military to leverage the government's investments in talent development. Finally, an enterprise view of the talent supply chain drives more sound promotion and transfer decisions by making them more objective through a transparent process that makes organizational needs clear and shows how all can benefit.

TALENT ON THE BALANCE SHEET

The Valuing Your Talent project—a consortium of HR organizations, accounting standards boards, and Lancaster University—has been conducting research into tools and metrics that allow companies to apply the same discipline to talent investments as they do to other forms of capital. As executives, board members, and analysts clamor for insights into the effectiveness of a company's talent management, Hesketh, who is a principal researcher with the project, is trying to shift talent from a cost metric to a calculation of a company's return on its talent investment.

The challenge is that most companies see talent as cost and develop financial metrics to manage it accordingly. For example, they will report revenue and profit per employee and often focus on how to cut those costs below industry benchmarks. Talent, however, is a company resource like R&D, production capabilities, and strategic partnerships. Therefore, the question becomes how to make the resource more productive and to understand the return on the investments made with that aim. Hesketh observes that more forward-looking companies are using metrics such as return on invested talent. The metric is similar to return on invested capital—the ratio of how much the company earns and how much it has to spend on talent to earn it.

Ultimately, talent management metrics need to address boardroom questions. Talent metrics need to quantify whether the investments are in line with strategies and whether there is a point at which those investments deliver diminishing returns. “HR is where marketing was in the 1980s,” Hesketh comments. “Marketing was struggling to put numbers to the brand's value. Today, HR is trying to do the same with talent.”

TURNING TO THE NUMBERS

Sophisticated analytics power the tools that speak the language of business. However, not all talent data is equal. Sinar's current research is looking at what types of data boost executive confidence in HR leaders. The most important is information that points to future leadership needs so organizations can establish recruiting, development, and succession plans. Data on leadership quality is equally important. Senior executives value data on leaders who are improving and want to see clear consequences for those who aren't.

Though currently deficient in its analytics savvy compared with other functions, HR is closing the gap and may catch up faster than many think. Sinar points out that HR has a great deal to contribute to talent analytics, particularly as companies struggle with the analysis paralysis that comes with big data projects. HR is connected to a wealth of data, including payroll, social media, employee engagement surveys, leadership assessments and developments, performance reviews, recruiting, and exit interviews, that is quickly putting HR in the forefront of business and talent analytics. An increasingly larger number of companies are putting analytics professionals in HR, sometimes from other units, to accelerate HR and talent analytics capability. As Sinar puts it, “HR may be late to the table, but it has a lot to offer.”

BUSINESS LEADERS UPPING THEIR TALENT GAME

Business leaders are facing growing demands to manage their workforce more effectively and efficiently, but many admit they don’t have these skills. DDI and The Conference Board’s *Global Leadership Forecast 2014/2015* found that only 27 percent of business leaders describe themselves as very prepared to tackle human capital challenges.³

But these leaders also report they want to improve those talent management skills and spend more time interacting with employees rather than just managing them. According to the same study, only 25 percent of managers spend more time coaching, communicating, and fostering creativity than they do managing staff (e.g., delegating and management projects).⁴ Nearly half—41 percent—spend more time managing but would like to tip the scale the other way. Their efforts are often stymied by the organization’s cultural values. Nearly half of the respondents said their organizations value managing over interacting. [figure 2](#)

Upping leaders’ talent skills needs to be an enterprise effort led by top executives, says Brian Jemelian, senior vice president of finance and administration at Yamaha Corporation of America. The company’s president, Hitoshi Fukutome, has made improving talent management a corporate mandate. To realize the mandate, Yamaha has put renewed vigor into training and development, and Tracy Bargielski, its vice president and general manager of human resources, has created a new center of excellence within HR that focuses on organizational effectiveness.

“Before the president focused so clearly on talent, top executive attendance at leadership training programs was rarely 100 percent,” says Jemelian. “Now senior managers attend core courses with rare exception, despite their busy and unpredictable schedules.” To cascade skills and create a common talent management language, Yamaha provides live and online courses for employees. Managers are expected to drive the ideas, values, and behaviors throughout the organization.

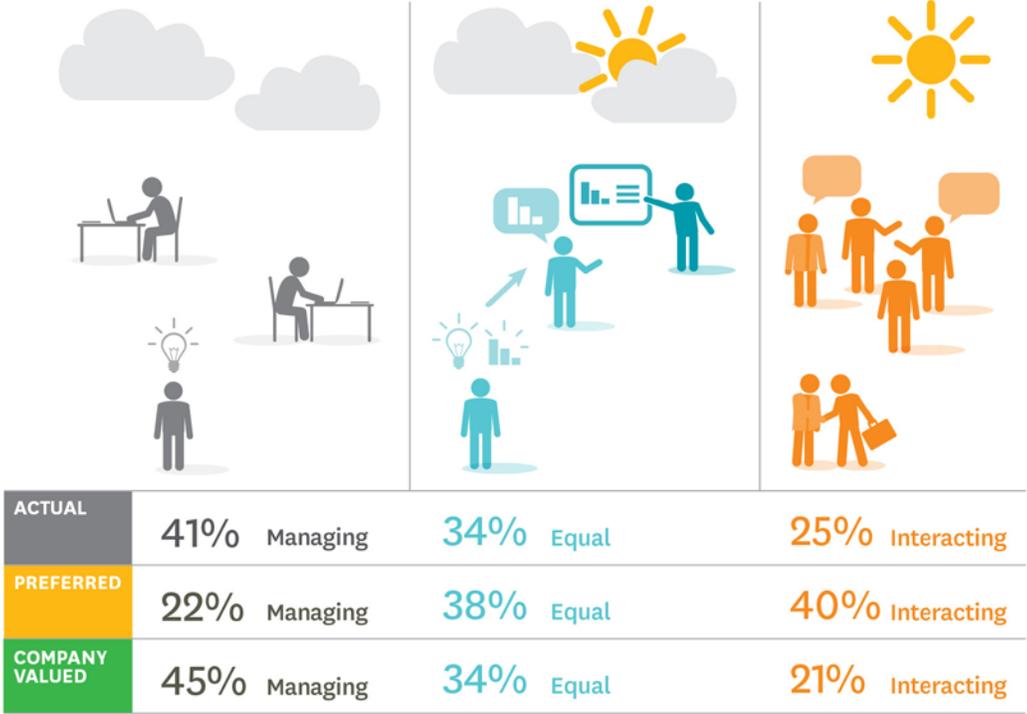
The organizational effectiveness group has added additional training and development programs and is driving improvements to HR systems, workflow, and structure. Formal coaching and mentoring programs allow managers to mentor other employees. To measure the impact of the organizational effectiveness group, service level agreements and metrics are tailored to each division and evaluated accordingly. The HR organization is also driving workforce and succession planning and linking those goals to business unit objectives.

Finally, performance management is also in the spotlight at Yamaha. The company is tracking the number and severity of employee relations issues that are elevated to HR, which allows the organization to monitor progress and focus on improvement plans.

New technologies will add speed and effectiveness to centers of excellence such as Yamaha's. Mobile and analytics will amplify HR expertise by providing just-in-time access to coaching and support. With growing sophistication in personalization technologies, HR will be able to provide basic advice in real time on everything from conducting a difficult conversation to improving negotiating skills. Business leaders will be able to access that advice when they need it at their desks or on mobile devices.

Businesses are also using analytics to identify employees at risk. Boudreau points out that companies as diverse as Google and Credit Suisse are identifying employees whose profile suggests they are ready for new opportunities. Eventually, HR can inform managers about at-risk employees, including specific recommendations for career development, compensation, and incentives.

FIGURE 2
PRACTICE MAKES PERFECT



Leaders who spend more time **interacting** are more effective at these skills:

- > Coaching and developing others
- > Communicating and interacting with others
- > Developing strong networks/partnerships
- > Fostering employee creativity and innovation
- > Identifying and developing future talent

SOURCE "READY-NOW LEADERS: MEETING TOMORROW'S BUSINESS CHALLENGES," DEVELOPMENT DIMENSIONS INTERNATIONAL AND THE CONFERENCE BOARD, 2014

Evans stresses the importance of the personal touch. He focuses on the hearts and minds of business leaders to spur their thinking about talent development and engagement. He points out that HR can show the way but can't single-handedly engage everyone. "We ask business unit heads to think about the development experiences they had that were the most profound and meaningful," he says. "We then help them formalize those experiences for their employees."

THE FUTURE OF HR

As the new breed of partnership emerges and evolves, the structure of HR is likely to change. Rebecca Ray, executive vice president at The Conference Board, believes that technology predicts what will remain primary organizational needs from HR. "The more a function is driven by technology, the more its status becomes diminished," she said. "Functions such as payroll and benefits are often outsourced, thus reducing the need for deep internal expertise in these areas."

As a result, transactional responsibilities, such as payroll and benefit administration, will likely remain enterprise functions supported by outsourcing. Talent management, on the other hand, is very specific to individual companies and industries, and businesses will need HR leaders to bring the talent perspective to bear on very distinct strategic needs. HR leaders will find themselves becoming deeply embedded in their businesses.

But HR and the businesses will still need talent management backup. The support is likely to take the form of centers of excellence such as the one Yamaha created. Businesses will always need deep expertise in how to develop leaders and change cultures and behavior. "Leadership and culture can't be outsourced," comments Ray. "These are essential to high performance and something business leaders can't learn in a few months or even years."

ENDNOTES

- 1 Anthony Hesketh and Christine Cleeman, "Two's Company, Three's a Crowd? The Executive Social Life of the HR Director," in progress.
- 2 Ibid.
- 3 "Ready-Now Leaders: Meeting Tomorrow's Business Challenges," Development Dimensions International and The Conference Board, 2014
- 4 Ibid.

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