



# Next generation HR

Connecting strategy,  
people and work

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The research, which was conducted in March-April 2012, is based on responses from more than 1400 organizations across 80 countries. Of the respondents, 65 per cent were HR managers or directors and 14 per cent were in senior management or board-level roles. Another 14 per cent had compensation roles and the remaining 7 per cent held other HR positions.

**For more information about the research,  
please email [rewardservices@haygroup.com](mailto:rewardservices@haygroup.com)**

# Next generation HR

These are testing times for organizations and those that lead them. Recession and economic turmoil in some parts of the world, and rapid growth in others, have changed the rules of business.

It's become increasingly clear that people issues – such as the war for talent, leadership development and workforce performance – are the difference between long-term success and failure. As a result HR functions are, quite rightly, being asked to step up to the challenge.

Human capital management has become central to the business, and that puts HR firmly in the spotlight. HR is ideally placed to make a significant contribution to business strategy. However, the performance of HR too often lags behind the expectations of the management team. The question is, why?

In order to gather a more detailed view of how HR has evolved over recent years, we questioned more than 1,400 organizations about their HR priorities and their people management processes. The results suggest that whilst there have been positive developments in the HR arena, still too many HR functions are clinging on to a traditional and process-oriented approach, and consequently the full potential of HR is not being realized.

“Human capital management  
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to the business”

For us, it's clear that it is time for action – a step change in the way we think about and approach HR. In the same way that technology has moved steadily towards integrated applications that make our lives and work so much easier and more efficient, HR needs to join forces with management and forge a seamless link with the wider business.

That doesn't mean throwing out existing expertise and structures to pursue another theoretical utopia – it means clearing away the procedural clutter and siloed mindsets to enable human resources expertise to be exploited to its full potential. Most organizations already have in place much of what is required to achieve this goal, but a holistic approach and greater collaboration is needed if HR is to truly take on the role of strategic business partner and add greater value in the boardroom.

## It's a tough world out there

The past five years have thrown a variety of challenges at even the most robust organizations, not least the question of how to deal with burgeoning growth in some regions and continuing recession in others.

The contrasting fortunes of economies around the world are apparent from our survey. Over half (57 per cent) of participants said that their business environment was more dynamic, and that they were seeing more growth than they were five years ago. Participants in Asia and Latin America were far more likely to take this view with 77 per cent in each region saying that they were seeing higher rates of growth.

By contrast, many organizations in Europe are struggling against the most difficult economic conditions for decades. Thirty five per cent of all participants said that their organization was operating in a more austere economic environment than five years ago, but this proportion rose to 51 per cent among European participants.



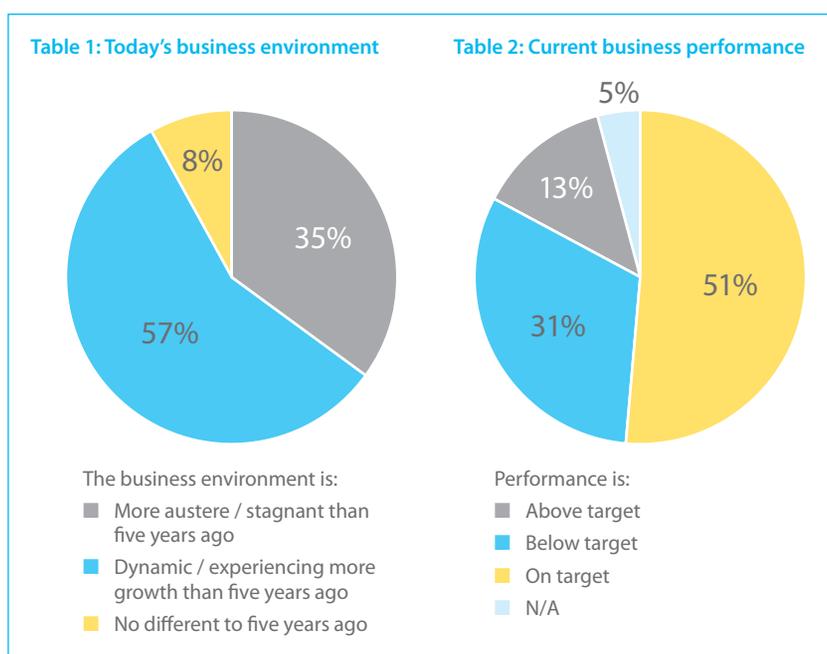
Whether in a growth market or not, all organizations have found the last few years testing. Half of participants said that business performance was on target for the year, but almost a third said they would be below target this year. Only 13 per cent of organizations were on track to exceed performance targets.

There is general agreement that organizations are now operating in a very different world. The list of business challenges is extensive:

- Organizations are looking for ways to exploit growth opportunities and to improve efficiencies;
- Customer expectations have increased and must be met;
- International borders are coming down and global competition has intensified;
- Technological innovation has become an essential competitive requirement.

Today's business environment is complex; it's unpredictable and it necessitates a new way of working.

Business leaders tell us that they are focused on growth, with less emphasis on cost reduction and more on increasing profits and maximizing productivity. Organizations are investing for growth, while closely scrutinizing any expenditure for its likely return. And this is reflected in a shift in priorities for HR – away from immediate cost-cutting and towards building for the future.



## Building for the future

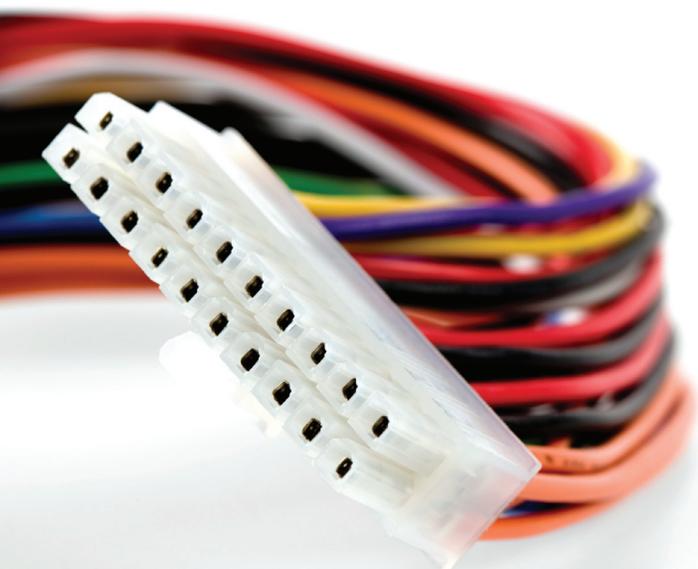
Table 3: Changing HR priorities

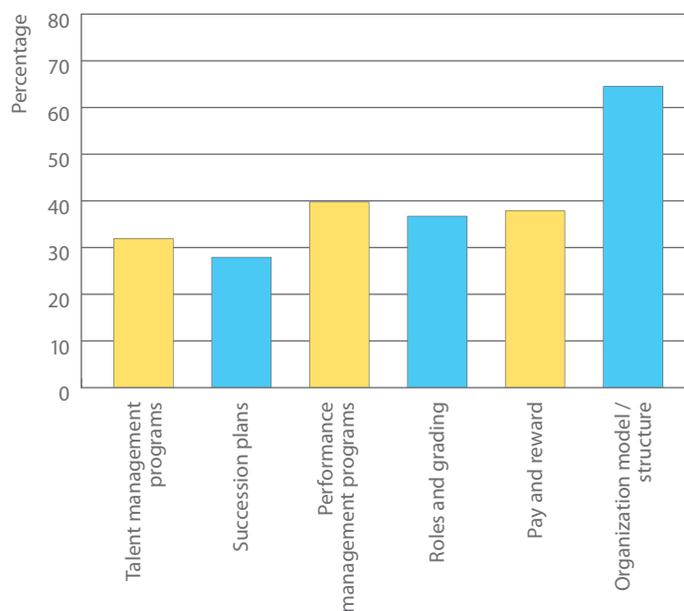
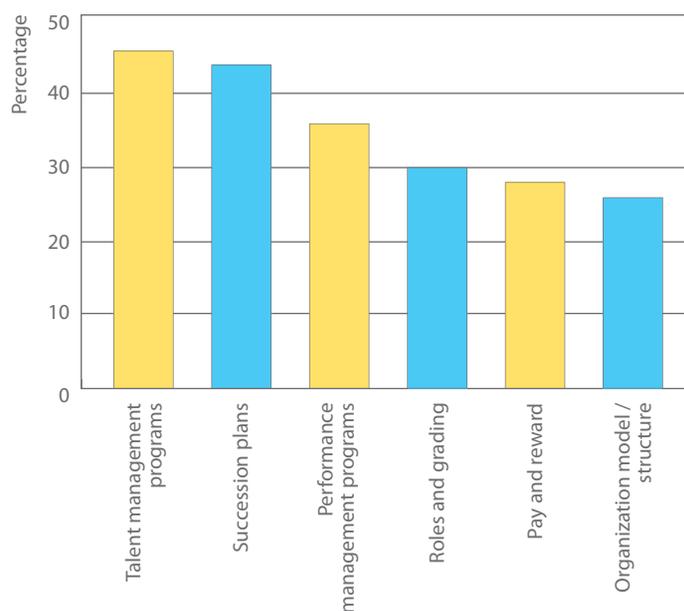
Last five years	Now	Next five years
1 Complying with HR legislation	Improving employee engagement	Developing future leaders
2 Reducing employee turnover	Enhancing individual and team performance	Attracting talent
3 Increasing productivity and 'doing more with less'	Increasing productivity and 'doing more with less'	Ensuring greater return on investment through people
4 Reducing people-related costs	Attracting talent	Efficient workforce planning
5 Creating more effective performance management programs	Developing future leaders	Enhancing performance / creating more effective performance management programs

It came as no great surprise when our survey revealed that improving effectiveness and reducing costs were key priorities for most organizations over the last five years. Table 4, meanwhile, shows that over 60 per cent adjusted their organizational model and structure in the past five years, undoubtedly in response to the challenging business environment; and in many cases the corresponding need for a flatter, leaner, and more fluid organization. Businesses have adopted new strategies and worked hard to find efficiencies in order to address the

immediate short-term challenges they faced. At the same time, HR has been battling with the knock-on consequences for roles, reward and engagement.

The need to readjust to the changed environment has now given way to a focus on increasing performance and productivity levels. Improving employee engagement, enhancing team and individual performance, and 'doing more with less' are all key priorities for 2012 according to our survey results.



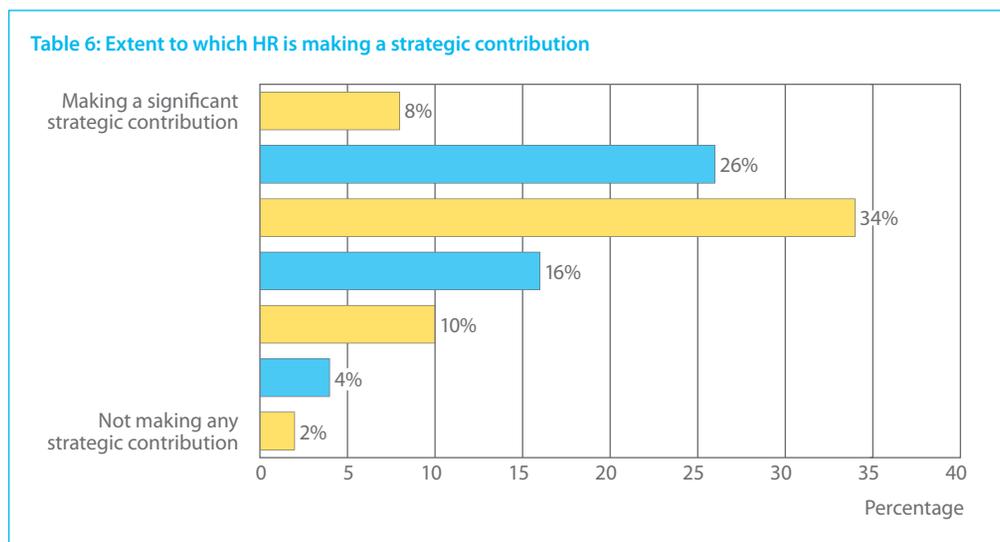
**Table 4: In the last five years there have been significant changes to:****Table 5: Over the next five years we plan to make significant changes to:**

Longer-term concerns, however, lie around developing the workforce for the years ahead – the development of future leaders; improving the return on investment through people; attracting talent; and more efficient workforce planning. When asked about the changes they expect to see over the coming five years, more than 45 per cent of respondents plan to make significant changes to their talent management programs, and 44 per cent said they are likely to amend their succession plans.

Organizations are now more aware that if their business is to perform at its best then it's critical to have the right people, in the right roles, doing the right work. This places HR very firmly in the spotlight.

## Is HR up to the job?

As organizations find themselves in a new and challenging business environment where talent management is so important to success, much more is being asked of HR. There is a growing expectation that HR should be a true business partner, as the Ulrich model advocates, and not just a back seat passenger. Yet, the indications are that HR is often failing to rise to the challenge.



We questioned participants about the contribution that they felt HR was making in their own organization, asking them to rate the strategic performance of their function on a scale of 1 to 7. Thirty four per cent believed that HR was making some significant strategic contribution to the business and 6 per cent said that the function was making very little or no strategic contribution. However, most (60 per cent) positioned themselves somewhere in the middle, confirming that there is still a lot of room for improvement.

So why is HR struggling to make the move to a front seat strategic business partner?

In our view, one of the main barriers is silos. In many organizations HR has become considerably more disciplined and professional, with centers of excellence, specialist expertise, more sophisticated people management programs and far more effective use of data. However, in the same way that we've seen the convergence of technology platforms bring enormous benefits, HR is only going to be able to contribute to the strategic agenda when a holistic and integrated approach to people management is employed.

### Bringing the discipline of risk to HR

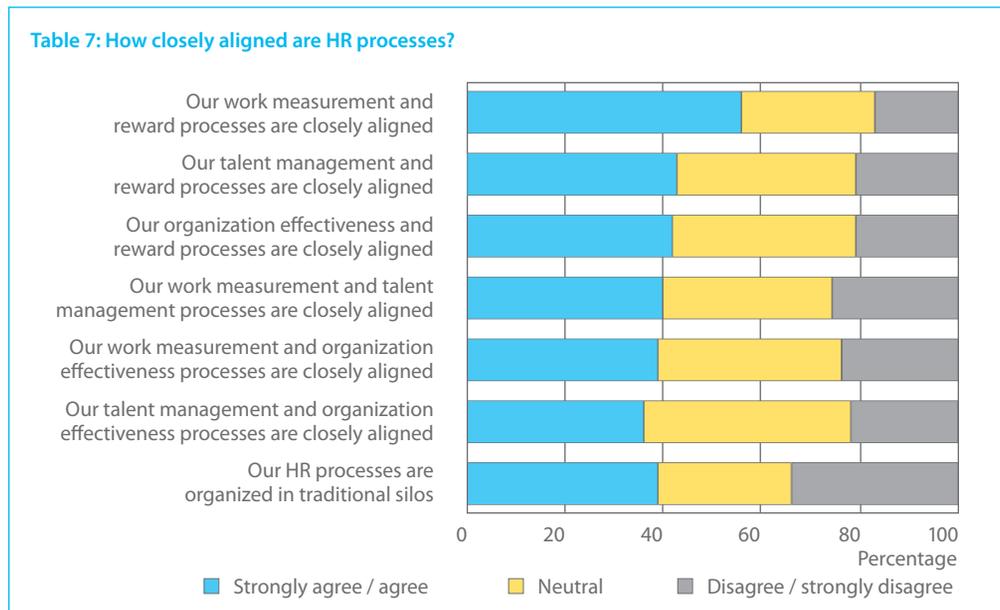
The concepts of risk and risk management have grown steadily beyond their traditional realms of finance and safety in recent years. A risk mindset is a useful way to bring a broader set of parameters into consideration – not just ‘how much will it cost us to do this’ but also ‘what is the potential cost if we don’t?’ However, managing people-related risk was at the bottom of the list of priorities – both now and into the future – for the survey participants.

This is one area where there needs to be a mindset change. Take the risk of mismatching roles and people: 52 per cent of those questioned in our survey were not confident that they had the right people in the right jobs. Often this results from a lack of investment in or focus on understanding roles, or an inability to easily match people to roles. Consequently, organizations can end up with critical roles being badly performed, or potential high performers stuck in roles for which they are not suited.

Understanding risk enables organizations to invest in improving the performance of critical functions, teams or even the whole workforce. It shifts the perception of the resource required to properly understand, analyze and measure work from that of a procedural cost to be reduced, to that of an investment that brings a performance return.

“The DNA of a strategic HR function is based on the interweaving threads of understanding people and understanding work”

## A failure to connect



HR has achieved much in recent years but in many organizations the function is still holding on to traditional processes and inefficient approaches.

More than a third of those questioned in our survey told us that their HR processes are organized into expertise-based silos. Around the same proportion agreed that those HR processes were strongly aligned with each other – but a significant number reported misalignment of key HR processes. Furthermore, when asked about HR priorities over the next five years the integration of HR processes ranked only at 9th.

These results are in line with our own experience and dialogue with HR directors and line management alike. HR often struggles to be accepted as strategically valuable by business leaders and line managers, who are frustrated by the multiplicity of HR models and systems, and

the impression that HR teams act independently of each other. What management wants from HR is delivery of results and not a preoccupation with internal systems.

As the pressure to add more strategic value intensifies, it is critical that HR abandons inefficient silos and finds better ways to contribute to organization success.

At its heart, effective HR management is about the optimum deployment of people to do the work that needs to be done in order for the organization to thrive. It's about making sure that the organization is fit to execute its business strategy, that the jobs that are needed to make the organization function are in place, that the right people are in these jobs, and that they are motivated to deliver the required performance. The DNA of a strategic HR function is based on the interweaving threads of understanding people and understanding work.

## The engine behind strategic HR

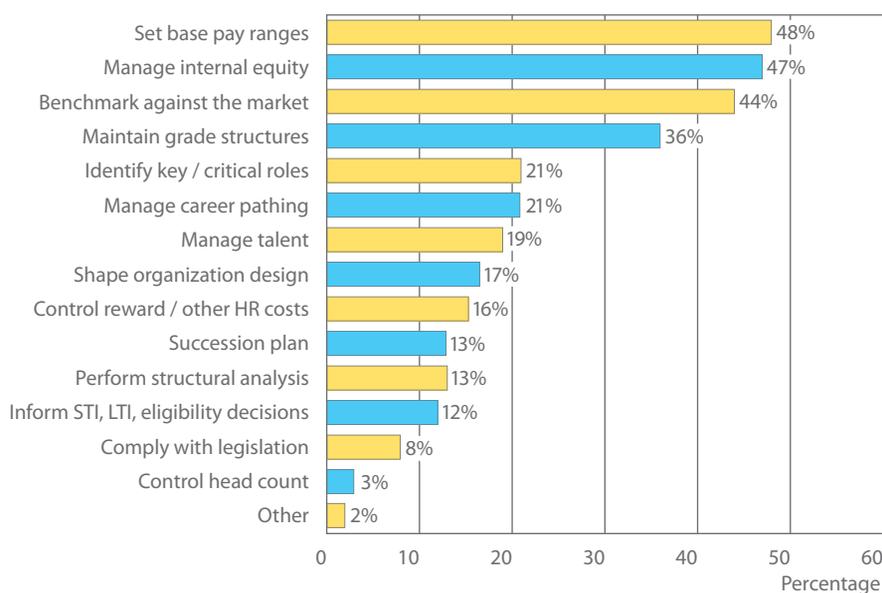
It is encouraging to see that three quarters of the survey respondents use some kind of formal work measurement system. Most organizations use the insights from that system as the basis for reward processes – base pay, internal equity, compensation benchmarking and grade structures. This was largely unsurprising given that when asked about the integration of HR processes the most closely aligned were cited to be work measurement and reward (Table 7).

An increasing number of organizations are also using work measurement to underpin career pathing and identify critical roles. Fewer though, are using it for purposes such as structural analysis and succession planning. This suggests that while some organizations are connecting work measurement with other people processes, many are still limiting its use within their own comfort zone of traditional applications – and assuming that its use is solely confined to pay and grading – which it is not.

Creating career paths, assessing succession candidates or determining who to include in a leadership development program all traditionally fall under the talent management umbrella; but such decisions require an understanding of the work the individuals are coming from, and going to. When asked if work measurement and talent processes were aligned, 60 per cent of respondents disagreed or were unsure that there was integration between these areas.

Based on our survey results, the relationship between work measurement and organization effectiveness also appears to be a tenuous one. However, in our experience, those organizations that use work measurement to underpin their organization design analysis and benchmarking, are able to derive valuable insights. Given that jobs are at the heart of the HR processes that drive compensation, talent management and organization effectiveness, it is critical to understand work (and analyze jobs) if people resources are to be put to best use to deliver on business objectives.

**Table 8: The primary use of the work measurement program is to:**



## Helping organizations work

Used to its full extent, work measurement can feed enormously powerful information into strategic decisions. But our survey results suggest that many businesses are either missing out on its value completely or are not seizing the opportunity to make the most of their investment.

Work measurement is valuable because it provides clarity over how, where and why work is done. It helps align jobs to organizational structure and match people to jobs, as well as valuing roles against internal and external benchmarks. Used to its full potential, it helps to improve talent management, and the overall efficiency and effectiveness of the organization.

Work measurement is at its strongest when the outputs are aligned with, and made use of by, other HR processes. If understanding work is half of the strategic DNA of HR (the other half is people and competencies) then the absence of work measurement will mean that HR applications (reward, talent, organization design, engagement etc) will be weaker as a result.

### A missed opportunity

Connecting work measurement with other HR processes enables an organization to analyze work once and generate multiple outputs, making life easier for both HR and line managers. A classic illustration of the disconnected nature of HR is when a line manager is approached one week by a reward advisor who needs to understand a job for pay purposes; followed by the learning and development advisor two weeks later who needs to identify the training needs associated with the job; and then later by the recruitment specialist who needs to understand the job in order to go out and find candidates. Using work measurement as the foundation process means that HR can streamline and coordinate efforts, as well as benefit from greater insights across the HR functions.



## Everyone's involved

Effective HR management requires a holistic and integrated approach. All disciplines in HR need to bring a collaborative mindset that is based on common frameworks and processes. The clarity and integration that this brings then enables HR to connect more strongly with the business as a whole. We're not arguing for a return to pure generalist roles but we do believe as organizations evolve there is a pressing need for greater collaboration of disciplines – compensation and benefits, talent management, organization development etc – and a convergence of thinking on key HR issues combined with a common framework for understanding work and people.

As well as evidence of disconnected HR processes, our survey also demonstrated some indication of a failure to connect with line management around the management of work. The results in Table 9 show that the majority of organizations do not involve line management (much less employees) in work measurement, leaving HR with the responsibility – and the blame – for what should be a critical element in managing the performance of an organization.



“Effective HR management requires a holistic and integrated approach”

It's clear that talent management and other HR-related issues have become fundamental to business performance. This means that the business as a whole should have an interest in getting them right. HR has the expertise that organizations need to meet the challenges, but it cannot hold the sole responsibility for driving through people management decisions and analysis. These are decisions that affect the whole organization, so everyone must be involved. Senior leadership, HR and line managers must all work together to make the connections between organizational structure, business strategy and talent management.

HR should use their expert understanding of work to leverage management attention and help create an organizational culture where human capital decisions and business strategy are unquestionably interconnected. It requires a change in mindset and processes (within HR and the wider organization) so that all of HR's areas of responsibility and the platforms for delivering them connect. It also means that HR must look beyond the immediate outputs and offer the longer-term strategic counsel – based on credible analysis – that the board is looking for.

### A deeper understanding

An important development in HR in recent years has been the more intelligent use of data analytics to inform decisions. HR has moved on from backward-looking and compliance-led information and is now using sophisticated analysis to support strategic decisions within the organization.

As technology has developed, the data available to HR has become much more valuable. It is now possible, for example, to analyze the capabilities and behaviors required across hundreds or even thousands of roles, and to measure those requirements against the capabilities and behaviors of your existing workforce, or of the talent available in the market. This kind of analysis can form the basis of sophisticated workforce planning that has the potential to not just influence, but to drive, corporate strategy.

## Moving forward

There has been much debate over the Ulrich model in recent years and its logic – to fill the void between centers of excellence and the business clients; helping to integrate HR into business processes and align people management with business strategy – is sound. However, in practice, the burden has often fallen to HR to articulate its value and to build bridges between the function and senior management – and in many cases, HR has not yet found its lever to get on to the strategic agenda.

Whilst there are signs that in recent years the HR function has attempted to prove itself as a valuable business partner, it's clear that there is still much work to be done. Today – and going forwards – organizations need an agile, responsive, cohesive HR function that is properly integrated, not only as a discipline itself but within the skeleton of the organization as a whole.

HR has a valuable role to play in driving results and adding value to the business, but HR must find better ways to contribute to organizational strategy. The traditional approach to HR will have to change: a technical, compliance-focused mindset will not be enough and, in many cases, is holding organizations back from achieving their full potential.

It's been said often enough, but HR will struggle to make a strategic impact if it does not adopt a more holistic approach to people management. In the 'new reality', HR must leverage their processes and systems to full potential if they are to resolve business challenges. It's critical that all HR disciplines are integrated around common frameworks – and that there is a convergence of thinking on people management issues.

In essence, the successful running of any organization relies on having the right people, in the right roles, doing the right work to deliver on the business strategy – which is why understanding work and understanding people must be at the core of next generation strategic HR.

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