CIPD

Championing better work and working lives

A collection of thought pieces

February 2015

Changing HR operating models

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 135,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Changing HR operating models

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Foreword

As the world of work grows ever more complex, diverse and ambiguous, traditional models of working are starting to give way to more flexible forms of organisation and employment. Technology, globalisation, changing workforce demographics and skills shortages add to the challenges facing organisations. In this context the role of HR must evolve and grow to play a greater part in developing organisations for the future. As widely accepted norms for managing the employment relationship change, so the pressure will grow for HR professionals to develop a deeper understanding of the global context, business needs and strategy, and to innovate more to be not just efficient, but more effective

At the CIPD, our goal is to support HR professionals and the organisations they work for on this journey. Our purpose is to champion better work and working lives. But to do that we need a shared understanding of what this means and what it might look like in the context of new and varied forms of employment relationship. We believe that there are basic principles that constitute good people management and development regardless of the context, and are continuing our research in this area. From there we can explore what this means for the HR function of the future and develop a set of principles that define good practice and professionalism.

In support of all of this, the way the HR function operates must continue to evolve. Some observers seem to want to dismiss the future of the function, breaking it up or separating out the strategic capabilities. Given the macro issues organisations are facing, I would argue that the role of HR will only grow in importance. But we have to step up, to evolve and adapt, to attract new talent to the function, and to invest more in building the capabilities we need to define a stronger future.

This collection of thought pieces brings together some of the most recent arguments in the debate. We've published them to surface some of the challenges and opportunities for the HR function, and to make sure that ongoing debates about our future are as comprehensive and well informed as possible. Over the coming months we'll be following all these debates very closely and gathering insights from successes and failures as organisations try out the different models. But at the same time, we'll be going back to first principles with some new research to define HR's role in championing better work and working lives.

Peter Cheese
CIPD chief executive

Acknowledgements

The intellectual property in the individual thought pieces is retained by the authors. We would like to thank them all for their contributions to this report.

Executive summary

This is a collection of thought pieces about HR operating models (also known as HR structure, HR delivery models, HR architecture, HR systems). Here when we use the term HR operating models, we are talking not only about the organisational structure of HR but the roles within that structure, the capabilities required to deliver those roles, the processes within the structure, and the enablers such as technology, governance and measurement. The authors of these thought pieces may have a slightly different definition, but essentially the debate is the same. What will the HR function of the future look like?

This collection brings together a number of lead thinkers: academics, practitioners and consultants who are active in the debate about the future of the HR function. We asked them to talk about HR operating models from various angles to provide a summary of the key themes for HR practitioners.

So what does the HR model of the future look like? There's no dispute that the model synonymous with Dave Ulrich, a model of shared transactional services, centres of expertise and HR business partners, has dominated conversations about the structure for HR for the past decade or so. The driving force for the most part has been efficiency and standardisation, but we need to move on and focus more on effectiveness – adding value to the enterprise, and playing our full part in shaping its future direction. And that means challenging the operating models for HR, to ensure they align with the business and business needs, and that we have the right capabilities in the right places.

In this collection, Edward Lawler and John Boudreau from the Center for Effective Organisations, Marshall School of Business, University of Southern California, present the findings from research looking at the relationship between the design of the HR function and HR's role in organisational strategy. Their research found a correlation with the essential elements of the so-called Ulrich model – the existence of centres of expertise, decentralised HR generalists supporting business units and administrative processing centralised in shared services units and a strategic role for HR. Allan Boroughs from Orion Partners reflects on the success the Ulrich model has had in driving efficiency in the delivery of HR operations. But with the need for HR's focus still to shift more from the administrative to the strategic and to the development of organisational capability and talent. The centres of expertise need to be the focus moving forward.

HR's role in the business is evident. Josh Bersin of Bersin by Deloitte talks about their research-informed high-impact HR, which focuses on the need to bring specialist skills into the business where they can drive the most value. Bersin talks about these as 'networks of expertise' because of how highly connected the specialists are despite being aligned with and embedded in different parts of the business. A lot of focus has been on the role of the HR business partner, the role in HR most aligned to the business and the role argued to enable HR to bring strategic value to an organisation. The implementation of this role is varied. What does this role actually do? Is it specialist or generalist? A lot of the discussion about this role has been focused on the required competencies to perform the role. Nick Holley from Henley Business School, drawing on the work of organisational psychologist Elliot Franks, raises an interesting debate about how we could be asking some HR business partners to operate at a level that's beyond their intellectual capability. This is particularly relevant and interesting where HR functions have renamed HR generalists from the old 'personnel' model to HR business partners without building their capabilities, or fundamentally changing the activities they perform from being administrative to strategic. It is also interesting for the debate on HR competencies and the myriad courses and books designed to help HR business partners develop the necessary skills. According to Holley, HR might just need to be a bit more realistic with the business about what it can deliver based upon the capability of the function and its HR business partners. Lawler and Boudreau also highlight some interesting findings on the relationship between HR's strategic role and the career paths of professionals working in HR.

HR operational efficiency although no longer the main driver, remains important within organisations, particularly as many organisations

are yet to achieve this. Lawler and Boudreau's research also found a correlation between 'administrative processing in centralised shared services units' and, more significantly, the standardisation of HR practices across business units. Gareth Williams, HR Director for Travelex, talks about the impact of the implementation of cloud HR technology on the HR function. The implementation of HR cloud technology has changed roles within HR, it has achieved operational efficiency and successfully improved line managers' ability to perform people management activities. As a result the HR business partners are performing a more strategic role. Andy Spence from Glassbead Consulting presents a point of view on the future of outsourcing in HR, facilitated by the greater use of cloud technology.

However, the strong message coming from nearly all of our contributors is although the 'Ulrich model' is a good starting point, there is not one model that fits all organisations. Jill Miller's piece looking at HR in SMEs is also a good example. From her research she has developed a four-stage framework of SME growth or maturity and emphasises that each stage is associated with particular people management approaches, including the HR operating model adopted. From Dave Ulrich's contribution to these thought pieces, it is clear that the Ulrich model was never thought to be appropriate for all organisations. In his piece he talks about the importance of the wider organisation structure and states explicitly that the *'HR organisation should be structured in a way that reflects the structure of the business'.*

This link between strategy, organisation structure and HR structure becomes increasingly evident when we recognise how organisations are changing and no longer dominated by large multinational corporations. Paul Sparrow from Lancaster Business School provides an example of this based on the work he has done with CIPD Researcher Jill Miller in Beyond the Organisation research. Sparrow talks specifically about the design options available to organisations that are entering into partnership arrangements such as joint ventures and how HR can respond to these complex organisational structures. According to Sparrow, there are three design options available to an organisation.

There is no doubt that we need to continue to research and discuss the structures and operating models of HR as part of building the profession for the future. In practice, you can change the conversation to one focused on capabilities or competencies, but the reality is that you still have to organise to deliver. We support the view that there is not one model for delivering HR that is suited to all organisations. How an organisation should structure its HR function should be based upon its organisational strategy, wider organisational structure and the requirements of its customers and the organisation it is supporting. We support the view advocated by Anton Fishman and Barry Fry that HR functions need to design themselves in the same way that they design their wider organisation, and many organisations need to start at the organisational level. It would, however, be interesting to understand if there are some universal principles that could be applied in all organisations.

The CIPD is going to progress research into this area. If you would like to comment on the CIPD viewpoint, the collection of thought pieces or be involved in shaping the research, please email **j.cooper@cipd.co.uk** or tweet using the **#changinghr**.

A modern HR operating model: the world has changed

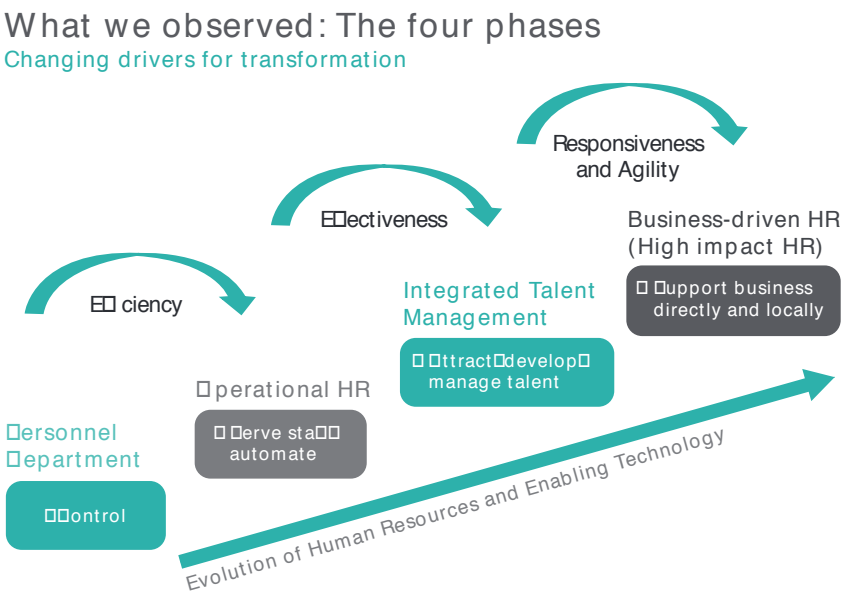
The human resources profession is at a crossroads. As the global economy grows and technology has made organisations highly interconnected and transparent, what HR does has to change.

We recently completed a series of major research studies on the organisation and structure of HR[1] and found that HR teams and their leaders are undergoing tremendous stress. While more than 90% of them claim to have a good handle on their budget, only 30% believe they have a 'reputation for sound business decisions', only 22% believe they are 'adapting to the changing needs of their employees' and only 20% feel they are 'adequately planning for the company's future needs'.

What happened is simple: over the last few years talent has become the number one issue on the minds of most CEOs, so the HR function is being asked to lead the transformation of most companies towards a more engaged, high-performing, well-aligned and highly capable organisation. And the number one issue CEOs still cite is a weak leadership pipeline – so HR must take ownership for this as well.

Over the last 30 years HR organisations have gone through several transformations, moving from an operational role (the 'personnel department') to one of 'HR as a service centre' to one focused on 'driving talent outcomes'. Most companies we talk with are somewhere between phases two and three in Figure 1, so they are heavily focused on building integrated programmes to attract and retain top people, drive a compelling employment brand, improve and align the performance process, and better manage and transform L&D.

Figure 1: The four phases of HR



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1 Bersin by Deloitte, *High-impact HR*, http://www.bersin.com/Practice/Detail.aspx?id=17743

Josh Bersin founded Bersin & Associates (now Bersin by Deloitte) in 2004 to provide research and advisory services focused on corporate learning, leadership, talent management and HR technology. Today he is responsible for Bersin by Deloitte's long-term strategy, research direction and market eminence. Josh is a frequent speaker at industry events and has been quoted on talent management topics in key media, including *Harvard Business Review, Wall Street Journal, Bloomberg, Financial Times,* BBC Radio, CBS Radio and National Public Radio. He is a popular blogger for Forbes.com and has been a columnist since 2007 for *Chief Learning Officer* magazine. Josh spent 25 years in product development, product management, marketing and sales of e-learning and other enterprise technologies at companies including DigitalThink (now Convergys), Arista Knowledge Systems, Sybase and IBM. Josh's education includes a BS in engineering from Cornell University, an MS in engineering from Stanford University, and an MBA from the Haas School of Business at the University of California, Berkeley.

‘The core of high-impact HR today is creating more specialists and locating them closer to the business, where they can drive the most value.’

Our research shows that as companies move from phase to phase, their purpose and mission changes. As companies move to phase 1 to 2, they focus on efficiency. Here they set up service centres, rationalise the generalists and assign business partners to reduce inefficiency in service delivery. ‘Service delivery efficiency’ and effectiveness is the focus.

As companies move from phase 2 to 3, they focus on effectiveness of driving talent programmes. They now look at measures such as ‘quality of hire’, ‘time to fill’, ‘training utilisation’ and ‘leadership pipeline’ as measures of success. Here the focus is on building world-class talent programmes and embracing new technologies (often social and network based) to extend the company’s brand, connect people, facilitate learning and collaboration, and build leadership.

At phase 4, however, something different happens. The 5–10% of companies we talk with who have reached this new phase are focused on something different. They have built a strong HR service delivery capability and they have spent three to five years optimising their talent programmes. And these programmes don’t sit still; they are continuously improved. For example:

- Recruitment, for example, is shifting entirely towards ‘network recruiting’, where the drivers of success are employment brand, candidate relationship management, the use of analytics to determine who are the best candidates, and strong and local relationships with hiring managers.
- Learning is shifting towards a ‘self-learning’ digital learning environment, where individuals can learn on-demand, decide between formal and informal learning, and their training is integrated into their career management and professional goals.

But as these various talent strategies are improved, and more analytics are applied to each, the company must also do something else: they must move HR back into the business in a more local way. This is the essence of high-impact HR – it is a focus on changing the operating model to be less centralised and more ‘co-ordinated but distributed’ into the business.

High-impact HR: focused on specialised skills in the business

The core of high-impact HR today is creating more specialists and locating them closer to the business, where they can drive the most value. Recruiting, for example, is a highly specialised problem – recruitment teams manage the brand, they source, they assess and they ‘sell’ the company to strong candidates. In order to be effective, they must understand the precise jobs, management styles and culture of the team they support. In other words, they should be ‘local’ – or as ‘locally assigned’ as possible.

The same is true in learning. While it’s terrific to have a strong corporate university and lots of online assets and content, each part of the company has its own particular learning problems. Rather than force all the programmes to be centralised, we want local learning specialists to help each local group build their own learning solutions.

Does this mean HR has to move back to a model of ‘anarchy’ with lots of distributed groups embedded in the business? Not at all. Today, unlike ever before, HR can rely on standard technology platforms,

standard frameworks and standard tools to help HR professionals close to the business solve their problems. Our research shows that the high-impact HR organisations actually do some unique and powerful things, very similar to how the military manages its distributed operations:

- They have more specialists and fewer generalists. They do this by implementing well-designed self-service systems to let people manage their own HR 'transactions' and put more of HR's budget into specialised skills. High-impact HR teams are almost 65% specialists, versus less than 40% for non-optimised teams. The role of 'generalist' almost goes away.
- They build 'networks of expertise', not 'centres of expertise'. The recruiters or learning advisers, for example, who may be assigned or embedded in the business, are all connected to each other. They know each other and share best practices – using common tools and methodologies wherever possible. The centre of expertise is small and focuses on technology platforms and standards – not centralised services.
- They have senior-level HR business partners, often operating as 'VPs of HR' in the business, with local control. These local leaders partner directly with local line leaders and they orchestrate solutions and serve as consultants. These roles must be developed over time because these individuals need strong business experience and deep HR domain. Many of our clients tell us the title 'business partner' is now obsolete, so these are essentially 'people leaders' or 'talent managers' – to connote their direct responsibility for results.
- These organisations have strong internal technology groups to build common platforms and avoid renegade talent, learning and payroll systems from popping up. They build strong analytics teams centrally and bring together compensation analytics, engagement analytics, retention analytics and all the other analytics teams into a core central group that can help understand and plan the future of the company's talent needs.
- They have internal groups that focus on HR professional development, research, and tools and methods. These teams, while small, are critical to making these HR teams successful because they make sure the HR team is educating itself. Today fewer than 8% of all HR organisations have a professional development team for HR – this is becoming a critical need and one strong organisations fund and staff internally.
- They have chief human resource officers who are laser focused on the business and delivering on business outcomes, not just operating HR as an efficient provider of service. Of course HR must deliver services – this is core to its mission – but the CHROs of these companies are often business people (35–40% of all CHROs we now interview and work with are coming from the business) and they push HR to solve local business problems.
- They focus on effectiveness and outcomes, not just efficiency. Our research shows that these high-impact HR organisations must go through phases 2 and 3 before they can effectively get to phase 4 – because otherwise they become highly inefficient. One large Japanese client of ours has 100 HR departments, each distributed into different business units. This is *not* high-impact HR – it lacks the standards and co-ordination needed to be innovative and share information and skills across the company.

This new operating model, which we have been sharing with clients for about a year, is very well aligned with the CIPD's Profession Map.[2] It pushes HR to be much more business aligned and accountable to local business leaders.

Think about it like this. In the coming years we, as HR leaders and professionals, are going to be the craftsmen that build the organisation of the future, attract top talent, fix and improve engagement and learning challenges, and make sure managers are well trained for the future. As craftsmen, we must be experts at our craft, we must have world-class tools and we must be close to our clients. By thinking about HR this way we can focus on our own expertise and bringing it close to the business in a co-ordinated and scalable way.

One of our clients put it well: *'When the HR function works well, everyone in the business thinks they're just "part of the team" and leaders feel they are making and owning the right decisions.'* Let's rethink HR and move beyond HR as a 'service' and 'designer of programmes' and reimagine ourselves as consultants. This is the future we are moving into, and it will be exciting and rewarding for us all.

[2] http://www.cipd.co.uk/cipd-hr-profession/profession-map/building-capability-my-hr-function.aspx

The future is 'centres of expertise'

What impact has 18 years of the Ulrich model had on the HR operating model and what does it tell us about the future?

Allan Boroughs is a founding partner in Orion and leads the HR technology practice with over 20 years' experience in designing, developing and delivering transformational change in HR. Before founding Orion, Allan held senior positions in consulting, industry and the public sector; he is a member of the CIPD and has co-written four books on HR technology and HR transformation

ABOUT ORION PARTNERS

Orion Partners is a research organisation and advisory firm specialising in delivering transformational change in HR. Orion has a blue-chip client list across all sectors and believes that the way people are managed has a measurable impact on the commercial success. We believe businesses are successful when they:

- give their people a clear vision and direction
- focus on the talent that has the biggest impact on the bottom line
- only invest in the systems and processes that are relevant to them and then operate them to the highest standard.

www.orion-partners.com

The worst enemy of life, freedom and common decencies is total anarchy; their second worst enemy is total efficiency – Aldous Huxley

A generation of transformation

It is 18 years since Dave Ulrich's book *Human Resource Champions* proposed a differentiation of HR activity based on the nature of HR roles, which in turn led to the organisation of many HR functions into shared service operations, business partners and centres of expertise. Although Ulrich never claimed to have invented it, the three-legged model for HR has, like Sellotape, Hoover and Biro, become synonymous with his name – the Ulrich model.

After nearly a generation of HR investment in the Ulrich model, we wanted to know what impact the model had had, whether it had delivered on its promise and what benefits and disadvantages organisations had seen. Most importantly, what could we learn from the experiences of implementing the Ulrich model about the likely future direction of HR?

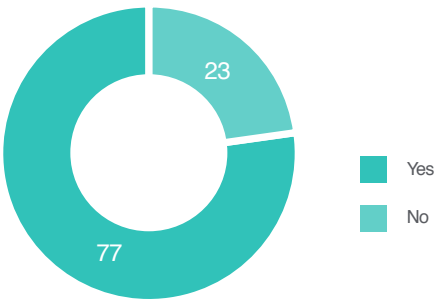
The research

In early 2014 we surveyed business and HR users in 40 organisations, each with more than 10,000 employees – complex beasts by anyone's standards. The survey showed, as expected, that in the last ten years, investment in the HR operating model has become the norm, with over 95% of organisations having undertaken some sort of HR transformation.

Of those, more than 50% had invested in what they termed the 'Ulrich model' for HR. The scope of HR transformation usually incorporated elements of centralised shared services, business partners and centres of expertise. However, we found that the most significant areas of investment were nearly always in the development of HR shared services and associated IT systems.

When it came to measuring the performance of the model, the results are compelling. Firstly, more than 90% of organisations felt their HR function is more efficient and commercially focused than it had been ten years ago, with the majority (77%) attributing this success to the 'Ulrich model' (Figure 2).

Figure 2: 'The Ulrich model has had a positive impact on our HR services.' (%)



Typical benefits highlighted include improved operational efficiencies, improved capabilities in HR and a closer alignment with the commercial objectives of the organisation; all highlighted this as evidence of a 'positive direction of travel' for HR. The biggest area of impact is in HR operations, where 95% class their HR operations as 'good to acceptable' (Figure 3) compared with ten years ago.

But the news is not all positive. There are clear indications that, while HR operations and skills have improved, this is not carried through to other areas of HR. Many pointed out that their HR business partner roles are still 'too transactional' in nature and that they struggle to shed the administrative elements of their roles.

But the most surprising shortcomings are in the area of talent management (which we characterised as the delivery of strategies associated with recruitment, performance, learning, succession and reward). Most frequently we found that these sit within the 'centres of expertise' part of the model. When compared with the results of HR operations, satisfaction ratings for talent services were less than half that of HR operations. Nearly a third said that talent management represents 'an area of major missed commercial opportunity' (Figure 4).

The messages are clear: while a focus on the Ulrich model for HR has produced tangible benefits in the quality and efficiency of HR operations, the benefits have not flowed through to other parts of the model. Most notably, many organisations have neglected the talent management agenda and, in doing so, have missed a significant opportunity to add commercial value to the organisation.

'There are clear indications that, while HR operations and skills have improved, this is not carried through to other areas of HR.'

Figure 3: Outcomes from HR Transformation talent management (%)

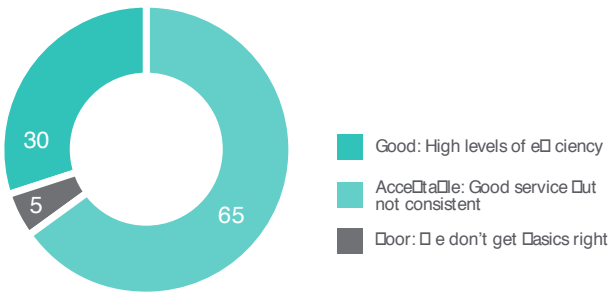
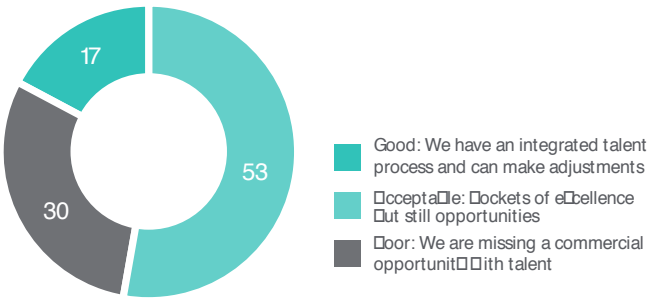


Figure 4: Outcomes from HR Transformation talent operations (%)



‘It is clear that huge strides have been made in organisations that have moved from being barely able to produce a headcount to running streamlined HR operations.’

The talent gap

The reasons for this disaffection with centres of expertise become clearer under scrutiny. Only a third of organisations maintained dedicated talent specialists in each of the functional areas highlighted above. This suggests that critical skills in talent management are missing from the HR armouries of some of our largest organisations. Furthermore, less than a quarter of organisations maintain a fully integrated talent process in which recruitment, performance, learning and reward all share the same data and where activity in one area is understood in terms of its impact in the others (Figure 5).

We saw nothing to suggest that the lack of progress in talent management is a shortcoming of the Ulrich model itself, but it did suggest that that this is a failure of the HR function to look beyond basic efficiency savings. Indeed, against a background where 97% said that people issues are ‘highly important’ or ‘critical’ to the business, it suggests that the search for HR efficiency has deflected HR from its true mission and that it has neglected those areas that have the potential to offer the greatest level of commercial benefit.

An operating model for talent

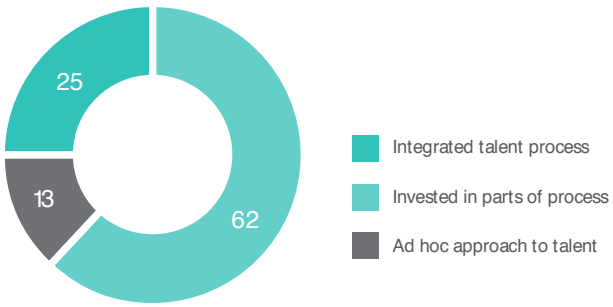
So how do these findings inform the discussion on the future of the HR operating model? I believe they highlight both a significant success story and a major missed opportunity for HR and spell out the priorities for future development.

It is clear that huge strides have been made in organisations that have moved from being barely able to produce a headcount to running streamlined HR operations. This may have been done as part of a shared service centre, an outsourced model or just through the disciplines of standardisation, centralisation and automation, but this has been a major contributor to the improved efficiency and effectiveness.

There can be no doubt either that the changes of the last ten years were highly necessary. Any HR organisation that could not maintain basic standards could scarcely lay claim to a ‘seat at the table’ to participate in the strategic agenda. An effective HR operational/transactional model is therefore a minimum prerequisite to building a strategic HR function and we see little prospect of organisations making a major shift away from the standardised, shared model of HR operations.

Where there does seem to be significant room for improvement is in the ‘centres of expertise’, which show signs of serious neglect in the rush for transformation. Very few of the organisations we spoke to could point to a fully

Figure 5: Approach to talent management (%)



integrated talent process. Where success in resourcing, performance management or learning had been achieved, this was as likely to be the result of a single capable individual working in isolation rather than a coherent talent strategy.

Our prediction is that the next ten years of HR development will see the focus shift away from HR operations and towards the 'neglected children' of the HR operating model in the centres of expertise (COEs). Based on our research, the highest priorities include:

- Alignment with the business model: talent processes should not exist in a 'best practice vacuum' – the talent needs of a retailer with a growth agenda will be different from an engineering firm with an ageing workforce. Close alignment with the business to understand the precise nature of the need is critical.
- Integrated talent process: COEs can be the worst offenders in terms of maintaining siloed operations. All respondents emphasised the importance of an integrated talent process, underpinned by technology that recognised the interdependencies between resourcing, performance, learning, succession and reward.
- Integration with back office: the best-thought-through talent strategy will be ineffective if the execution of the supporting processes is lacking. Close integration between the COE and the transactional service centre is an essential prerequisite to ensure credibility in talent operations.
- Business integration: management of business performance through people is not something that can be delivered by HR in isolation. Talent strategy must be closely aligned with the role of business managers so that performance and development are embedded in day-to-day activity and that in turn demands leadership and a commitment to embedding change from the top of the organisation.

The case for change?

The case for investment in HR transformation has often been compelling. Fragmented, localised HR activity inevitably leads to inconsistencies in the HR process, a lack of standardisation, poor data and high costs. It stands to reason, therefore, that streamlining HR operations would deliver big benefits, and many organisations in our survey had achieved savings on HR operational costs of 30% or more as a result of HR transformation.

But while the benefits have often been significant, they are inevitably limited. In the average organisation, the HR function accounts for about 1% of the workforce, and even the most radical transformation programme will be limited by what can be cut from this figure.

By contrast, an integrated approach to talent management offers the opportunity to impact performance across all parts of the organisation and incremental changes here might be expected to deliver a disproportionate benefit. This means that future changes to the HR operating model might be justified, not on the grounds of operational cost reduction but on the potential to make incremental improvements to business performance across the organisation.

As organisations achieve more consistent levels of operational efficiency across HR operations, we have seen a marked shift in the transformation process to look at the impact the centres of expertise can deliver to the business. Some recent examples include:

- a global retailer that overhauled in-store recruitment and performance processes to address attrition rates that threatened growth plans
- an engineering-based manufacturer that produced demonstrable improvements in productivity and output through the effective use of succession and development initiatives
- an organisation selling complex technical solutions that drove up sales by reducing lengthy on-boarding periods and achieving peak productivity earlier.

Of course none of these initiatives by themselves represent new thinking. Such activity has always been at the heart of talent management. However, what we have seen amongst these organisations and others is a marked shift in focus towards the 'centres of expertise' in HR and investing in the systems, common processes and team capabilities to drive these improvements systematically.

What does all of this spell for the future of the HR operating model? Overall, our research suggests that HR has developed a greater commercial awareness and has invested heavily in an incremental 'professionalisation' of the function as a direct consequence of the Ulrich model. However, there is a clear limit to the benefits to be derived from excellence in HR operations and it seems clear that the next ten years must bring an increasing focus on the commercial opportunities offered by effective talent management if HR is to deliver on its true potential.

'Ulrich comes of age' – a study of the impact of 18 years of the Ulrich model, can be downloaded free of charge at http://www.orion-partners.com/study-ulrich-comes-age/

‘You can’t put in what God left out’

Not everyone can be a strategic HR business partner

Nick Holley is a visiting professor and director of the Centre for HR Excellence at Henley Business School. Nick brings a unique background that combines experience as an army officer, ten years as a successful futures and foreign exchange broker with Merrill Lynch and sixteen years in senior organisational, leadership and people development roles in large global organisations.

In the last eight years Nick has worked with clients in the UK, Belgium, Brazil, China, Denmark, Finland, France, Germany, Ghana, Hong Kong, Hungary, Indonesia, Italy, Kenya, Luxembourg, Malaysia, Mexico, Netherlands, Nigeria, Norway, Portugal, Qatar, Russia, Saudi Arabia, Serbia, Singapore, Sweden, Switzerland, Turkey, UAE, Ukraine and the US.

Nick has carried out research in the areas of employee engagement, HR and Big Data, HR careers and capability, HR in the recession and recovery, HR leadership, HR organisational models, leadership development, talent management and what CEOs want from HR. Nick was voted the 5th most influential thinker in HR.

In recent years the Ulrich three-box HR model (shared services, centres of excellence and HR business partners) has become the standard delivery model for HR. The model is fundamentally a sound model and has taken HR forward, but in our research we have found a big gap between intention and reality, especially in the role of HR business partners. Why?

Historically a lot of HR work has been about delivering processes to the business, administering payroll, keeping out of tribunals, writing terms and conditions, and so on, so HR has attracted people with the requisite skills and mindset. The HR business partner role is very different. It’s about delivering innovative ways of developing organisational and people capability, building on deep data-driven insights into the strategic and commercial direction of the business. This requires a different level of thinking, as the complexity and degree of ambiguity inherent in the role, and in the environment, in which organisations are operating has increased exponentially.

In some cases the issue has been that no one has actually articulated to the newly rebadged business partners how the role is different or the new level it is operating at. In others, no one has helped those with whom they are partnering understand what is on offer and how it differs from the past. In many cases, however, there has been a failure to understand the business partner role and how it differs from the old HR model and then match this to existing HR capability. The simple fact is that the ‘ask’ has risen faster than the capability of many people in HR to deliver it. As a result, many HR business partners have been unable to deliver what is required in the role or have dumbed down the role to a level they are comfortable with but which doesn’t deliver what is required by the business.

One of the causal factors has been that as organisational structures become leaner and ever more matrixed, partner roles become the knot in the bow tie, where they are pivotal in ensuring the whole model functions effectively. Nowhere has this been more prevalent than in HR. This means that it becomes vital that you have a ‘big enough’ person in the role, which often isn’t the case because they are the same person as before the organisational change.

Elliott Jaques,[3] one of the gurus of organisational psychology, identified the challenge that lies behind this problem. In his research he identified seven levels of work complexity, each defined by increasing ambiguity, longer timeframes for decision-making success and greater delivery breadth. He also identified that people can only engage with complexity up to a level related to their intellectual capability to understand it. As Sam Mussabini said to Harold Abrahams in the film Chariots of Fire, *‘You can’t put in what God left out.’* The essential problem with HR business partnering is that in many cases we are asking level 3 capability people to do work at level 4. The issue isn’t

[3] JACQUES, ELLIOT (1997), ‘*Requisite Organisation: Total System for Effective Managerial Organisation and Managerial Leadership for the 21st century*’. London: Gower

about developing them; the issue is that they are simply incapable of operating at the right level, either at that time or potentially at all during the span of their natural careers.

In our most recent research we asked what CEOs look for from their HR directors (HRDs) and one of the questions we asked was why they had sacked their HRDs. Three issues came out. One was a lack of integrity, which was the most consistent and most important insight from the whole research. The second was great talk but no delivery. The third was that they either weren't up to the role or had outgrown it:

- *'When we started we employed an HR admin lady who made sure the payroll worked, but we outgrew her.'*
- *It was a function of the agenda. The individual didn't have the capability to step up again.'*
- *'We had taken the game up a notch. We had someone who was successful in the old agenda but not in the new. I would give them a reference. They weren't a failure; it depended [on] what we wanted from them.'*
- *'Intellect was the key. They didn't have the ability to make sure my thinking on strategy was matched to their deep knowledge of the capability to deliver it.'*
- *'We are dealing with more complexity on a broader scale. Once we got six variables to think about versus four, they didn't have the capability to think at that level on a broader scale.'*

In each case they didn't blame the person. They were good at what they were good at, but the role required them to be good at a different level.

In these quotes lies the answer to the conundrum. We shouldn't ask people to operate at a level they simply can't operate at. We need to help people be the best they can be, not try to get everyone to be something they can't be.

This has several implications:

Fit the person to the role

Not all HR business partner roles need to operate at a strategic board level. Not all HR business partner roles are the same, so match your level 4 people to level 4 roles and level 3 to level 3. If you have too many roles at the highest levels compared with people who can operate there, match the best people to the roles that have the biggest impact on the bottom line or on patient service or whatever the key value driver is.

A simple test is to list on the left-hand side of the page the business units and how critical and material they are to creating value. On the right, list your HR business partners by their capability. Does the left-hand list match the right? Do your best business partners face off to the most critical business areas? One final point here is don't build the list only on current returns but also on future growth opportunities. It may be you want to match your best HR business partner to the smaller but higher potential and therefore more strategically critical growth opportunities rather than a larger cash cow.

There is a strong organisational design driver here because level 4 is the point at which you have the biggest mismatch between roles featuring work at that complexity level, and the natural incidence of people in the population with the ability to work at that level. This is not an isolated issue within HR, but is true of many roles in many functions. HR just sees it more frequently because I would argue that the ratio of role complexity increase to individual development has been higher than other functions in recent years.

Be clear what we are recruiting for

This isn't just about a competency framework; it's about being realistic about the level we are asking people to operate at. It's become unfashionable to use tests of verbal and numeric reasoning skills, but perhaps we should look at more sophisticated and rigorous ways of assessing what level a person can operate at. We are letting our people and the business down if we recruit people to do a job they simply can't do. Levels of work suggest that by far the best predictor of success in higher complexity roles is judgement – but this is rarely assessed.

Match your development spend to what can actually be developed

It is very difficult to send someone on a programme that develops their intellectual capability or their systemic thinking ability. But these capabilities can be more swiftly developed through a broader career-pathing approach which tries to develop perspective (for example across different functions) and hence judgement. But this takes time and our research shows that this kind of development is the least often used by HR.

Equally there are some key hard skills that can be developed: understanding the business strategy and where value is created, data-driven insight development, and so on. We should focus our HR development spend in these areas. What is disturbing is when HR people tend to focus their development on HR-related rather than business-related areas: *'And here's one more slice of telling SHRM data: When HR professionals were asked about the worth of various academic courses toward*

‘Levels of work suggest that by far the best predictor of success in higher complexity roles is judgement – but this is rarely assessed.’

a “successful career in HR,” 83% said that classes in interpersonal communications skills had “extremely high value.” Employment law and business ethics followed, at 71% and 66%, respectively. Where was change management? At 35%. Strategic management? 32%. Finance? Um, that was just 2%.’ [4]

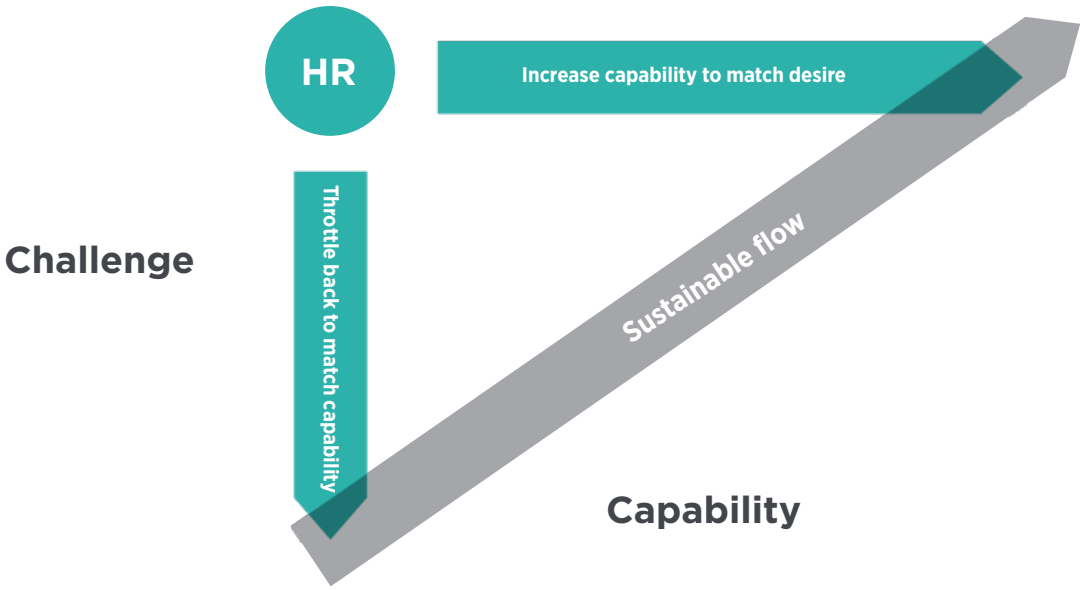
It also might be that you don’t develop all these skills in every business partner or even within HR. As an example, not everyone needs to be a data scientist, but everyone needs to be comfortable with data. It might be that you access the deep data analytical skills from elsewhere in the business or from contractors who work closely with your HR business partners, but your HR business partners must recognise the value that issue-driven data analytics will bring to HR.

Be willing to throttle back the promise

In a desire to be seen to be responsive and relevant, there is a danger we overpromise and under-deliver. Perhaps we need to be willing to promise a bit less and deliver a little bit more or deliver where it is most critical versus trying to do it everywhere. Many people will say, ‘but that will impact our short-term credibility’. Isn’t it better to be rigorous about assessing the real capability of the HR function and our HR business partners and match what we promise to the business to what we can actually deliver? Perhaps a dash of realism and humility might serve us better in the long term. As a previous boss once said to me, *‘the longest route is often the quickest way to get somewhere.’*

The Mihaly Csikszentmihalyi flow model pictured below, is often used in combination with Levels. (Figure 6)

Figure 6: The Mihaly Csikszentmihalyi flow model



[4] HAMMONDS, KEITH H. (2005) *Why we hate HR.* Fast Company. August. Available at: http://www.fastcompany.com/53319/why-we-hate-hr

The strategic role of HR

What does a strategic HR function look like?

What are the features of an HR organisation that are associated with HR's strategic role? It is a timely question. Talent and HR management are becoming more and more important determinants of organisational effectiveness.

A great deal of debate was generated by Ram Charan's recent proposal[5] in a *Harvard Business Review* article that corporate HR functions be split. He called for eliminating the chief human resource officer (CHRO) role and creating two functions. One function would be an administrative function that manages compensation and benefits and reports to the chief financial officer. The other would be a 'leadership and organisation' function that is staffed by high-potentials from operations and finance who rotate through the role on their way to the top two layers of the organisation.

Few HR executives and researchers believe that this is the best way to improve the strategic role of talent and HR management in large corporations. Still, it is significant that such a proposal would be made by such a highly respected individual in a widely read general management publication. As Boudreau has noted,[6] the attention it has received highlights the importance of organisation leaders becoming more sophisticated about HR management and organisation design in order to avoid the temptation to adopt such simplistic and potentially harmful solutions as the one proposed by Charan.

What is the relationship between the design and management of the HR function and HR's role in organisational strategy? This is the key design question and one that can be answered by examining the research evidence from our international survey of hundreds of HR leaders[7] that has been done every three years since 1995.

Survey data were collected in 2013 from HR executives in companies with 1,000 or more employees. One executive per company responded, usually the CHRO or a direct report to the CHRO. Responses were received from 416 companies in Australia, Canada, China, Europe, India, UK and US. The median company in the US sample had 14,000 employees, while the median company in the international sample had 4,200 employees. The revenue of the US firms was also greater: $5.0 billion (median) versus $2.0 billion (median) for the international sample.

We measured HR's role in strategy by asking the survey respondents to rate HR roles in their company by choosing one of the following: 1 = human resources plays no role in strategy (4%); 2 = human resources is involved in implementing the business strategy (22%); 3 = human resources provides input to the business strategy and helps implement it once it is developed (54%); 4 = human resources is a full partner in developing and implementing the strategy (21%). The responses indicate that HR is not a full partner in most companies.

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[5] CHARAN, R. (2014) It's time to split HR. *Harvard Business Review.* July. https://hbr.org/2014/07/its-time-to-split-hr
[6] BOUDREAU, J. (2014) It's time to retool HR, not split it. *Harvard Business Review.* August. https://hbr.org/2014/08/its-time-to-retool-hr-not-split-it
[7] LAWLER, E.E. and BOUDREAU, J.W. (2015) *Global trends in human resource management: a twenty-year analysis.* Stanford, CA: Stanford University Press. http://www.sup.org/books/title/?id=24277

The survey also asked about seven features of HR's operating model. For each one, the survey respondents were asked to rate how true it is of their organisation on this scale: 1 = little or no extent; 2 = some extent; 3 = moderate extent; 4 = great extent; 5 = very great extent. In Table 1, the average rating of each question among the US leaders is shown both for the 2013 survey and a survey of similar HR leaders in 1995. Also shown for 2013 is the percentage who answered to a great or very great extent.

The right-hand column shows the correlation between the question about HR's role in strategy and each rating of HR operating characteristics.

Looking at the average ratings, we see that the operating models of HR have not changed very much in the last two decades. The 2013 ratings are virtually identical to the ratings we obtained in our survey of HR leaders in 1995, with two exceptions: there has been a significant increase in the extent to which HR centres of excellence provide specialised expertise and a significant decrease in the extent to which HR practices vary across business units.

It is also interesting that while the highest-rated operating model feature is decentralised HR generalists supporting business units, one of the lower-rated items is HR practices varying across business units. Indeed, variation has significantly decreased. Thus, it appears that the dedicated business partners are supporting the businesses in ways that do not include tailoring HR practices, but rather working with centres of expertise and HR administrative service units to deliver an array of similar services to the businesses.

The use of common practices most likely reflects efforts to simplify and to achieve scale leverage in some HR activities, and perhaps the tendency of companies to be in fewer unrelated businesses. There are economies of scale to be gained when corporations use the same HR practices in all their units. This is particularly true in the case of transactions and the creation of IT-based self-service HR activities. However, when it comes to talent management, different business strategies may call for different practices.

The bottom three rows of Table1 reflect the talent development elements of the HR functions' operating model and they assess the extent to which individuals rotate *within, out of* and *into* the HR function. They are three of the lowest-rated operating elements of HR, and have been since 1995. Rotation within HR is rated below the scale midpoint, but even more striking is that rotation *into* and *out of* HR is particularly rare, with less than 2% of the companies reporting great use.

Looking at the correlations with HR's role in strategy, it appears that most HR functions are doing some of the things that lead to their having a strategic role while failing to do others.

In the fourth row of Table 1, the correlation is negative, indicating that greater variation in HR practices across units is negatively associated with HR's role in strategy, and the averages for this item show that there has been a decrease in HR practice variation, perhaps reflecting this negative association. The top row is another example of the usage trend being consistent with the correlation. Centres of excellence are positively associated with HR's role in strategy, and the use of this HR operating characteristic significantly increased from 1995 to 2013.

Table 1: Survey correlations

Survey question	1995 mean	2013 % of great or very great extent	2013 mean	Correlation with HR role in strategy
Centres of excellence provide specialised expertise	2.5	56.7	3.5	0.30***
Administrative processing is centralised in shared services units	3.5	54.6	3.4	0.18*
Decentralised HR generalists support business units	3.6	65.5	3.6	0.11
HR practices vary across business units	2.9	18.2	2.4	–0.25**
People rotate *within* HR	2.6	26.8	2.7	0.39***
People rotate *into* HR	1.8	1.4	1.7	0.24**
People rotate *out of* HR to other functions	1.8	0.7	1.6	0.28***

Overall, there are untapped opportunities regarding rotational assignments. For all three items, the correlation with HR's role in strategy is significantly positive, and this has been true in every survey we have conducted since 1995. Yet, the extent to which HR organisations use all three elements is consistently and stubbornly low. The correlations cannot prove that greater rotation causes a stronger strategic role or vice versa. Still, it is likely that the strength of HR's strategic role is enhanced by efforts to create career movement within the HR organisation, and even more significantly across the boundary between HR and the organisation.

Efforts to create movement across the HR boundary can lead to extreme approaches, such as eliminating the role of the CHRO and making it a rotational position for other disciplines. Such extremes are likely to be dysfunctional in many organisations because they risk removing vital HR functional expertise from the top positions. That said, more nuanced approaches do seem warranted. Having HR leaders gain first-hand experience as business leaders throughout their careers seems likely to prepare them more fully for true business partnership than does having only HR jobs.

Perhaps even more important is having leaders outside of HR rotate into the function, which is also associated with a stronger HR strategic role. Such rotations enhance the business awareness of the HR function because the inward rotations bring valuable expertise from outside. This may facilitate 'retooling' HR[8] by recasting HR decisions and processes into the logic of frameworks from finance, operations, marketing and strategy, making them more accessible and better understood by leaders in these disciplines.

Rotation of non-HR leaders into and out of the HR function can enhance the HR sophistication of those non-HR leaders as they return to their original or previous business roles. Dedicated HR business partners need to remain a common element of HR operating models, but their role is not so much to tailor HR activities to the business as it is to deliver a common set of activities and expertise. Having non-HR leaders with first-hand experience in the HR function can help those non-HR leaders become more aware of the value and nature of the services and HR expertise. This can make them better partners and consumers of that expertise when they return to their business roles.

We believe there can be a bright future for the HR function if it is designed and managed strategically. Our research shows that most organisations are doing many of the things they need to do in order to be strategic contributors, but are failing to do some important ones. HR operating models that create a more permeable boundary around the HR function seem to be a particularly powerful way to enhance the strategic role and contribution of HR going forward.

'Having HR leaders gain first-hand experience as business leaders throughout their careers seems likely to prepare them more fully for true business partnership than does having only HR jobs.'

[8] BOUDREAU, J. (2010) *Retooling HR: using proven business tools to make better decisions about talent.* Los Angeles, CA: Center for Effective Organizations, University of Southern California. http://ceo.usc.edu/news/retooling_hr_-_new_boudreau_bo.html

Cloud technology in the HR operating model

'Technology is bigger than gas and electricity – it's going to turn our world upside down'

Gareth Williams was appointed to the Travelex Executive Committee in March 2013 as the global HR director, representing the critical role our 7,000+ colleagues play in making Travelex the business that it is today. He is accountable for the global people agenda and leads the generalist HR team, the L&D team, the centre of HR excellence and the HR shared service centre across the world. Prior to Travelex, Gareth held a range of HR and business transformation/change roles at Goldman Sachs, Sainsbury's and, more recently, BT. Gareth holds an MBA from London Business School and is also a Chartered Fellow of the CIPD. He holds a non-executive role at London's Guy's and St Thomas' Mental Health Foundation. He is also a volunteer telephone counsellor for the Terence Higgins Trust.

Technology is changing the world we live in as consumers and as employees. In a world where consumers want access to anything, from anywhere, at any time, businesses have to offer services, whether they be products or other services, to meet the customer demand. In addition, there is a new type of employee, one who is more concerned with whether there is a woman on the board of directors and what they can wear to work than with compensation, which would probably feature as priority four or five on their list. It's this digitisation of the world that is changing the expectations of people. I believe that the customer and employee experience should be aligned: the omni-channel consumer at some point has become the omni-channel employee.

What does this technological-driven change mean for HR?

Many organisations are increasingly automating traditional HR and people management activities, particularly through the implementation of cloud technologies.

The first thing that organisations have to get right is the operational basics: HR technology can support the delivery of seamless processes that are automated. Organisations, regardless of size, should try to put as much standardisation as possible into operational HR business processes such as administration, payroll and recruitment. If you don't get the basics right, you do not earn the right to play in any other space and you shouldn't try to move up the value chain. Service-level performance metrics and qualitative feedback will help you recognise when you know you have done enough and you are ready to move on.

In my organisation, I now have the team supporting the cloud technology solution that runs the optimised operational HR processes in my team, in the centre of excellence. I have IT business analysts, technology development and a technical architect: I'm the CIO of HR. I'm not dependent on IT anymore. It's a team that focuses on continuous improvement: how do you improve the technology? The user experience of the technology? And the service proposition around technology? The benefit of using cloud is that it is highly adaptive and changes can be made within seconds. Even the team working in the global shared services centre, reporting into the centre of excellence, are experts in cloud computing within HR.

HR technology also changes the role of HR people in the business. In my organisation, the HR managers who support the business leaders and the HR partners who are the generalists supporting the business both go to work armed with technology.

The HR managers, responsible for the execution of programmes driven out of the centre of expertise and partnering with the business, have seen the implementation of the HR cloud technology solution

allow them to leave the 'non-sexy' HR activities to technology or to the shared services team. It's put them up the value chain in that partner-to-player-type model. Via iPads they have access to mammoth amounts of data about employees and they are able to play around with this data, form hypotheses and start to make decisions about how they can optimise the workforce in the business to which they provide support. Alongside this they are able to provide a coaching and support role to line managers in the business.

The HR partners are using case management technologies to help manage business HR issues through their lifecycle; basic documents such as grievance letters or evidence for a case are centrally stored in the case management tool. We did consider putting case management into our offshore shared services but decided because of previous learnings not to do so. In a global world where culture is a big part of some of the issues you face in disciplinary and grievance cases, it doesn't work trying to manage them remotely.

The role of line managers has also changed with the implementation of the technology. Line managers manage everything, including basic leavers, joiners, analytics for their teams, holiday requests, talent performance, all compensation and payslips via their mobile devices. The mobile adoption rate is 80%; India and Bahrain are leading the way but there are no other significant demographics around usage. What is also interesting is that we're seeing more and more people do their workflow management and their basic HR processes outside of their core working hours. To accompany this change to line managers' roles, we are changing the way we measure performance and next year we will be introducing self-assessment on performance and forcing teams to give their leaders feedback. We recognise the criticality of first-line managers. They are in the single most important leadership role and they need to be educated on good people management skills: how to have honest conversations, how to differentiate performance, how to look at data and use technology. With this population, you can't just put in the technology, even with an excellent change management strategy; you need to have a plan for sustainability which includes the upskilling of the line manager role. There is no question that technology has been the driving force of fundamental behaviour change of our line managers.

In the last three years the role of HR has fundamentally changed. Three years ago they were doing payroll, high-level basic administration, issuing contracts, recruitment, operational grievances and disciplinary work. It was different in every country and there were different capabilities in the HR team. We were a regional operating model and we have moved to a centralised operating model.

When asked about the future of the HR department, which I have been asked a few times recently, I say I passionately believe that HR is beginning to play a huge role in business. I think the function in the future might be larger but with lower operating costs. I think the centre of excellence model might change as the head of HR and HR manager roles supporting the business evolve and the basic operational activities are either automated, streamlined or aggregated. The HR roles supporting the business will take on more of what would have typically been done by the centre; they are thought leaders in their own right.

Analytics is going to disrupt HR, particularly predictive analytics. HR people are going to have to get comfortable with data, deriving insight and translating these into interventions. These interventions will be strategies that enable HR to optimise the workforce. I also see HR people evolving their skills into those that might have traditionally been seen in a marketing discipline. With talent management still being at the top of the agenda, HR will have to think about developing attraction strategies and a value proposition in the world of a talent war that turns much of what has been done traditionally on its head. The new types of employee that we are seeing have different priorities and place demands for creativity on the HR function.

The HR function at Travelex was recently congratulated by the chairman after winning the NimbusNinety Cloud Innovation Award, which recognises the most innovative application of cloud in the enterprise, for becoming the enabling function of the business. In my view, the HR profession has a real opportunity to get out there and add value. HR directors need to be courageous, prepared to take their teams into the unknown and be prepared to adopt this agile methodology of the combination of technology, human capital and data to move the success of their function into the future.

Will the cloud have a silver lining for HR outsourcing?

Andrew Spence is an HR transformation specialist with 20 years' experience leading complex change management programmes in the UK, Europe and the US. Andrew established Glass Bead Consulting in 2006 with the aim of providing an alternative approach to HR transformation.

In addition to his consultancy work, Andrew regularly speaks at conferences around the world, writes and contributes to thought leadership groups, sharing knowledge, techniques and resources in HR transformation with HR and the wider community. He has written articles for the 'HR Transformer' blog since 2009 and tweets @ AndySpence.

History and context

Organisations have had to respond to the seismic shifts in the economy with the increased use of contractors, zero-hours contracts, interim resources, partnership arrangements, consultants and outsourcing to weather the storm. This process has also been mirrored in the HR world as HR directors scrutinise how to source current skills needed to deliver HR services.

Outsourcing started out as a necessity of 'doing more for less' and has increasingly become standard practice, with many organisations using outsourcing to drive efficiencies. However, before outlining why outsourcing might rise again, it is worth a quick refresher of its history and some of the lessons learned.

The birth of multi-process HR outsourcing came about in the late 1990s as part of the first wave of HR transformation, the goal of which was to spend more HR time helping to deliver organisational strategy and less HR time on administration. The tactics deployed involved tools for managers to do more people management and restructuring HR based on economies of scale. These included HR shared services and tactical outsourcing, and economies of scale with business partnering and specialist HR teams. Some of the enablers of these changes adopted ERP technology, corporate portals as well as the emergence of a multi-process HR outsourcing industry.

First wave of HRO – the early adopters

We all understood the logic of the first wave of HR outsourcing in 1999 – freeing up HR to focus on strategic aspects of the job. It is worth pointing out that outsourcing wasn't a new concept in HR, with most organisations already outsourcing their payroll as standard practice.

It was this desire for HR transformation that created ground-breaking global HR outsourcing deals, with Exult-BP and ePeopleserve (Accenture and BT).

The rationale for the 'buyer' organisations such as BP and BT was to use outsourcing to help drive transformation, including standardised HR services, reduced HR cost to serve and access to new innovations such as HR portal technology.

The thinking behind HRO vendors such as Accenture and Exult (eventually bought by AON Hewitt) was to build up a large global client portfolio and benefit from labour arbitrage by offshoring work to countries such as India. The economic case provided a client with 15–20% savings and the possibility of making a 15–20% margin over a ten-year contract.

A longer-term aim was to provide standard HR services using the same technology platform. However, the problem was that each client was taken on in a different state of standardisation,

with a different configured HR system, which meant that the service was very much tailored to that organisation and couldn't easily be shared with other organisations – in other words, the antithesis of standardisation.

The results of this first wave of HR outsourcing were mixed for both client and vendor. As someone who was involved in one of the very first outsourcing projects, I found it exciting, but it caused many sleepless nights! I witnessed at first hand the trauma of moving the organisation to standardised services, HR service centres for clients and also restructuring HR with new roles such as business partners.

As Dave Ulrich, a professor at the University of Michigan's Ross School of Business, reflected, *'Often the first pancakes or first batch of cookies do not come out well.'*

Second wave of HRO – some vendor consolidation and indigestion

The second big wave of change in HRO contracts came around 2006, including Unilever-Accenture and Johnson & Johnson-Convergys. These didn't quite deliver our dream of a standardised multi-tenant service enabling each client to benefit from new innovations either. Instead, these services offered bespoke solutions, tailored to clients' demands and meeting the particular nuances of their HR operating models. They had some success; according to industry analysts, Everest Group, the multi-process HR outsourcing market is worth about US$3.3 billion globally.

Although the HRO industry consolidated, outsourcing contracts lasting a decade were thin on the ground when organisations couldn't see where they might be themselves. Single process outsourcing went from strength to strength, such as benefits administration, recruitment process outsourcing, payroll and learning.

From my perspective working on both the client side and the vendor HRO side, there were a number of lessons learned in the first two waves of HR outsourcing.

Key questions that need to be thought through before considering outsourcing:

- How will outsourcing fit with your HR operating model and HR strategy?
- Does your organisation really have the appetite to standardise HR processes and services?
- Do you have required experience managing third parties?

My view is that cloud will have a significant impact on HR and will help HR to deliver the original goal of freeing up time to focus on strategic imperatives. And outsourcing will play a big part in that for many organisations.

Third wave of HRO – will the cloud give HRO its silver lining?

There is a lot of excitement around technology as a driver for change, particularly in talent identification and development, and workforce productivity. HR continues to have

'There is a lot of excitement around technology as a driver for change, particularly in talent identification and development, and workforce productivity.'

challenging requirements, from finding future top sales performers to providing tools that monitor the performance of a global project team. There is now a relentless move to migrate HR systems from on-premise to SaaS (software as a service). At the 2013 HRO Today Forum in London, Mike Ettling, Global Head of Cloud and On-Premise at SAP, commented that: *'The game-changing impact of SaaS is the fact that SaaS is melting business processes. In the past we designed our system around the process; now we have to design our process around the system.'*

A great benefit of an SaaS solution is avoiding the expensive and time-consuming customisation 'fudges', for example trying to get the system to map your exact paper-based performance management process. SaaS drives process standardisation because 'you get what you are given' in terms of functionality, and then configure it for your organisation. However, you still need to persuade employees to work differently.

Cloud will force HR to become more standardised, requiring less centralised HR teams to maintain it and breathing life into the HR outsourcing market.

A new offering – business process as a service (BPaaS)

The impact of cloud technology also gives HR some attractive outsourcing options, for example, move HR processes onto a standardised SaaS platform and outsource the management of the HR technology platform and HR administration. This combined offering of business process outsourcing and software as a service has been called BPaaS, or business process as a service. BPaaS offers standardised yet highly configurable HR services, allowing organisations to standardise transactional HR processes. The rise and rise of Workday, and others such as SAP's SuccessFactors, has stimulated the HR outsourcing market with NGA HR, IBM and AON Hewitt all with HRO contracts using SaaS.

As SaaS forces HR to standardise, there is less HR administration needed, therefore the BPaaS deals so far have been smaller in size. The BPaaS model fits nicely with the new generation of agile HR operating models.

So with the potential benefits of a new generation of HR outsourcing, how might this impact future HR operating models?

Impact on HR operating models

To benefit, HR will need to learn from the past and execute a more standardised approach to the delivery of HR services.

Software ultimately has to be used by us pesky humans. Good design, robust governance, communications, training and support are always needed irrespective of the next technological breakthrough.

And with any outsourcing, the same questions need to be asked about how it fits with the HR operating model and HR strategy.

As we design a new generation of agile HR operating models, the adoption of cloud and outsourcing will pose some interesting trends to watch, including:

- SaaS will automate many HR tasks; manual HR work will be reduced substantially.
- There will be less need for HR service centres as cloud-based systems manage to support the move to self-sufficiency for managers.
- There will be a new type of HR outsourcing which develops more around business consultancy services and specialist HR advice than service centres/manual processing.
- More HR resources will be allocated to solving business problems.

Summary

The early innovators of multi-process HRO had the right idea, but perhaps at the wrong time. The conditions for multi-tenanted HR outsourcing are now possible because of cloud technology. Two challenges HR will have to overcome are a resistance and scepticism to outsourcing, after mixed results in the past. Whether we use cloud or on-premise ERP HR systems, the hard work required to standardise HR services across geographies and divisions will still need to be completed, but now the benefits will be worth it.

Reflecting on the past and looking to the future: the importance of business structure

In the 1990s, the HR field was working to support competitive advantage through something called 'strategic HR'. At a simple level, strategic HR meant that different business strategies (winning through cost, product innovation, customer service or geographic expansion) would be better implemented by aligned HR practices. In this process, many advocated moving HR thinking and work from administrative to strategic, day-to-day to long term, and transactional to transformational. Other functional areas were also separating the administrative from strategic work (for example, managing money was separated into finance and accounting; managing information was separated into data centres and information systems). My work (*HR Champions*[9]) argued that HR had to deliver both administrative and strategic work.

Many tried to figure out how to organise HR departments to deliver both administrative and strategic work. Some of the routine, standardised, transaction work of HR was done through shared services, which included outsourcing and service centres heavily dependent on technology. While this transaction work had to be done efficiently, the more strategic work required both specialised expertise and generalised business application. This led to the centres of expertise HR professionals who could offer deep technical insights, tailor solutions to unique business requirements, and share knowledge across business units and to embedded HR professionals who would customise solutions to their unique business strategies, become advisers on talent and organisation to the business leaders, and serve as a primary course of contact for business leaders.

The basic goal of this HR governance logic was to provide both strategic insights and administrative efficiencies at the same time.

Over the past 15 to 20 years, HR work has become more granular. The outcomes of HR are not just administrative efficiency or strategic execution. The outcomes of HR have become the capabilities that an organisation requires to win in its marketplace. These capabilities likely include talent and leadership, which are essential for any strategy, but also include capabilities such as innovation (in product, market, services, business models), agility (speed of change or flexibility), collaboration (teamwork, cross-functional teams, merger or acquisition integration), customer service, efficiency, managing risk, changing culture, and so forth. The capabilities represent what an organisation is known for and good at doing and vary depending on an organisation's strategy. Capabilities represent the outcomes of HR that enable strategy to happen, ensure customer share over time, and increase investor confidence

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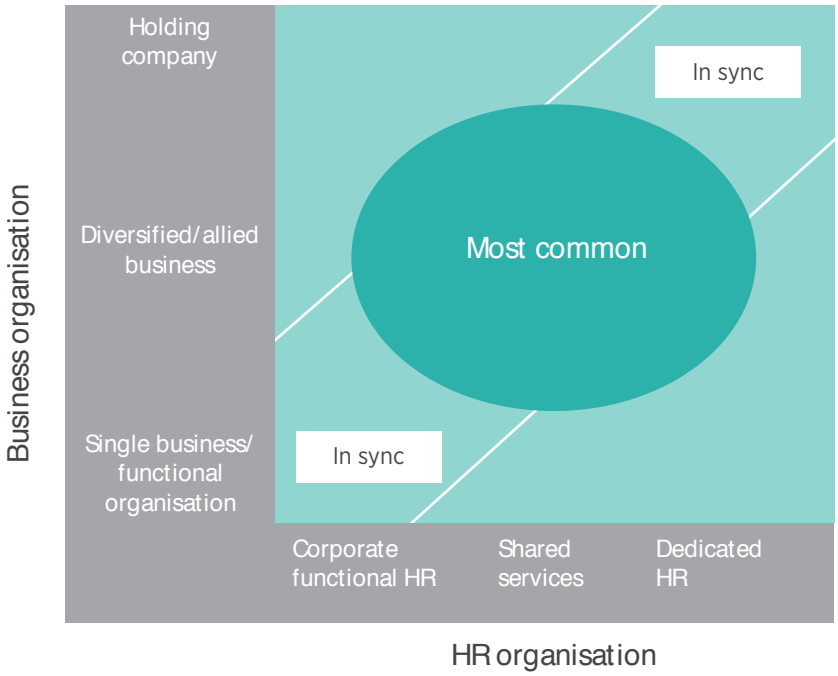
He has published over 200 articles and book chapters and over 25 books. He edited *Human Resource Management* from 1990–1999, served on editorial board of four journals, on the board of directors for Herman Miller, board of trustees at Southern Virginia University, and is a Fellow in the National Academy of Human Resources.

[9] ULRICH, D (1997) *HR Champions*. Boston: Harvard Business School Press

Figure 7: Alignment of business organisation and HR organisation



as intangibles. The HR department should be governed to ensure that these capabilities can be defined and delivered.

In evolving the HR department, we start with HR as a business within a business. As such, the HR organisation should be structured in a way that reflects the structure of the business. Companies typically organise along a grid of centralisation–decentralisation, which leads to three basic ways in which a company operates (see Figure 7): holding company, functional organisation or diversified/allied organisation. The HR department should mimic the structure of its business operations.

Functional organisation: When the company comprises a single business, it competes by gaining leverage and focus. The role of HR in the single business is to support that business focus in its people practices. As long as the organisation remains primarily a single line of business, HR expertise most logically resides at corporate, establishing company-wide policies (there are no centres of expertise, but functional specialists), with HR generalists in the plants or divisions responsible for the implementation of these policies. They do so because there is no meaningful differentiation between the business and the corporation. Smaller businesses are functional organisations by scale and probably 20% of larger businesses continue as functional businesses.

Holding company: When the company is composed of multiple, unrelated businesses that are managed independently, it is best described as a *holding company*. While pure holding companies are rare (probably about 10% of all businesses), we see some resurgence of holding company structure associated with the rise of large and well-capitalised private equity and investment firms such as Carlysle, Berkshire Hathaway and Blackstone. For example, Berkshire Hathaway owns or controls Dairy Queen, NetJets, GEICO Insurance and Fruit of the Loom. Or another example of a holding company could be News Corp that owns to name a few companies HarperCollins, News UK (that is, the *Sun*, *The Times*) and BskyB. Each of these separate businesses has their own independent HR organisation with a full range of HR specialists serving that business. There are few corporate or generalist HR professionals.

Diversified/allied businesses: Most large companies are neither pure single businesses nor are they true holding companies. They lie somewhere in between, either in related or unrelated spectra of diversification. They create operating or business units to compete in different markets, yet try to find synergy among them. They have shared services, centres of expertise and embedded HR. Like any professional services firm, the job of HR is to turn their knowledge (in specialised centres) into client

Table 2: Functional HR, shared services and dedicated HR

Dimension	Functional	Shared or professional services	Dedicated
Business organisation	Single business	Related or unrelated diversification; often a matrix	Holding company
Design of HR policies	Performed by corporate functional specialists	Alternatives created by specialists in centres of expertise	Designed and delivered by functional specialists within a business
Implementation of HR practices	Governed by corporate specialists	Governed by local HR professionals who select options from centre of expertise menu	Governed by local HR specialists embedded in the business
Accountability	Corporate HR	Split between operations and HR	Local business leader
Services orientation	Standardised services across the corporation	Tailored to business needs with consistency through learning and sharing	Unique services for each business
Flexibility	Mandates use of internal resources	Has flexibility as governed by the centres of expertise	Each business creates what is required
Chargebacks	Business units pay an allocation of HR costs	Business units pay for use of service	Business units fund their own HR costs
Location	Strong corporate presence with HR generalists on site	Wherever makes sense	Small corporate HR office, with HR staff at local level
Skills requirements for HR	Technically expert in design and delivery	Design expertise, but also consulting and support	Business expertise and technical specialty in business
Wealth-creation criteria	Corporate shareholder value	HR value-creation for line managers, employees, customers and investors	Business unit profitability

results (through embedded HR professionals). This is the dominant logic for many HR organisations today in large multi-divisional companies. Some have called it the 'Ulrich model', although I did not create it, but observed, researched and wrote about it. HR leaders used this model to offer more granular HR solutions to business problems.

In recent years, some have tried to figure out 'what's next' in how HR departments will be organised. The challenge again starts with the business and the most basic question is, 'how will the business be organised?' The basic business structure challenge remains grounded in the centralisation–decentralisation grid and debate, and so does the HR department challenge. Some have misinterpreted our work as advocating that HR should be organised through shared services in all business settings. One well-intended study interviewed HR leaders in government agencies and SMEs and they critiqued the shared services logic. Duh! These organisations were functionally driven and should not create an HR organisation that is different from the business organisation.

Many have created a straw man of the business partner logic by saying that it is outdated, but then proposing exactly what the HR business partner logic proposes. This week, I received this blast email:

Clearly, the democratic Way of Resourceful Humans has emerged as the most exciting alternative to structure a vanguard Human Resources strategy beyond the Predict & Control derived HR Business Partner concept.

I cherish innovative HR thinking and practice by building on and evolving what exists. HR business partner logic starts with how to win in the marketplace, emphasising how to win with customers and investors. Creating better talent, leadership and organisation capabilities remains at the heart of this logic. It is useful to learn and move forward in the HR field by defining new required organisation capabilities and ways for HR to deliver these capabilities.

‘The obsession with some about how to organise an HR department seems to not be the most important part of HR’s agenda to deliver value.’

We are doing a fascinating cloud or open source project on the future of HR. We have asked about 60 to 70 ‘thought leaders’ (loosely defined with a mix of academics, consultants, association leaders and senior HR leaders) to answer the question, *‘What do HR professionals need to know or do to be effective in today’s and tomorrow’s business world?’*

As we have culled their answers, not one essay has referred to how the HR department is organised. The obsession with some about how to organise an HR department seems to not be the most important part of HR’s agenda to deliver value. This finding is consistent with our research that asked over 20,000 HR and non-HR clients to rate what HR departments should focus on to deliver business value. The highest ranked in terms of ‘how well done’ and lowest ranked in terms of ‘delivering business value’ was reorganising the HR department.

We find that HR professionals deliver the most value when they focus on:

1 **Perspective of outside in**: Make sure that the HR work links to external stakeholders. This means aligning HR not only with business strategy but also with general business conditions (for example, social, technological, economic, political, environmental and demographic global changes), but also with external stakeholders such as customers, investors and communities.

2 **Outcomes of talent, leadership and capabilities**: HR professionals have to make sure that their HR work delivers talent (competence, commitment and contribution of the workforce), leadership (at all levels of the company) and capabilities (unique identity of the workplace).

3 **HR practices**: Ensure that HR practices are aligned to business demands, integrated with each other, and innovative to offer new and creative ways to build agility into the organisation.

4 **HR professionals**: Continually upgrade HR professionals to demonstrate competencies that enable them to drive business results by positioning their organisation to win, managing change and agility, offering integrated HR solutions, building personal credibility, using information to make informed decisions, and managing paradoxes inherent in business success.

These seem to be some (clearly not all) of the issues for HR professionals moving towards responding to the incredible opportunities facing the profession.

Owning our HR operating model: an enterprise-centred organisational design methodology for HR

There seems to be no HR function that is not embarking on, is not part-way through, or has not recently completed major change in the way it organises itself and how it delivers its services to the organisations it supports.

Much has been written on how to implement the ubiquitous 'Ulrich model'. Billions have been spent on outsourcers, consultants, advisers and technology platforms that have apparently 'transformed' HR. Many hours of reflection have been spent by businesses wondering why the first, second or even third rounds of HR transformation have not achieved what they wanted, both for the function and the organisation itself. The 'What comes after Ulrich?' question has been floating around for a few years now, but few coherent propositions have arisen and even fewer fully implemented as alternative operating models for HR.

Our belief is that HR's struggle with what comes next, and the near mono-culture we now see in the way HR organises itself, is a direct consequence of HR failing to take a systematic and methodical approach to the organisation design of its own function. This would lead to designs that they themselves are the architects of and that are anchored in the current and future needs of their businesses.

The disciplines and toolkits for organisation design were developed and pioneered in the early 1970s by internal change agents at IBM and GE and soon after adopted by strategy consulting firms. Why these methodologies have not become part of the core knowledge base of HR is the subject for another paper; however, the purpose of this one is to advocate and illustrate the benefits of applying methodical organisation design to the reshaping of HR and its operating model, an approach that both starts and ends with the enterprise as a whole.

Almost by default the drivers for functional improvement come from beyond the function itself, imposed on HR: internal instructions to cut costs, cut numbers, improve ratios, adopt the enterprise-wide technology platform, get the basics right, standardise, simplify, outsource and offshore. And a cacophony of external voices: 'use us as we know better than you' say the armies of consultants, 'use our technology, it's better than theirs' say suppliers, 'follow our star' say the gurus, and so the external voices go on. And so HR frequently follows.

More appropriately some enterprise-wide organisation changes do require HR to follow suit and change its structure and ways of working: rapid organisation growth, mergers, acquisitions, divestments, retrenchment, relocation, change of ownership, the introduction of matrix structures, centralisation, localisation. Though HR is not often enough the architect of the new enterprise-wide restructuring, these top–down changes provide

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Barry was previously Global Director of Organisation Development at BOC Group, Global Line of Business HR Director at BOC Group and Global Organisation Development Director at The Linde Group. Barry is also an experienced trainer, facilitator and consultant. He combines mastery in instructional design with deep subject matter expertise and ensures that there is humour and fun in his programmes.

Barry's previous clients include the BBC, Virgin Media, Orange, EE, Yell, SIG, Sanofi, Pfizer, Atkins, Dentsu, Aegis Network, Alvarez and Marsal and University of Southampton.

Anton Fishman has spent the last 30 years advising and working alongside HR functions as they improve people processes, enhance their HR functional capability, and learn to lead and manage their own function as well as providing support to the business.

Anton has has an MBA from Cranfield and has held previous roles in Hay Group. He founded a successful change management consultancy called Regenesis and its business psychology offshoot Corporate Insights. He then became a partner in Boyden Interim Management and latterly co-founded Crowne Finch, the HR transformation consultancy, helping establish it as a leading international provider of consulting services to HR before becoming its chairman in 2013.

Anton is now consulting in the HR, OD, capability and culture domains as MD of Fishman & Partners Ltd.

an ideal opportunity for HR to take the initiative in the organisation redesign of their own function.

The organisation design process should always start at the enterprise level, with HR posing a series of questions about how effective the current enterprise operating model is in enabling the organisation to fulfil its strategy. Our belief is that HR leaders are failing their organisations if they are merely designing HR organisations that perfectly fit anachronistic enterprise models. The first question should be: 'To what extent is the enterprise operating model fit for purpose in delivering the firm's strategy?' Only then should the focus move to the HR organisation and its capacity to support the business strategy.

Structure should follow strategy and the launch point for a review of HR structure should be a people strategy that clearly differentiates the role that HR will play in enabling the enterprise to deliver its strategy. This is not a generic list of HR activity and projects. Strategy is about making choices. It is about differentiation. So, which people-related choices are going to enable this business to deliver its differentiated strategy and deliver its specific goals?

In answering this question, the organisation design team should be thinking not just of structural options but about reshaping leadership, capabilities, processes and the other elements of its operating model.

Organisation design criteria should be determined and agreed early on in the process. These may be related to fit and alignment to the broader enterprise as well as to elements of the people strategy. They should then be used to evaluate the contrasting benefits, costs and transition risks of the alternative organisation designs for HR.

It is a myth that there is a perfect structure. Every structure entails a series of compromises, for example the loss of standardisation for the benefit of localisation, or vice versa. The question that must be answered is, 'Which compromises are we willing to make and where will we hold our ground?'

In designing an operating model for the function, a 'whole systems' approach should be taken to identify changes to be made in processes, governance, culture, leadership, accountability, resource allocation, boundaries and hand-offs, and so on, in order to create a coherent, self-sustaining and integrated way of working.

What emerges then is not a porting-over of someone else's best practice nor an implementation of a 'standard' model nor one sold in by advisers who 'know better' than the business. This is a structured, sequential, paced and methodical process. As a result, the emergent operating model is anchored in the business, the design is coherent and systemic, the business case is made, key stakeholders have contributed to the shaping of the model and they become key to its implementation. This methodical approach results in diversity of HR operating models, alignment and innovation in design – characteristics too often missing in HR operating models.

So what does this mean for the further development of the HR operating model?

Developments in IT have made employee and manager self-service a reality, making HR largely redundant in basic 'personnel' processes.

While this has been happening, a more significant change has been happening. Organisations have become increasingly bigger, more complex and more global. With poor internal alignment and lack of cross-functional effectiveness, the organisation expends a lot of its energy fighting with itself. Like an octopus wearing roller skates, there is a lot of activity but little momentum. Most people who've worked in complex matrices will relate to this metaphor. If HR isn't focused on optimising the system as a whole, which function is?

Whether as an HR function or an 'organisation effectiveness' or 'business transformation' function, the name is less important than its capacity to act with flexibility and with pace, to partner the business in change, to develop and embed practical solutions that are owned and sustained by the business, and that create a work environment that attracts and retains the HR talents and capabilities the business needs.

HR directors and their leadership teams have to be courageous and bold in anticipating their organisations' needs in this way, taking ownership of their own change agenda rather than responding time and again to external pressures to change. By continually making itself redundant and reinventing itself in this way, HR can maintain its relevance to the business and its centrality in organisational performance.

What does the future of HR look like in an SME?

The term 'SME' is broad, including a wide range of organisations from a one-man band to a company of 250 staff which may look similar to a large organisation in terms of structure and process. And so the people management approaches adopted across this diversity of organisations will look very different.

To consider what the future of HR may look like in SMEs, I'll first look at the current HR models and approaches being adopted in smaller organisations. I'll then go on to consider what the insights from my in-depth case study research with a wide range of SMEs could mean for the future, in particular what operating models could look like ten years from now, whether the capability requirements of HR will change, and whether there are implications for HR career models.

How do SMEs currently organise and develop their people function?

In thinking about what HR may look like in SMEs in the future, let's first do a stock-take of the choices SMEs are currently making about how to best manage their people. The overarching questions to consider are: whether and at what stage does an SME typically need an HR professional? Or perhaps someone responsible for the people agenda, whether they have 'HR' in their job title or not? And what are the most important people management areas to focus on?

My case study research demonstrates that the needs of an SME will also change over time. Decisions depend on a range of factors, including workforce size, sector, growth ambitions, industry and the owner/founder's views on the importance of investing in their people.

My research with smaller organisations has revealed a wide range of different 'HR' approaches, from focusing only on contracts, pay and admin, to a more holistic HR approach addressing the employee lifecycle and thinking about what's really going to make a difference to the long-term health of the organisation: employee engagement, talent development and career paths.

Some case study organisations chose to hire a professionally qualified HR manager at an early stage of business growth to ensure they have the right people in place to meet their growth ambitions. At the other end of the spectrum, some companies have chosen not to employ an HR professional, despite employing over 100 staff. This doesn't mean they don't take people management seriously – far from it. Many have adopted alternative approaches, for example leaders and managers take on HR responsibilities that may not be expected in other organisations. Or an office manager may operationalise great people management and development with the support of an HR consultant.

Jill Miller joined the Chartered Institute of Personnel and Development in 2008. As a research adviser, her role is a combination of rigorous research, active engagement with academics and practitioners to inform projects and shape thinking, and active dissemination of research findings and thought leadership. She frequently presents on key people management issues, leads discussions and workshops, and is invited to write for trade press as well as offer comment to national journalists, on radio and TV.

Jill's current research initiatives focus on the role of people management in driving SME growth. She has conducted research with both UK and Singapore SMEs to propose a framework of how people management practices and approaches need to change as SMEs grow and transition. Her most recent work takes an in-depth look at how SMEs can keep their culture and values at the heart of the business and how SMEs can best recruit and develop talented people.

‘A small business’s people requirements will change over time as the company grows and matures. It follows that who champions and delivers on the people agenda will also change as the business demands change. ’

As Harney and Dundon[10] articulate: *‘the extent of formalisation of HRM should not be seen to be indicative of the substance of HRM.’* It’s clear that SMEs are not simply a scaled-down version of a larger organisation. They are unique in their culture and whatever people-related decisions are made need to suit their particular organisation context.

A small business’s people requirements will change over time as the company grows and matures. It follows that who champions and delivers on the people agenda will also change as the business demands change.

A four-stage model of SME growth

Through my case study research with a wide range of SMEs, across sectors and sizes, I have proposed a four-stage framework of SME growth or maturity. Each stage is associated with particular people management approaches, including the HR operating model typically adopted.

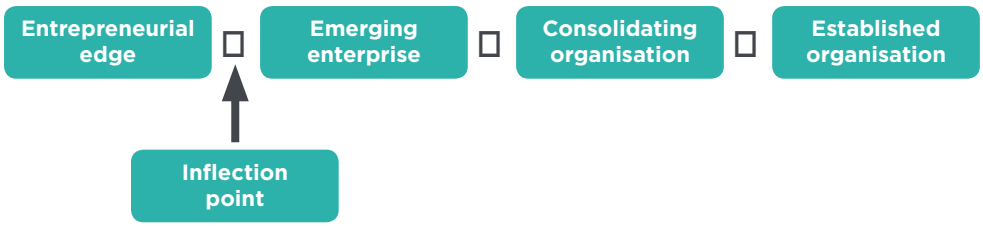
Between each stage is what I’ve referred to as an inflection or a tipping point. These are typical points reached by SMEs where the current people approach is no longer suitable or effective for the business. The needs of the business and hence its people management needs are changing – it’s through looking ahead to these transition points and taking action to adapt or introduce new people-related activities that the business will be sustainable.

Not having the right approaches in place can stunt growth, lead to turnover, failure to fulfil customer orders, and ultimately require extra effort to reconnect with staff who’ve become disengaged. And in organisations where no one takes responsibility for the people agenda, these issues will be clearly apparent.

How does an SME’s HR requirements change through SME growth?

As a company moves through the stages, the people challenges change, with implications for the

Figure 8: Four stages of SME transition



[10] HARNEY, B. and DUNDON, T. (2006) Capturing complexity: developing an integrated approach to analysing HRM in SMEs. *Human Resource Management Journal*. Vol 16, No 1. pp48–73.

nature and demands on the people role. As we'll see, it is likely that as the company grows, so does the need for more specialist people management capabilities. There are also more opportunities to support the longer-term health of the organisation. For example, a larger workforce makes it possible to offer development and career progression.

Entrepreneurial edge

In the start-up entrepreneurial phase of an SME, people issues tend to be dealt with (or not!) by the owner/founder, with no formal HR role. Overall the business tends to be characterised by informality, with an emergent strategy, fluid structures, flexible job roles and tacit knowledge exchange.

In terms of its people, the focus is on hiring the right key people with the right skills to run a certain section of the business. The owner/founder takes responsibility for hiring, looking for someone who 'fits' with what their company is all about and is inspired by what they're aiming to achieve. The people-related requirements tend to be minimal, centred on pay and contracts, with the rate for the job set by the owner. Employees tend to be self-motivated by the business's aims and learn through doing, needing to get involved in all sorts of activities beyond their core job role to make the company a success. The owner's vision and their personal values guide both the 'what we do' and 'how we do it'.

If there are more serious issues, for example a tribunal claim, a solicitor tends to be the first point of call, or conversations with the bank or accountant for advice on where to go for help. There may be a similar reaction when 'the firsts' happen, such as the first pregnant member of staff on the books. Most other events are dealt with ad hoc, including bereavement leave, someone handing in their notice or clashes between members of staff.

Emerging enterprise

If the business transitions into the emerging enterprise stage (through increasing workforce numbers or needing a more formal approach), more people issues come to the fore. In many of our case studies this stage was associated with larger-scale hiring than previously and more operational staff. People and performance issues become more salient and some structure and procedures need to be introduced to guide work, define job roles and create a sense of fairness across the organisation.

Within the emerging enterprise stage a key transition point for the business is when the owner/founder needs to delegate some responsibility for the running of the business to other leaders and managers. Teams emerge and day-to-day people responsibility is largely devolved to line managers or team leaders, often promoted on their technical capability with little or no management training.

On the whole, in the emerging enterprise stage HR tends to be transactional and reactional. Payroll is usually the charge of the finance manager and in many cases the office manager takes on some workforce-related activities, such as establishing absence records and holiday scheduling, and addressing people issues as they emerge. This role has the tendency to grow into a more formal HR role in the next stage.

In some organisations an HR manager is hired (full- or part-time) with the remit of putting in place the necessary procedures and policies. In others an HR consultant was engaged in this stage with a remit to address particular people issues, put in place the structure and process needed, or in a more ongoing general advisory capacity.

The decision to hire HR or someone to take on this role formally is determined by the business leader or founder's views on people management and development. There is a marked difference in business approaches at this stage in terms of whether the owner just wants to have the necessary policies in place to 'keep them out of court', to the other end of the spectrum where they see their people as fundamental to their success, believing strongly in the link between happy employees, happy customers and a positive balance sheet.

My research has found there are a variety of impetuses for deciding to hire/develop the business's first HR professional:

- The business has reached a size where policies and procedures are needed to guide work and create a sense of fairness.
- The owner/founder feels that people issues are taking up too much of their time.
- People management is seen as vital for growth and to achieve the company's vision.
- There is a specific people issue that needs to be addressed, for example tribunal cases, skills shortages, high turnover.

It's important that an HR professional understands the leader's motivations for hiring them and also thinks about how they themselves position their role – how can they influence people across the business through demonstrating their credibility and value-adding role?

Consolidating organisation

The consolidation phase is characterised by reflection and

improvement and typically taking a step back, ensuring that people practices support the longer-term ambitions of the business.

Whereas in the earlier stages the focus was predominantly on responding to immediate operational issues, now just putting a process in place to solve an issue isn't enough. With each issue there's a golden opportunity to also build on the organisation's cultural foundations. There is a huge risk by this point of growth that what the business is all about, its founding principles and values, can become diluted and even disappear. HR is ideally placed to keep these core business principles alive by ensuring the values and purpose are threaded through the people practices.

A more planful approach to resourcing is needed, looking at long-term skills requirements, as well as a more formal approach to management and leadership development. Consideration needs to be given to who assumes the learning and development role to address these skills and training issues. Furthermore, the size of the organisation at this stage typically makes establishing career paths possible for the first time. Some case studies talked about this stage being associated with people looking outside of their organisation at their friends' careers and wanting the same opportunities.

In the same vein, many of the organisations I've worked with have introduced a more sophisticated reward offering at this stage. Performance-related pay or profit-sharing are common mechanisms used to promote staff engagement with organisation goals.

HR tends to be in-house by this stage. Most of our case studies had either hired an HR manager into the business (some organisations had offered the HR consultant they worked with in their start-up stages a full-time position) or were supporting the development of an existing employee (typically an office manager) to formalise their HR role through study.

Interviewees in my research flagged the pros and cons of both options. Developing someone whose background is not in HR means they need to get up to speed quickly as a generalist, but they already have a sound appreciation of the business, people's roles and growth ambitions. When hiring an HR manager externally, business leaders talked about the need to make sure they understand the business and what it's all about and that introducing policies from a corporate background weren't necessarily going to work 'round here'.

With prior focus tending to be on recruitment and establishing policies, a different HR skill set is needed now. Whether the current HR professional is a generalist or a recruitment specialist, their attention needs to be focused on talent development, engagement and a more sophisticated reward proposition. And as the focus of the business tends to now be shifting to a longer-term view, the HR approach needs to do the same. In some of our case studies there was an HR assistant responding to the day-to-day requirements of HR, as well as an HR manager balancing the short- and long-term demands.

Established organisation

In this final stage of the framework the SME is looking more like a larger organisation. A strategic approach to people is needed as the business's focus is on sustainability, combining expertise around the internal context (culture, engagement and internal collaboration) and scanning of the external context of wider industry and labour market trends.

The HR function also typically looks more like a department, with a generalist HR manager or director and specialist HR professionals leading on recruitment and learning and development.

Overall, the critical transition point for our case studies moving from a transactional to a strategic people approach occurred between the emerging enterprise and consolidating organisation stages. Attaching workforce numbers to the stages didn't reveal any particular pattern, with SMEs growing and transitioning at different workforce sizes, depending on their strategy, the leader's view on people management and the industry the business operates in.

So what does the future of HR look like in an SME?

Small business success depends on its people, their drive and their contribution. Someone needs to take responsibility for leading the people approach, making sure the right people are hired, and they are developed and managed in the most appropriate way.

This responsibility has traditionally been thought of as the 'HR' role, but my research has shown that the people agenda can take many different guises, and the demands of the role change through business growth and maturity. Some aspects of people management are more critical at different stages of business development. This leads me to propose that we think more broadly in terms of a 'people' role for an SME.

Many entrepreneurial small companies already have this broader mindset, which is in stark contrast to the more traditional large organisation mindset and HR operating model. Adopting a broader view presents a range of possibilities for what the future of HR looks like in an SME. I consider some of what we need to look at in terms of its form and function, and also how we think about HR careers.

Will the key capabilities needed by HR in SMEs change?

Working in an SME is clearly a different experience from working in a large organisation. There is a spotlight on certain capabilities HR needs to develop to have maximum impact on business performance. The importance of these is unlikely to change, and I believe we need to be calling these out to both attract the right people into the role and to steer personal development.

Being comfortable with role agility

A considerable amount of agility is required and a passion for personal development. You need to have generalist knowledge, being able to manage the spectrum of people management and development issues. But this needs to be overlaid with a degree of specialist knowledge in key areas which can be tuned up or tuned down as the business requires. Business acumen and the ability to think ahead are needed to ensure that this tuning up or down of specialist skills happens at the right time.

Also, the reality of working in an SME is that the scope of any job role expands beyond the one you are contracted to do. Despite the increased workload, most people saw this as a positive thing as their role extended into other areas of the business, increasing their business savvy. There is also huge opportunity to get involved in all aspects of the business, the speed at which decisions are made and change can happen, and the ability to quickly see the impact of what you do.

Adopting a fluid HR approach

It is clear from the case study learning that people policies and practices can't be seen as set in stone. They need to be fluid, changing as business and workforce needs change. What works for a team of 30 people won't necessarily work for a team of 100, where there is likely to be more people diversity.

A fluid approach helps to feed innovation, with this mindset making it easier to trial different people approaches, either shaping and improving on beta versions or removing what doesn't work. But it also requires an HR professional to be comfortable with change, uncertainty and operating in largely unknown territory.

Assuming a coaching role

More attention needs to be given to ensuring the quality of 'operational HR' – the translation of policy into practice at an operational level. This means more investment in up-skilling managers to effectively manage people. HR needs to take a leadership and oversight role on the people agenda, being able to coach line managers to manage their teams most effectively.

Operationalising HR policies requires an understanding of the particular business context, making sure that the people practices are enacted in a way consistent with its culture and values. A close relationship with the rest of the business enables practices to be co-developed, tested and refined.

'The reality of working in an SME is that the scope of any job role expands beyond the one you are contracted to do.'

‘Operating in an HR role perceived as a bolt-on to the business is not going to be nearly as impactful as being able to influence business decision-making.’

Developing and demonstrating business acumen

Operating in an HR role perceived as a bolt-on to the business is not going to be nearly as impactful as being able to influence business decision-making. However, the reality is that sometimes the expectation of HR is to keep the business owner out of court. Here HR has to work really hard to demonstrate credibility in a wider business role. Being able to articulate a clear business need and demonstrate the impact of people initiatives are vital skills for persuading the rest of the business of the potential impact that a more strategic approach to people management can have on productivity and profit.

In the words of one interviewee in my research: *‘To be an effective HR manager in an SME you need to be perceived as a business person who happens to know an awful lot about excellent people management.’* This requires business acumen, a long-term mindset, external as well as internal focus to be able to spot trends that will affect the business in the future, and being able to communicate effectively with different stakeholders.

What are the implications for HR career models?

The capability requirements we've discussed lead us to think differently about HR careers and routes into the profession. As a business transitions through the growth/maturity stages I've outlined, more people-related challenges emerge and a more sophisticated people approach is required. This does require specialist people-related insight, knowledge and skill. So how do we attract and develop the people who are going to be most effective in these roles?

Typically in an SME someone within another function takes on the people role which develops over time. These people tend to assume a dual role, perhaps later making the move to a solely HR role. This career route means they bring with them operational understanding and business acumen, and combine it with people knowledge and insight.

In traditional HR career models, rotations in and out of HR are rare, with a study by Lawler and Boudreau (2015)[11] finding that less than 2% of the companies they surveyed reported great use of this practice. Is this combination-style career model, and the general closeness between all parts of the business, a privilege of SMEs or a model that has useful elements for larger organisations, particularly around career rotations?

We also need to think about how agility can be built into HR roles – a key facet of SME working. CIPD survey research of HR professionals about their careers revealed that generalists tend to stay generalists and specialists stay specialists. But in an SME HR professionals need a combination of the two, having generalist skills and wide-reaching basic knowledge, but being able to tune up or down particular specialisms when required. Demands on their knowledge and hence agility are wide-reaching.

What might SME HR operating models of the future look like?

The typical transitions the HR function goes through are from

[11] LAWLER, E.E. and BOUDREAU, J.W. (2015) *Global trends in human resource management: a twenty-year analysis*. Stanford, CA: Stanford University Press. http://www.sup.org/books/title/?id=242777

having an HR consultant initially, to hiring or developing an in-house HR professional, to gradually growing the in-house HR team. But given the capability requirements discussed above of needing to flex generalist and specialist skills as the needs of the business and the workforce change, is this the only model to follow?

We are seeing more and more networked and virtual organisations developing, particularly in the small, entrepreneurial business space. I wonder if this model will increasingly spill over into the traditional HR one? For example, could SMEs have a core, generalist HR professional in-house and share specialists across an SME cluster? Will regional or professional 'centres of excellence' develop which SMEs can dip in and out of?

Given the emphasis SMEs put on ensuring the cultural and values fit of their people practices (and rightly so), having an in-house person to oversee this is essential. And someone who has the generalist knowledge to be able to select and guide the right specialists makes sense. But ultimately one person cannot be expected to be an expert in every area of HR.

Another question around future HR operating models in SMEs is whether we will see a division of administrative and strategic HR. HR professionals in SMEs often talk of the difficulty in splitting their time and resources between the more administrative tasks and the longer-term approaches they need to put in place for the sustainable health of the business. Many were grappling with how to better balance or even split this tension.

Some small businesses that were keen to embed people management and development into the very core of how they operate adopted what could be termed integrated HR. A distinct split of transactional and strategic HR duties was facilitated through more devolution to line managers and greater employee empowerment over their own development and the way they manage their work.

Another feature of this integrated-style model was characteristic of the mantra, 'If it doesn't exist or doesn't work, build it!' HR embarked on collaborative innovation with other parts of the business, co-developing systems and practices that worked for them.

For a more in-depth discussion of the issues discussed here and case study examples of some of these increasingly emerging new forms of organising and the capabilities required of HR in SMEs, take a look at our SME hub page: **cipd.co.uk/smes**

Living in a collaborative world: implications for HR operating models

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In the last two years I have been working with the CIPD in general, and Dr Jill Miller in particular, on a project called Beyond the Organisation. In this work we have built up a picture that shows the wide-scale reliance on collaborative arrangements in the economy today, and the increasingly inescapable need for organisations to understand how to better manage collaborative working.

Employers are increasingly finding that they not only have to manage their own workforces, but also have to manage workforces across the partnering network. These responsibilities are becoming too complex to be managed solely through contracts and formal governance arrangements. Informal mechanisms that ensure good-quality and trusting relationships are vital to the success of the network. Yet customers expect and need the relevant organisations to be brought together and to collaborate effectively, by operating in a coherent and an integrated way. This is leading to an expansion of responsibility, and heightened exposure to the risks of poor co-ordination and control across partnered arrangements.

The main business issues faced in partnering arrangements are threefold: risk, governance and capability-building. All three issues are highly people-centric, and dependent on relationships and management behaviour. HR therefore has the opportunity to make a significant contribution to partnering success and to set a clear strategic agenda for the function. This will change the way that HR functions will work, and the way that they organise and deliver their HR services.

In a forthcoming research report from the Centre for Performance-Led HR at Lancaster University and the CIPD entitled *Realising HR's Vital Role in the Success of Partnering Arrangements*, we examine six different case study settings across the public and private sectors. In the private sector we looked at industry-wide partnerships in the nuclear industry at the Nuclear Decommissioning Authority/Sellafield Ltd. We have studied developments at Shell in response to the complex portfolios of joint ventures in the oil and gas sector, and we have examined the pursuit of collaborative business models at Rolls-Royce Aerospace and their use in the co-creation of value in aircraft engines. But operating in a collaborative world is not the preserve of the private sector. In the public sector we see the pursuit of multi-agency working in local government, the growth of strategic collaborations in police forces and the move from direct provision to a commissioning model in the National Health Service – we have looked at West Sussex County Council, Dorset Police/Devon and Cornwall Police and NHS East Cheshire/Avarto in this context.

Our initial review of existing work in this area uncovered six main issues for HR to consider when

deciding on the most appropriate HR architecture for their business context. They need to:

- understand the way the whole partnering network operates to inform HR choices
- support partnership arrangements and build a core HR capability around this
- differentiate the level of strategic support that HR must offer between and across collaborative arrangements
- develop leadership for the whole network
- design the HR delivery model so that it can cope with crisis situations
- deal with the issue of employees' dual identity that exists in many of these new arrangements.

Four responsibilities for the HR delivery model

Collaborative working carries important implications for the way that organisations should think about the HR capabilities they need, and in turn the most important HR structure and delivery systems. We found that the HR delivery model has to be aligned to four overarching responsibilities that become important in partnered working:

1 oversight of the intended strategy

2 ensuring the integrity of the strategy as it is executed

3 ensuring the integrity of the operations

4 optimising the operations as the partnership evolves.

Given a need for more cross-organisation collaborative working, should partners not pool or share some of their HR resources with other partners? Often each partner has to deliver strategic project work by moving HR resources from internal projects and businesses to some of their external relationships or collaborative businesses; this is often done informally by secondment.

The shift from the management of immediate to longer-term integration issues across various forms of partnered working creates other challenges for HR:

- As the organisation makes important integration decisions, how do you ensure the spread of important learning across partners, and also ensure that such learning continues to take place?
- How do you hand over the insight that any HR expertise dedicated to the collaboration has created or arrived at, and then ensure that such insight is subsequently acted upon by others if needs be?
- When important decisions were arrived at during the early or planning stages of a collaboration, how do you hand over the insights arrived at during the initial planning activity, or any decisions, judgements or sensitivities that were arrived at in assessing the pace of actual versus desired integration, to those people in HR who might subsequently become involved in operational matters? Or how do you justify subsequent changes in this assessment?

Design solutions

Across the organisations we studied, we found three broad responses or 'design solutions' to these sorts of challenges. But before we lay these out, there are two important questions to consider:

- Do organisations need to adopt only one of the solutions below, or might they 'mix and match' elements?
- Do all organisations in the network need to put in place the same model for it to be effective?

We can be clear about these questions. The answer to both is 'no'. Organisations do not adopt only one solution; they might 'mix and match' elements. An organisation may use one structure for one partnering arrangement and a different structure for another relationship. In fact, in one partnering arrangement, several different models might be in place; Shell, for example, will broker in more or less of their own resources in relation to the importance and risk of the joint venture. Indeed, we do not believe that the choices we lay out below are the only ones – each HR operating model needs to be bespoke to the needs of the network – and there will be other solutions put in place, we are sure.

This then helps answer the second question. All organisations in the network need to make some adaptations to their HR operating model, and they need to have clear interfaces so the 'join' is seamless, but once you get 'inside' any one member of the network, the internal business and operating logics become the most important force to shape their HR operating model. The partners just need to understand those logics and why they are in place.

Dedicated project resources

So, the first design solution has been to create dedicated project resources within the HR function that can be assigned to the more strategic activity triggered by working on projects both within the organisation, or those that operate beyond your own organisation. This also involves re-aligning the culture and relationships between the other major arms of the HR delivery

mechanism. For example, in Rolls-Royce, independent of the need to service a collaborative business model, changes have been made in the HR structure that introduce a major projects directorate within the HR function. But this is well suited to a collaborative environment as well.

In the case of major 'business-as-usual' projects, activity is safely directed into a service operations team working closely with senior business partners and HR directors who can make sure the issue is being executed in the right way. But where a novel or strategically important intervention has to be made, say for example to help manage a partner or supplier in distress, this is handled via a programme management office, through a formal process that brings together sector business and regional HR directors and examines the whole pot of potential activity, determines which activities must have a call on what is a finite amount of project resource, and what needs to be dealt with in a different and more creative way.

However, those who operate a strategic portfolio system to organise and allocate HR resource recognise that the scale and complexity of the work involved creates its own unique demands. In practice, stakeholder management becomes more complex, business partners can struggle in areas where it's less clear who has accountability with whom and upon what they have to be collaborating, and potential cost savings might therefore be difficult to achieve.

Partitioned structure

The second design solution has been to partition the HR function between those roles that maintain an inward and own-organisation focus, and those roles that have duties across broader partners. From an organisation design perspective, often single points of contact are important in managing complex relationships – knowing who to talk to, to get things done, or to ask questions of. For example, the Nuclear Decommissioning Authority (NDA) has an organisation structure in which a director and a site-facing team face off to all the nuclear management partners. The HR structure needed to echo this. The NDA designed their HR function by splitting the roles into those that face inwards to the NDA and those that face outwards to the broader nuclear estate and the need for collaborative activity. The two separate arms – the inwards-facing and outwards-facing (to contractors) structures – each face very different issues. The outwards-facing HR professionals have to be supported by a high-level organisation development capability. Before they put their own organisational design in place, they relied on skills of appreciative enquiry in order to ask questions around how people understood the relationships, the complexities of how people worked across the nuclear estate.

Strategic integrator role

The third design solution has been to create various strategic integrator roles that operate across internal and external businesses, and serve to bring together dedicated expertise under their leadership. The HR function addresses potential holes in their delivery model through the creation of new strategic integrator roles – into which they can concentrate dedicated expertise. This expertise might be aligned to different challenges. In Shell these integration roles have been established and aligned to the management of international joint ventures, which have a particular importance in their upstream business. In Rolls-Royce strategic integration roles have also been created, but have been aligned to the management of mergers and acquisitions, which are critical to their business, and also to the supply chain.

One thing though now seems self-evident. Whichever design solution an HR function might adopt, there are important questions to ask about its delivery model and its capabilities. These developments are starting to change the types of skills or capabilities that organisations need, either in the specific parts of the HR structure that work across organisations, or within the HR function in general. They are bringing to the fore specific HR skills, such as organisation design, skills or leadership development, employer relations and engagement. They are changing the roles of business partners and the way they have to work. In short, they are placing tensions on traditional HR structures, which are becoming increasingly unfit for purpose when one lives in a collaborative world.

How does an organisation entering into a partnering arrangement decide on the most appropriate HR structure to support the network? Our work has shown that this needs to be based on an assessment of the level and types of risk the partnership carries, the form of governance that has been adopted (contractual or trust-based) and the need for mutual insight into the capabilities of the whole network. This must, however, be done with an appreciation of their wider business structure.

CIPD viewpoint

We need to continue to research and understand the evolving operating models and structures of the HR function.

We support the view that there is not one model for delivering HR that is suited to all organisations. How an organisation should structure its HR function depends on its organisational strategy, wider organisational structure and the requirements of its customers and the organisation it is supporting. These things can be influenced by other factors such as size and maturity of the organisation. Potentially there are some principles that can be applied in all organisations.

Decisions about how to structure the function should be taken using a rigorous approach to organisational design, starting by looking at the organisation holistically rather than straight at the HR function.

The following questions should be asked:

- Does your organisation have a clear organisation strategy?
- Is your organisation structured to deliver this strategy?
- Do you have a clear HR strategy that is aligned with your organisation's strategy?
- Does your HR structure replicate your business structure?
- Is your HR structure set up to deliver your HR strategy?
- Do you understand the capabilities your organisation needs to deliver upon its strategy?
- Will the decisions above withstand change?

You should also consider:

- Who are your clients and what do they need?
- What capabilities do you need within HR and how might these be organised into roles? How can these capabilities be developed?
- How will the different roles work together?
- How can you use technology to improve processes and your client experience?
- To what extent might you want to outsource some of your HR activities?
- What role will your line managers be playing and do they have the required capabilities?
- How will you evaluate and measure HR's performance?

It's an exciting time to be in HR. There is no doubt that the function is changing and will look decidedly different in the future. Much thanks goes to the contributors of these thought pieces, who have helped highlight some of debates changing HR operating models. The CIPD would like to invite people to contribute to this discussion by emailing **j.cooper@cipd.co.uk** or tweeting under the **#changinghr**.

'It is an exciting time to be in HR. There is no doubt that the function is changing and will look decidedly different in the future.'

Useful information

Below are some of the CIPD resources that may of interest to readers:

Other research

The Changing HR Function
http://www.cipd.co.uk/hr-resources/research/changing-hr-function.aspx

Annual HR Outlook survey
http://www.cipd.co.uk/research/outlook-series.aspx

'Beyond the Organisation' Understanding the business issues in partnering arrangements
http://www.cipd.co.uk/hr-resources/research/understanding-business-issues-partnering.aspx

'Beyond the Organisation' Organising HR for partnering success
http://www.cipd.co.uk/hr-resources/research/hr-partnering-success.aspx

Factsheets

Organisation design
http://www.cipd.co.uk/hr-resources/factsheets/organisation-design.aspx

Strategic HRM
http://www.cipd.co.uk/hr-resources/factsheets/strategic-human-resource-management.aspx.

Outsourcing
http://www.cipd.co.uk/hr-resources/factsheets/hr-outsourcing.aspx

Toolkits

HR Strategy
http://shop.cipd.co.uk/shop/bookshop/toolkits/organisational-development/hr-strategy

Organisational Design and Capability Building
http://shop.cipd.co.uk/shop/bookshop/toolkits/organisational-development/organisation-design-and-capability-building

Tools

My CPD Map
Based on the CIPD profession map, my CPD Map is an online tool that enables you to build a detailed picture of your strengths as well as identify where there may be gaps in your skills or knowledge. Based on your responses, you will then receive guidance tailored to your needs in the form of workplace development recommendations, further reading, research, events and activities.

http://www.cipd.co.uk/cipd-hr-profession/profession-map/

Training and events

HR Business Partner Conference
http://www.cipd.co.uk/events/hr-business-partner

HR Analytics Conference and Workshop
http://www.cipd.co.uk/events/hr-analytics

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