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DRIVING ORGANISATIONAL PERFORMANCE:

HR's CRITICAL ROLE

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DRIVING ORGANISATIONAL PERFORMANCE
HR'S CRITICAL ROLE

Prof. Rob Briner

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ABOUT **CRF**

Founded in 1994, **Corporate Research Forum (CRF)** is a membership organisation whose purpose is to *increase the effectiveness of the HR function, in order to drive sustained organisational performance, through developing the capability of HR professionals.* Through more than 25 years of research and the expertise of our team, we have developed a deep understanding of the ways HR can contribute to business outcomes – what works, what doesn't, and in what circumstances. With a network of over 250 leading organisations, we continue to grow as the respected focal point and knowledge source for improving corporate and individual performance.

We support our members in enhancing their personal capabilities and building organisational effectiveness, guiding them through topics relevant to success, identifying actionable insights and practical recommendations and facilitating networking opportunities. Our work helps organisations and the HR function make sense of the environment in which they operate, and develop capacity to deal with continuous uncertainty.

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His research has focused on several topics including wellbeing, emotions, stress, ethnicity, the psychological contract, organisational culture and climate, absence from work, motivation, work-nonwork and everyday work behaviour.

Beyond academic research and teaching Rob helps practitioners and organisations make better use of evidence, including research evidence, in decision-making as well as encouraging academics to make scientific research more accessible. He has written for and presented to practitioners on many aspects of management, HR and organisational psychology and is now involved in many initiatives aimed at developing and promoting evidence-based practice. He has received several awards for his work in this area including the British Psychological Society Division of Occupational Psychology Academic Contribution to Practice Award in 2014 and topped *HR Magazine's* Most Influential Thinker list in 2016 and in 2019 received a Lifetime Achievement Award and was admitted to *HR Magazine's* Hall of Fame.

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APS COMMENTARY

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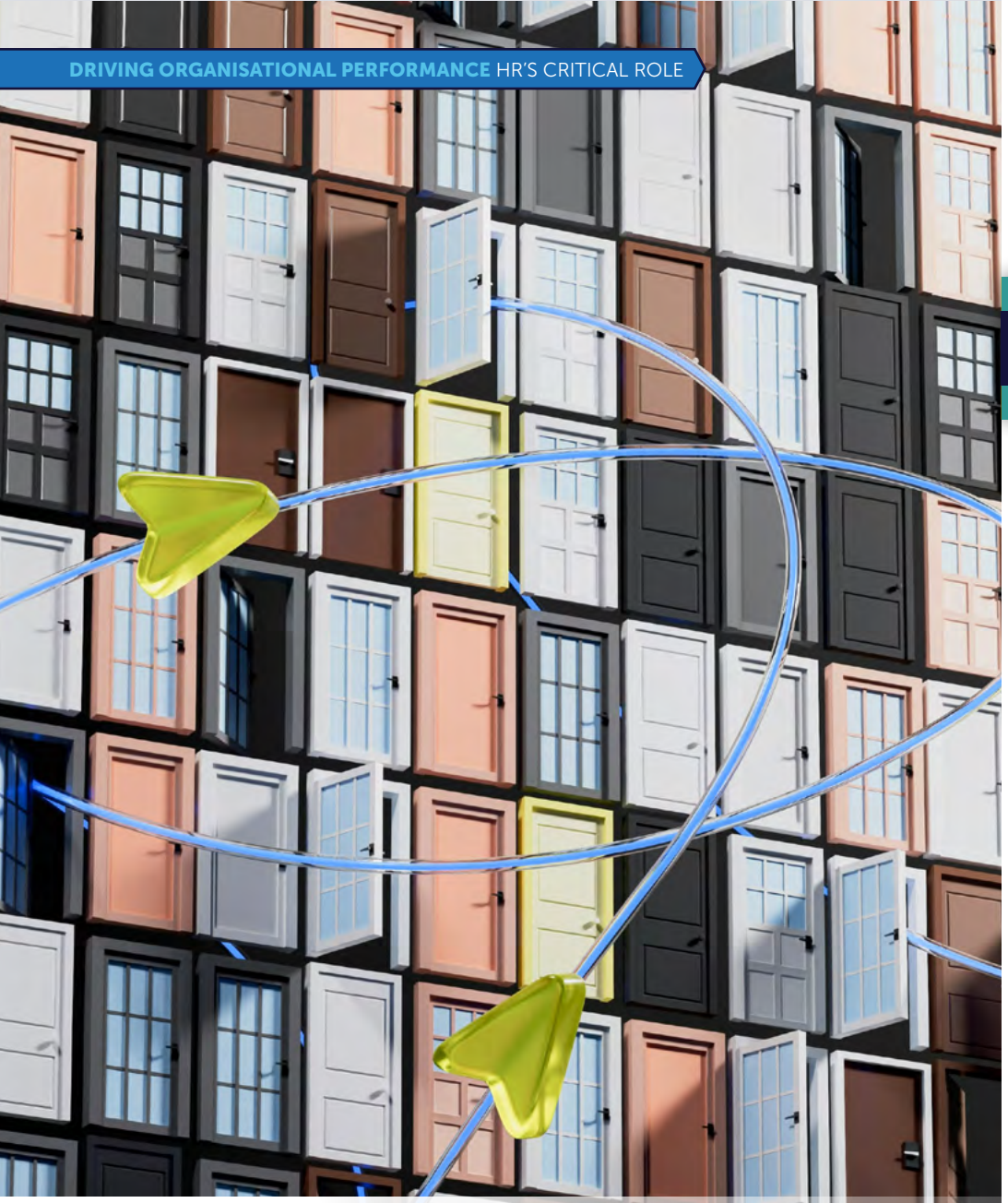
HR professionals are likely very aware of the crucial role they play for the organisation at the strategic level. The ongoing engagement and capability of leadership from the top down is the key catalyst to deliver strategic results. For this to work, systems, culture and people capability must align with the future vision and direction required to thrive and survive in today's world.

Ultimately each business function needs to play its part to deliver organisational goals. Our ability to cascade the clear outcomes needed is more important than ever, together with organisational agility to adapt and shift direction quickly as circumstance changes in today's VUCA (Volatile, Uncertain, Complex and Ambiguous) world. For individuals working at various levels – do they have the critical knowledge, skills, experience and character to deliver their bit? And do leaders have the capability to communicate clearly what's needed and develop their teams to do it? What this looks like at each organisation is highly context dependent. Therefore any performance management system you implement must align to your business objectives, and consider how and if critical objectives are delivered across the organisation.

Rob Field, Learning and Development Director



KEY TAKEAWAYS

DRIVING ORGANISATIONAL PERFORMANCE
HR'S CRITICAL ROLE

It has long been accepted that the fundamental purpose of the HR function is to help the organisation achieve its objectives. Yet, as has been widely-observed, HR does not drive organisational performance as much as it should or could. The idea of driving performance sounds straightforward yet, at the same time, we know it's more complicated and challenging than it seems.

The purpose of this report is, therefore, to provide a framework and practical guidance for HR functions to think through for themselves and in their own context how they can most effectively help drive organisational performance.

Every HR function will need to do different things to drive performance in its own organisation. Why? Because so much depends on the context such as the specific strategic objectives of the organisation at that time, organisational structure, the effectiveness of other functions, external economic and labour market conditions, the sector and the legal landscape, and so on. **What this means, is that HR functions need to design and deploy specific practices tailored to their particular context and needs of the business in order to drive organisational performance.**

The ultimate measure of organisational performance can be considered to be long-term share price. However, when it comes to what organisations can do in the shorter term, 'organisational performance' is considered to be the extent to which it achieves its strategic objectives. **A key starting point for HR is therefore having a very good understanding of what these strategic objectives are and what measures are considered most important.**

The scientific evidence showing causal links between HR and organisational performance allows for only quite limited conclusions. This is partly because of the challenges of conducting high quality causal research but also because of the importance of context – making it difficult to generalise. This research does not conclude that there are *no* links but, rather, that it is difficult to specify the exact nature and strength of such links. Where it is possible to draw stronger conclusions is in research showing, unsurprisingly, that within HR there are unlikely to be 'best practices'.

To what extent does HR impact organisational performance? This question is difficult to answer but most of our interviewees suggested that HR functions' impact on performance can often be quite small. One important question is *why* HR does not always drive organisational performance. There are several explanations. First, as our interviewees identified, HR functions are often not sufficiently focused on the business and, instead focus on HR activity. Second, there are internal and external situational constraints which limit the ability of HR to impact organisational performance though some of these are under HR's control.

In our review of the practitioner literature and practitioner perceptions it became apparent that there are different perspectives on or ways of thinking about what HR needs to do to impact organisational performance. These six perspectives are:

- Getting HR operations 'right'
- Doing 'good' HR and following best practices across the function
- Implementing bundles of HR practices (e.g., High Performance Work Systems)
- Performance management
- Strategic talent management
- Focus on the organisation's strategic objectives and how HR can help achieve them

The first two perspectives are not useful if the goal is to improve organisational performance. While there is some evidence for the third perspective, the exact nature of the bundles probably still depends a lot on the context. The fourth perspective, performance management, can be a useful way of thinking about how HR impacts performance but *only* if there are clear links between high level organisational strategic objectives, team level, and individual objectives or goals. While the logic of this is obvious it is also clear that in many or perhaps most instances objectives do not cascade down from the organisational level to the individual level meaning that this approach may often be ineffective. Perspective 5, strategic talent management is likely to help depending on how easy it is to identify key roles and individuals who are likely to perform exceptionally well in them. Of all the perspectives, it is only perspective 6 that gets to the heart of how HR can contribute to performance.

Several forms of practical guidance for HR functions who want to do more to impact organisational performance are provided. **First, we present a range of key questions that every HR function needs to be able to answer about the business,** its strategic objectives and HR's role in achieving those objectives. These questions can be used to explore current levels of knowledge, identify gaps and find ways of increasing knowledge and filling these gaps.

A second form of guidance is designed to help HR functions **join the causal dots between specific HR practices (or bundles of practices) and specific strategic objectives.** Two example cases are presented to show how HR functions can identify, given their context, HR practices that are likely to help the organisation meet its objectives.

The third form of practical guidance is a **self-evaluation continuum** which describes on one end the approach, activities and CHRO characteristics which indicate that the function is likely to be making a very low contribution and on the other end the approach, activities and CHRO characteristics which indicate a high level of contribution. This can be used by HR functions to identify the extent to which they currently make a contribution to organisational performance and what they can do to increase their contribution.

Fourth, we provide a **process model of how HR drives organisational performance.** This model starts at the top with asking whether the business has a clear and coherent set of strategic objectives and whether the HR function understands these objectives. After a number of intermediate steps, including asking if HR has a 'people plan' focused on meeting these objectives, the model moves on to asking if the HR function is evaluating its plan and deliverables. Finally, it asks if the function is constantly checking if and how strategic objectives have changed or are likely to change and what this means for the plan.

The key takeaways from this report are that HR functions can and should do more to contribute to organisational performance. But, in order to do this, they need to be able to identify for *themselves* and in *their context* what *specifically* they need to do to help the business meet its strategic objectives. We believe that the analysis and guidance provided in this report will help HR functions do exactly that.

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1.0 INTRODUCTION

The fundamental purpose of the HR function is to help the organisation achieve its objectives. It does this largely through deploying practices which shape employee behaviour in ways that contribute to those objectives.

It sounds simple yet, at the same time, we know it is more complicated and challenging than it seems. First, the links between what we actually do in HR and the performance of the business are not always obvious and can be difficult to observe and measure. Second, HR does not always, or perhaps even usually, drive organisational performance as much as it could.

Building on these two observations:

The purpose of this report is to provide a framework to enable the HR function to develop a clear and strong understanding of how they can most effectively help drive organisational performance and the practical steps this involves.

The general value of HR has been questioned many times over many decades. Quite often, it seems, the response of the profession has been to find new ways of working by, for example, designing and implementing new HR models and roles, restructuring the function, redesigning existing practices or adopting apparently novel or 'cutting-edge' HR practices.

This approach can, in some circumstances, be helpful to a degree. However, *the only effective approach is a relentless and precise focus on how practically the HR function can help the business meet its strategic objectives.* This is exactly *why* Evidence-Based HR always starts with the investigation and identification of a presenting business issue (see our latest report on this topic *Evidence-Based HR: A New Paradigm*).

The same logic applies to identifying how we can best drive organisational performance. It's not so much about discovering new ways of doing things, redesigning processes or adopting the latest thing. Rather it's about standing back and taking time to understand as accurately as possible what the business is trying to do and what, therefore, that means for what we need to do.

In general, HR functions do usually believe what they currently do is making a difference to organisational performance. Some will have reasonable evidence that shows this – others will not. But ask *how* they believe this happens or about the processes involved and from different HR functions you'll get a wide range of quite different perspectives. Surfacing and analysing these perspectives is an essential starting point in advancing our understanding of what it is we can do in our own organisations and what is most likely to work and what is likely to be ineffective.

In general, HR functions also believe they should and could do more to impact organisational performance: that HR has not only a responsibility but also the ability to do so.

AIMS OF THE REPORT

The aims of this report are to:

- Outline broader historical and scientific debates about the role of the HR function in organisational performance.
- Explore some of the reasons why HR functions do not always contribute to organisational performance.
- Analyse the logic and value of different HR-organisational performance perspectives.
- Present key questions HR functions can use to evaluate the extent to which their activities are currently focused on organisational performance along with practical advice about how HR-organisational performance links can be strengthened.

RESEARCH METHOD

Our research consisted of:

- Interviews with 11 senior HR practitioners (listed in the appendix) nine anonymous HR professionals who participated in two focus groups and other experts. We are most grateful to all our participants.
- A review of academic literature of the evidence and mechanisms linking HR practices to organisational performance.
- A review of practitioner literature around HR practices and organisational performance.

2.0 HR AS A DRIVER OF ORGANISATIONAL PERFORMANCE: SETTING THE SCENE

For many decades researchers have examined the extent to which, how and indeed *if* HR drives organisational performance. For a range of reasons, the scientific literature does not provide straightforward or easy answers. However, the literature does provide several important insights for how HR functions can think through for themselves in their own settings what they can do help drive organisational performance.

One of the most crucial insights from this work is the importance of *context*. Put simply, what a HR function needs to do in a particular organisation to impact relevant organisational performance outcomes *depends* on a wide range of contextual factors.

WHAT SHOULD HR DO TO DRIVE ORGANISATIONAL PERFORMANCE?

...IT DEPENDS

When considering how an HR function can best help drive organisational performance there are many aspects of the context which need to be taken into account. These are examples of such contextual factors:

- **Strategic imperatives of the business** *(e.g., expansion, cost reduction, customer satisfaction, quality)*
- **HR capacity and capability** *(e.g., resources, size and design of function, expertise)*
- **Line and senior management capacity and capability** *(e.g., management and leadership competence)*
- **Organisational structure and size** *(e.g., hierarchy, divisional, span of control)*
- **The roles and effectiveness of other functions** *(e.g., customer service, production)*
- **The state of and future trends in the labour market** *(e.g., availability, costs)*
- **Economic context** *(e.g., confidence, inflation, interest rates)*
- **The sector** *(e.g., retail, knowledge work, manufacturing)*
- **Legal and regulatory landscape** *(e.g., employment law, compliance)*
- **The nature of the connections between HR and senior management** *(e.g. relationship between CHRO and CEO/CFO and board, senior management who understand what HR can do and ask for it)*
- **The history of the organisation**
- **And so on...**

What this means, in other words, is that every HR function will need to do different things to drive organisational performance depending on these and many other contextual factors. HR functions therefore need to be able to identify and understand these contextual factors in order to deploy specific and tailored approaches and practices which are likely to have most impact.

Perhaps the primary contextual factor is what 'organisational performance' means in a particular context at a specific point in time. We now consider the multiple meanings and measures of organisational performance.

2.1 WHAT IS ORGANISATIONAL PERFORMANCE?

It's not possible to understand how HR can drive organisational performance without first developing a good *general* understanding of what it can mean and a clear *specific* understanding of what it means for your organisation both right now and in the immediate future.

So how is organisational performance typically defined? Fundamental to most definitions is the idea that it's about the organisation achieving what it sets out to achieve. For example:

- ***Organisational performance is a measure of how well an organisation is achieving its objectives, including financial, operational, and market-based outcomes.***
  Richard, P. J., Devinney, T. M., Yip, G. S., & Johnson, G. (2009).
- ***Organisational performance involves measuring the efficiency and effectiveness of an organisation in achieving its strategic goals.***
  Bititci, U., Garengo, P., Dörfler, V., & Nudurupati, S. (2012).

The strategic goals of different businesses can, of course, vary enormously. But, whatever the goal, what they have in common is that achieving each requires the goal to be broken down into smaller, lower level and more specific and measurable sub-goals which, if achieved, should contribute to the attainment of higher level strategic goals. Increasing overall sales revenue from existing products and services, for example, may require sub-goals such as rebranding, more effective marketing, bundling products, employing more sales staff, training existing sales staff, improving customer experience, etc.

This table illustrates some of the main categories of organisational performance measures as well as some examples of the types of measures included within each category. Depending on the context, some of these may, in themselves, also be strategic goals while others are more like sub-goals which if met will contribute to strategic goals. And yet others may be completely unrelated to organisational performance. For example, measures of customer satisfaction or employee turnover may or may not be related or relevant to organisational performance.

CATEGORIES AND MEASURES OF ORGANISATIONAL PERFORMANCE

OPERATIONAL PERFORMANCE	FINANCIAL PERFORMANCE	STRATEGIC PERFORMANCE
» Cost per unit produced	» Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	» Market share
» Cycle time	» Revenue growth	» Innovations
» Defects	» Total shareholder return	» Revenue streams
CUSTOMER PERFORMANCE	**SOCIAL AND ENVIRONMENTAL PERFORMANCE**	**HUMAN RESOURCE PERFORMANCE**
» Customer satisfaction	» Board diversity	» Cost per hire
» Customer lifetime value	» Emissions	» Turnover
» Churn rates	» Supply chain	» Absence

The idea that we start with a high-level distal longer-term goal which we break down into lower-level or more proximal, shorter-term, goals that business units, teams and individuals work on to achieve these longer-term, larger goals, makes perfect sense.

While the logic of this idea is obvious it is also the case that implementing this process can run into a number of challenges:

- Is the business effective in setting and communicating strategic goals?
- How good are leadership and senior management at breaking down and cascading these strategic goals to other levels in the business?
- Are measures of organisational performance always relevant to strategic goals? In other words, are KPIs directly related to the *performance of the organisation* or just measures of *activity* probably unrelated to organisational performance?
- Is there an *ultimate* measure of organisational performance and how easily can it be driven by HR and other business functions? Long-term share price is considered by economists to be the best measure of organisational performance but how, and to what extent can HR influence this outcome?

We will discuss some of these challenges in more detail later in the report but what they suggest is that although the logic of this process is clear, there may be some obstacles to doing it effectively.

In relation to the specific performance measures listed in the table we do not necessarily need to have a hugely detailed understanding of what each means, but it is important for the HR function to be aware of the full range of performance measures used in the business and how they link together and relate to overall organisational performance.

Towards the end of this report we present a range of key questions HR functions need to be able to answer if they want to maximise their ability to help drive organisational performance. Here are some of those questions that relate specifically to performance measures.

EXAMPLES OF KEY QUESTIONS ABOUT THE PERFORMANCE MEASURES USED IN OUR BUSINESS AND CONTEXT

In this business...	
...what are considered to be the most important measures of organisational performance?	?
...what impacts these organisational performance measures? How does it create value?	?
...why are they considered to be the most important?	?
...how are they measured and what do the numbers mean?	?
...what has happened to these numbers over time?	?
...does the business have specific performance targets? What are they? How have they changed?	?
...which organisational performance measures are most relevant our HR function? And why?	?

The extent to which different HR functions are able to answer such questions is likely to vary a lot. So too will the answers because, as discussed earlier, there are many contextual factors which determine strategic objectives and the actions required to achieve those objectives.

In order for HR to drive business performance it must first develop a good understanding of what organisational performance means in our particular context and be able to answer such key questions.

2.2 THE NATURE OF THE EVIDENCE FOR HR AS A DRIVER OF ORGANISATIONAL PERFORMANCE

In this section we consider the role HR plays through its actions and activities in driving organisational performance. The first question we need to address is what exactly we mean by 'HR' when considering how HR might drive organisational performance. We could, for example, be referring to:

- Having a HR function *(versus not having a HR function)*
- The HR function's size and resources
- Particular areas of HR *(e.g., recruitment and selection, training and development, compensation and benefits)*
- Specific HR practices *(e.g., assessment centre, leadership development programme, performance related pay)*
- Internally consistent bundles of HR practices aimed at a specific employee outcome *(e.g., to increase employee competence we might use practices such as recruitment and selection, induction and training and development)*
- Internally consistent bundles of HR practices aimed at multiple outcomes *(e.g., High-Performance Work Systems [such as rigorous selection, extensive training, performance related compensation, involvement, team working] which aim to impact a range of employee behaviours [such as turnover, performance, innovation] and attitudes [such as engagement, satisfaction and commitment])*

Just as it's important to be specific about what we mean by organisational performance it's also important to be clear about what we mean by 'HR' when we discuss how HR drives organisational performance.

In general, it's difficult to draw definitive conclusions from the available published scientific evidence linking HR with organisational performance. In part, this is because of the importance of the context of each organisation as discussed earlier. It's very challenging if not impossible to design and then conduct studies with the very large number of participating organisations required to allow these contexts to be properly taken into account.

If it is the case that, on the whole, different organisations need different HR practices and approaches to drive organisational performance then it seems unlikely that research on the HR-performance link will provide clear or certain answers.

One point of debate in the field is whether or not there are 'best practices' which are effective universally in improving organisational performance or whether what matters is 'best fit' between the HR practices, the context, and the organisation's strategic goals. Given the points already made about the key role of contextual factors in the HR-organisational performance relationship it seems unlikely there are single practices or bundles of practices (e.g., High-Performance Work Systems) that can be considered to be 'best practices'. What is effective will always depend on a whole range of contextual factors – some of which were listed above.

Having said this, there may be some general line management behaviours rather than HR practices as such – like giving people feedback on their performance or clarifying performance expectations – which are likely to be effective in enhancing organisational performance across contexts though even in this example, a lot may still depend on contextual factors such as the nature of the work, how well strategic goals have been cascaded to individual goals and the skills of those giving feedback and clarifying performance expectations.

> The search for and implementation of 'best practices' will not help HR drive organisational performance.

The conclusions from several reviews examining the role of HR in organisational performance provide a useful summary of the general state of the scientific evidence in this field.

DOES HR DRIVE ORGANISATIONAL PERFORMANCE?

Some conclusions from the scientific literature

Whether examining individual studies, the systematic reviews or the meta-analytic summaries of this literature, what we do know is that HRM practices seem to be consistently related to performance. However, the reviews reveal different levels of confidence about the strength of the association, about the quality of the research on which it is based and about the practical conclusions we can draw from it about the impact of HRM.	PAAUWE, J., WRIGHT, P., & GUEST, D. (2013)
In the past decades there has been a growing interest in examining the relationship between HRM practices and a firm's performance... While there is general agreement about a positive correlation between the two factors, inconsistencies in reports raise some doubts about our ability to reach strong conclusions about their relationship.	TZABBAR, D., TZAFRIR, S., & BARUCH, Y. (2017)
Although a large majority of published studies provide empirical evidence of a positive association between HRM and firm performance, it is difficult to demonstrate a causal link... This is largely because insufficient methodological rigor in analysis limits inferences about the direction of causality.	SARIDAKIS, G., LAI, Y., & COOPER, C.L. (2017)
This review has, however, shown that even if evidence-based management appeals to them [managers], the evidence-base in HRM on the surface may appear strong but lacks precision as to what exactly is the core HRM that they should adopt and the factors that affect how it produces superior performance.	WOOD, S. (2018)

While there is evidence that HR does relate to organisational performance, the exact nature and strength of that relationship is not particularly clear. In part, this is because of the correlational or cross-sectional designs of most of the studies which do not allow conclusions to be drawn about causality. So, even where there is a correlation between HR and organisational performance, it may be that it is organisational performance driving greater HR activity rather than the other way around. As businesses become more successful they may choose to invest in more HR.

Another reason why the exact nature of the link remains unclear is because of the 'black box' problem. Although we can measure HR inputs going into the black box and organisational performance outputs coming out of the black box the internal processes linking these two are hidden. Even where the evidence suggests that HR is driving performance we don't necessarily have a good understanding of how it works.

In addition, most of these studies do not allow us to explore other factors which may affect both organisational performance *and* HR activity such as a change in senior leadership or a growth in market share. What we may be seeing in studies that suggest a relationship between HR and organisational performance is, in fact, the influence of such third variables or factors which impact both HR and organisational performance. In other words, it's not that HR is affecting organisational performance but, rather, another factor is increasing (or decreasing) levels of both.

It's worth noting that it is probably easier to research the impact of more specific HR practices on lower-level organisational objectives (e.g., reducing turnover) than the impact of HR practices as a whole on organisational performance but, even here, the effects of specific HR practices are likely to be context-dependent.

In relation to the purpose of this report, the most important conclusion from the scientific literature is that the body of available evidence does not provide directly applicable practical implications. This emphasises, yet again, just how vital it is that HR functions are able to identify *for themselves and in their context* how HR can best help drive organisational performance.

Outside published scientific evidence, some organisations do, of course, collect their own data and conduct their own research about how their own HR activities affect both lower-level business goals and higher level organisational performance. This research is likely to face some of the same limitations as the published scientific evidence (e.g., establishing causality) but it is more likely to be of practical value within that particular context.

2.3 STRATEGIC HUMAN RESOURCE MANAGEMENT: A BEHAVIOURAL PERSPECTIVE

To conclude this section, we will briefly consider one approach to strategic HRM, the behavioural perspective (Jackson, 2013), which helps us think about how we can help at least partly solve the 'black box' problem described above. This has implications both for the scientific and the internal research we may conduct in our own organisations into HR-organisational performance links.

The behavioural perspective has the following three principles:

1. Focus on *employee behaviours*: Those things employees actually do (and do not do) in the workplace.
2. Starting with the organisation's *strategic objectives,* identify *which specific employee behaviours are most important* in helping the organisation achieve these objectives.
3. It is then *the role of HR to design and deploy HR practices that are most likely to produce the desired behaviour which in turn should drive organisational performance.*

This table provides some examples of strategic objectives, the behaviours required to help meet those objectives and which HR practices are most likely to help shape those behaviours. The assumption here is that if these organisational objectives are well-designed then meeting these objectives should, in turn, drive overall organisational performance.

EXAMPLES OF STRATEGIC OBJECTIVES AND HR PRACTICES THAT MAY HELP SHAPE EMPLOYEE BEHAVIOURS WHICH WILL IN TURN ACHIEVE THOSE OBJECTIVES

HR PRACTICE	>	BEHAVIOUR	=	STRATEGIC OBJECTIVE
Knowledge sharing and team cohesion	>	Innovation	=	New products
Improve performance feedback	>	Error reduction	=	Quality enhancement
Training and selection	>	Query resolution	=	Customer retention
Job enrichment developmental activities	>	Task switching	=	Employee flexibility
Training and reward	>	Close more sales	=	Increase revenue

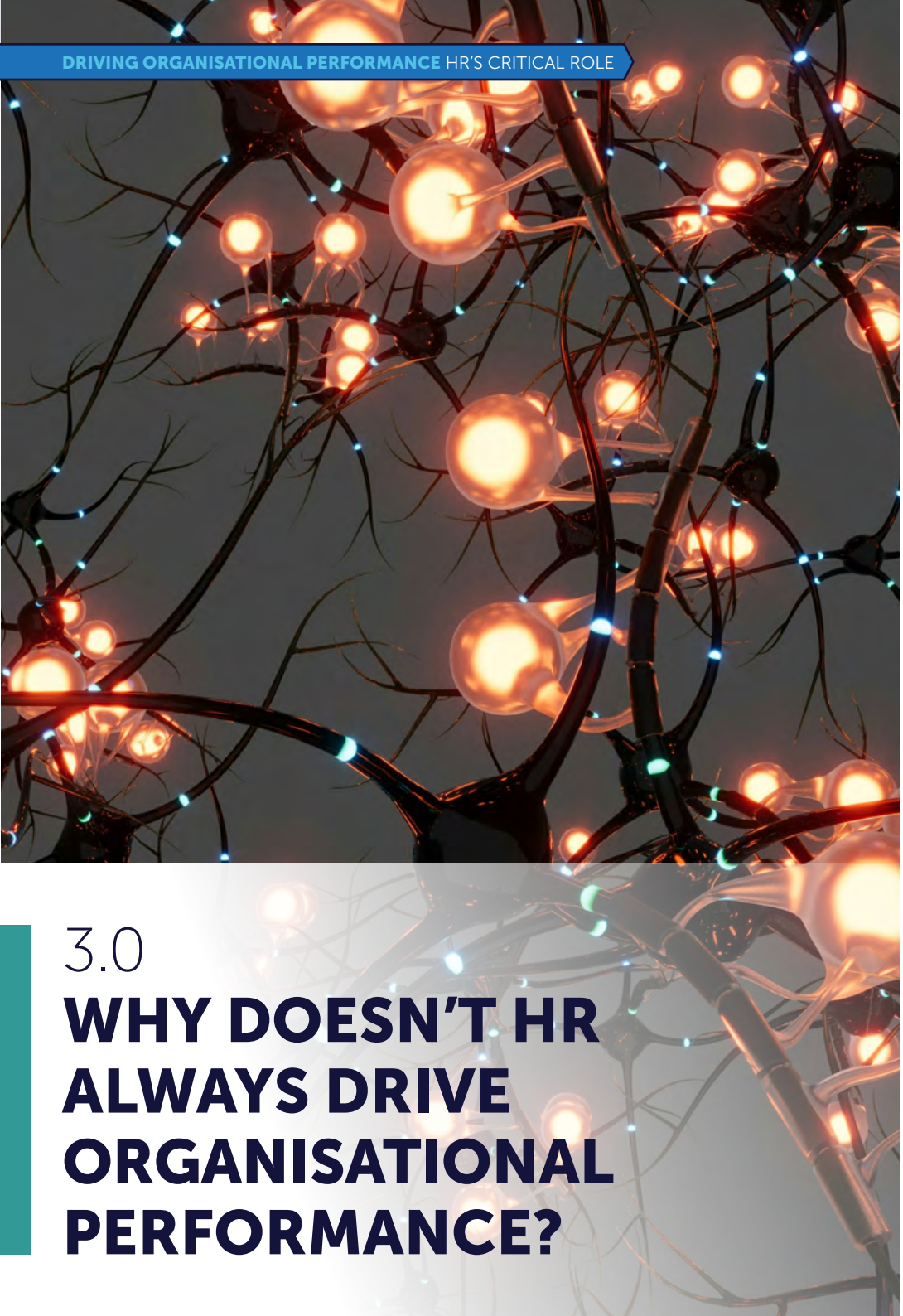
This kind of approach allows us to at least partly unpack the 'black box'. First, we start by breaking down our strategic objectives and how progress towards them will be measured. Second, we can then start to identify, measure and track over time those behaviours we believe will most likely meet those objectives. Third, we design and carefully implement those HR interventions we believe should drive those behaviours. Last, we then start to evaluate the impact of the interventions on employee behaviours and the impact of these behaviours on organisational objectives.

SECTION SUMMARY

In this section we discussed:

- The numerous contextual factors which strongly affect what HR needs to do in order to drive organisational performance
- Examples of categories and measures of organisational performance
- Why the necessary process of taking higher-order organisational objectives and breaking them down into unit, team and individual goals is not always easy
- Examples of questions we need to be able to answer about the measures of business performance used in our own organisations
- The nature of the scientific evidence for HR as a driver of organisational performance
- The reasons why 'best practices' are unlikely to help HR drive organisational performance
- The behavioural perspective on strategic HRM as one way of unpacking the 'black box' between HR activity and organisational performance

We know that the main purpose of HR is to help drive organisational performance. We also know that HR does not always do this. The next section considers why this is the case.



3.0 WHY DOESN'T HR ALWAYS DRIVE ORGANISATIONAL PERFORMANCE?

> *The claim that HR does not always drive performance is not a particularly contentious one. The same could be said for any business function.*

The purpose of this report is to provide a framework to enable the HR function to develop a clear and strong understanding of how they can most effectively help drive organisational performance and the practical steps this involves.

In order to understand how we can help drive organisational performance it is also important to understand why HR does *not* always drive organisational performance. What gets in the way? How can we overcome these barriers? Which can we control and which not?

The claim that HR does *not* always drive performance is not a particularly contentious one. The same could be said for any business function.

Is it possible, though, to identify the *extent to which* HR drives organisational performance? As discussed earlier, the scientific evidence does not lead to clear conclusions about this question. However, another source of information can be found by exploring the views of experienced HR practitioners.

3.1 TO WHAT EXTENT DOES HR DRIVE ORGANISATIONAL PERFORMANCE?

As part of our research for this report we conducted individual interviews with 11 senior HR practitioners as well as focus groups with a number of other HR practitioners.

We asked interviewees about their general perceptions of the extent to which the HR profession and HR functions contribute to organisational performance. The consensus was that while there are examples of HR functions that are highly effective in focusing on actions and behaviours that drive performance, they are less common than we might expect.

On the whole, these HR practitioners feel that HR could do much more to drive organisational performance while, at the same time, some acknowledge this is not always easy to do. It is also notable that underlying many of these perceptions is a sense of frustration that HR has not yet reached anywhere near its potential and is not having as much impact on business outcomes as it could, and should.

PRACTITIONER VIEWS

THE IMPACT OF HR ON ORGANISATIONAL PERFORMANCE

At times, HR can be somewhat self-indulgent. It can over-complicate processes and practices and exaggerate the need to do certain things. It can also overly-focus on soft HR at the expense of what the organisation really needs in terms of hard performance.	**Matt Stripe**, Chief People Officer **Lipton**
How many HR teams are really intentionally thinking about their impact on business performance and trying to measure that? I think that number is quite low.	**Katey Howard**, HR Leader Europe, **Tropicana Brands**
Maybe I'm a bit harsh but I would say the number of organisations with a really good HR function playing a significant role in driving organisational performance is probably quite low. Often I see HR working on processes and policies without pausing to think about why it's being done and what benefits those activities will ultimately bring for people and the business.	**Bev Cunningham**, Formerly Chief People Officer, **Ricoh Europe**
HR can be a bit guilty of building more and more stuff rather than, properly, every year, asking about the value of what we're doing. Are we adding value? Are we contributing to organisational performance?	**Michelle Blayney**, Director, One Bank Capabilities & Culture, **NatWest Group**
For HR directors and leaders to make a difference they need to be genuinely curious about the business and really try to understand how the business fits together. But there's just not enough of them.	**Dave Kowal**, Chief People Officer, **Idemia Secure Transactions**
I feel like we could have an even bigger impact on organisational performance. A lot of the time we get in our own way. There also tends to be a lot of fragmentation in HR so we don't think about how can we join up everything that we do in order to make a much bigger impact. Everybody has their own little piece of what they think is contributing to organisational performance, but it's not necessarily either aligned to the strategy or joined up.	Focus Group Participant
There are some organisations where they've got very good HR and some that make little or no contribution at all. They just take time and slow things down. There are organisations where HR people get it and make a contribution but they start off asking what the business needs rather than asking what HR can do.	**Mike Haffenden**, Chairman, **CRF**

3.2 WHAT'S STOPPING HR FROM HAVING A GREATER IMPACT ON ORGANISATIONAL PERFORMANCE?

As mentioned earlier, any business function will be constrained in the extent to which it can actually help drive business performance. Understanding such constraints and how they play out in our own context and business is essential if we want to take steps to improve the impact of the HR function on business outcomes.

Three broad categories of constraint will be discussed here: External factors, internal business factors and constraints from within the HR function itself.

Sometimes organisational performance is not that much to do with employee behaviour or anything else HR might be able to shape. In these cases, **organisational performance is mostly driven by external factors** which means that whatever HR does it is unlikely to have much impact on organisational performance. External factors that impact organisational performance include:

- Fluctuations in commodity prices where the business depends heavily on using commodities
- Shifts in the sector and competitor behaviour
- Changes in the labour market
- Legal and regulatory shifts

In these contexts, it doesn't matter so much what HR does or does not do as organisational performance is being shaped largely by factors external to the organisation. This doesn't, of course, mean that HR makes no difference at all and that it can't help the business in other ways.

The second type of constraint are those **constraints coming from inside the business itself.** There may be many aspects of the organisation, its structure and leadership which mean HR is quite limited in the extent to which it can drive organisational performance. Examples of such constraints include:

- Business leaders' inability to design strategic objectives which will drive organisational performance
- Business leaders' inability to communicate clear strategic performance objectives
- Organisation-wide failure to cascade business objectives down and throughout the business
- Senior and other leaders focusing on other goals rather than organisational performance
- Leadership having a limited understanding of how HR can drive organisational performance and therefore not directly asking it or pushing it to do so
- The performance of single departments (e.g., R&D) or a few individuals having a large and disproportionate impact on organisational performance

These constraints mean that the HR function will struggle in a number of different ways to have much of an impact on organisational performance. If, for example, senior leadership are poor at developing strategy and setting and communicating strategic priorities there's not much the HR function can do in relation to performance management, for example, that will help organisational performance as there is no clear guidance from the top.

Sometimes HR can have some influence over these organisational constraints. For example, an influential and skilled CHRO may be able to work with business leaders to facilitate the development of a coherent business strategy or to improve their ability to design and communicate organisational objectives.

Third, and last, **there are the things the HR function does (and does not do) which constrain the function** from doing more to drive organisational performance. These are the constraints over which we have most control and where, as one focus group participant put it, *"we get in our own way"*. Examples of such constraints include:

- *Not* doing Evidence-Based HR: Not starting with specific and contextual business issues relevant to organisational performance
- Focusing excessively on activities that are unlikely to drive organisational performance (e.g., HR operations, endlessly redesigning processes, adopting 'cutting edge' practices, deploying individual or team performance management processes unrelated to strategic objectives, doing 'stuff')
- Structuring the function and designing roles in ways that make it difficult to impact organisational performance

PRACTITIONER VIEWS

WAYS IN WHICH THE HR FUNCTION REDUCES ITS ABILITY TO DRIVE ORGANISATIONAL PERFORMANCE

I think the key is understanding the business direction and what the needs of the business are. It goes wrong when HR is not an integral part of those leadership discussions. When HR becomes the order taker.	**Maria Antoniou**, Chief Human Resources Officer, **Morgan Advanced Materials**
Sometimes HR is its own worst enemy in the way we set ourselves up. The organisational structure and operating model are backwards in the sense of you have a talent acquisition function, a learning and development function, a talent function, a reward function, a performance function. And then you've got OD and your HR partners. When you set it up like that, what you have is disparate verticals that drive their own product lines, but nothing's joined up or connected.	**Craige Heaney**, Formerly VP Talent and Organisation Effectiveness, **Pandora**
One of my frustrations with the HR profession is that it reverts to HR measures of performance – such as more people having four out of five on their performance ratings – rather than measures of organisational performance such as revenue growth or EBITDA.	**Dave Kowal**, Chief People Officer, **Idemia Secure Transactions**
HR has to look at what it's doing, the business outputs, and then make sure that it's making an optimum contribution towards output. I think a lot of HR directors do work rather than think about that.	**Mike Haffenden**, Chairman, **CRF**
HR processes and practices can become over-engineered and over-complicated. I think what can often still get in the way is transaction. If you look at where do we add value, it's the transformational stuff. So we need to be a true strategic partner working on the stuff that's actually adding value.	**Matt Stripe**, Chief People Officer **Lipton**
I think there's a load of stuff that we do that can get in the way of HR's performance. Bureaucracy is one. Putting in layers of rules and governance that don't add any value and can actually destroy value.	**Jonathan Crookall**, Chief People Officer, **Costa Coffee**
Some teams land up with a whole lot of administration and operations in the function because they're not automated and don't have the technology. This limits their ability to be strategic because they are tied up dealing with admin.	**Bev Cunningham**, Formerly Chief People Officer, **Ricoh Europe**

- HR leadership failing to translate business performance objectives into tangible HR strategy
- Trying to do everything rather than prioritising a limited number of key organisational performance objectives
- Measuring its own performance using KPIs that don't drive organisational performance[1]
- Being order-takers rather than actively participating in developing strategic objectives.

There are many different ways in which HR's own actions (or failures to take action) constrain its ability to drive organisational performance. Underlying them all, however, is simply a limited or absence of focus on the strategic objectives of the business and its performance as an organisation.

As mentioned earlier, it seems highly likely that many of these same issues apply to other functions within the business. In this sense, HR is not alone. But, compared to other functions, HR perhaps has the greatest potential to make a really significant contribution given the importance of employee behaviour in organisational performance.

[1] There are many metrics which are widely-regarded as HR KPIs such as time to fill vacancies, cost per hire, training hours per FTE or employee engagement. However, unless we can show how improving any of these metrics contributes to organisational performance they are not telling us much about the performance of the HR function.

SECTION SUMMARY

In this section we discussed:

- HR practitioners' views about the impact of HR on organisational performance
- Three types of constraint that restrict the ability of HR to drive performance
  - When organisational performance is mostly driven by external factors
  - Constraints coming from inside the business itself
  - Things the HR function does (and does not do) which restrict the impact it has on organisational performance

In the next section we will consider different ways of thinking about how HR can drive organisational performance.

4.0 PERSPECTIVES ON THE LINKS BETWEEN HR AND ORGANISATIONAL PERFORMANCE

> *The main and most obvious way the HR function can do this [drive organisational performance] is to focus on what exactly organisational performance means in the business and then identify and implement those activities and practices that are most likely to drive organisational performance given a range of external and internal contextual factors.*

How *can* HR drive organisational performance? This is the fundamental question addressed in this report.

As discussed above, the main and most obvious way the HR function can do this is to focus on what exactly organisational performance means in the business and then identify and implement those activities and practices that are most likely to drive organisational performance given a range of external and internal contextual factors.

While this approach not only seems obvious and the only one likely to really drive performance, it became apparent while conducting the research for this report that it is certainly not the *only* perspective used in practice. HR functions and HR practitioners are also thinking, sometimes implicitly, in other ways about how what they do drives organisational performance.

By describing and then discussing these approaches it becomes possible to consider their strengths and limitations. It's also worth reflecting on whether and the extent to which you and your function draws on these perspectives in the way you think about how you drive organisational performance.

Quotes from interviews with experienced practitioners will be used to illustrate key aspects of some of these perspectives.

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4.1 PERSPECTIVE 1 GETTING HR OPERATIONS 'RIGHT'

This first perspective is about HR operations such as payroll, HR systems, administration, onboarding, and so on. The idea of this perspective is that HR operations needs to be 'right'. Or, to put it another way if HR operations are done poorly, this will cause dissatisfaction and other HR activities will become more difficult to do and compromise the ability of the function to drive organisational performance.

THE UNDERLYING LOGIC OF PERSPECTIVE 1
Getting HR operations 'right'

HR operations need to be 'right' in order to enable other HR activities to make a difference. Similar to hygiene and motivation factors, HR operations do not by themselves enhance organisational performance but they are essential to the survival and smooth-running of the organisation. They are the foundation on which strategic HR is built. This foundation needs to be secure and firm but will, in itself, not lead to organisational performance. Without good HR operations, employees will be unhappy and HR cannot function well.

The main (and possibly only) **strength** of this perspective is that it's easy to imagine what can happen when HR operations go seriously 'wrong'. So it generally makes sense that we need to get them 'right'.

This perspective also has several **limitations**. First, operations do not necessarily contribute positively to organisational performance but they do potentially draw attention away from HR activities that might. In other words, the attention and indeed identity of HR functions may be overly-focused on operations and under-focused on helping the business achieve strategic objectives.

The view that HR functions sometimes focus on transactional or administrative issues *at the expense of* driving performance seems to be quite widely-held. Rather than helping drive performance, focusing on getting operations 'right' may, in fact, detract from this goal. A second and related limitation of this perspective is that it implies that HR operations need to be 'right' or almost perfect as opposed to just 'good enough' or fit for purpose. From this perspective the goal of the HR function might be seen to be to resolve *all* operational issues draining the resources of the function and the HR practitioners within it away from other more value-adding activities.

The HR function is not necessarily to blame for focusing too heavily on operations at the cost of strategic HRM. It may be that all senior leadership expects or demands in some organisational contexts is smooth-running HR operations.

PRACTITIONER VIEWS
WHY MANAGING OPERATIONS MAY LIMIT THE FUNCTION'S ABILITY TO DRIVE ORGANISATIONAL PERFORMANCE

I think what can often get in the way is transactional work. Where we do add value is the transformational stuff where we're helping make fundamental changes to the way the business operates. It's the true strategic partner working on the stuff that's actually adding value. So don't own the transaction, find other ways of delivering it, otherwise you can spend your life managing something that adds no value.	**Matt Stripe**, Chief People Officer, **Lipton**
I think HR is not great at driving organisational performance because most HR functions are still grappling with how they deliver value. They tend instead to be very focused on transactional elements, and processes versus genuinely pulling the levers that drive performance. There's a perception that if you have a process for performance or talent then that's driving value. I don't think that's true at all. It's the outcome of that process that drives the value.	**Craige Heaney**, Formerly VP Talent and Organisation Effectiveness, **Pandora**
Are HR versatile enough to maintain important everyday operational functions whilst addressing future people capability needs? Focusing too much on operations may mean HR is not paying sufficient attention to resourcing the organisation for the future.	**Rob Field**, Learning and Development Director, **APS**
In a big complicated business you obviously need people to deal with the day to day stuff. But that's admin, not value add. It's not going to help you develop products or go into new markets. Do you have to have the operational stuff right before you do the other stuff? I'm not sure. You can have that right and still not make a contribution towards business improvement. HR directors should be more interested in effectiveness and helping the business grow.	**Mike Haffenden**, Chairman, **CRF**

CONCLUSION
Simply focusing on getting the 'basics' of HR operations right is unlikely to drive organisational performance.

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4.2 PERSPECTIVE 2 DOING 'GOOD' HR AND FOLLOWING BEST PRACTICES ACROSS THE FUNCTION

This idea can probably also be found in other functions in the business if not also within the senior management team. It is based on the idea that in order to be effective we have to identify and then adopt those practices which are generally viewed as most effective or 'best practice'.

THE UNDERLYING LOGIC OF PERSPECTIVE 2

Doing 'good' HR and following best practices across the function

HR has at its disposal a set of tools or practices (e.g., recruitment, talent, reward, L&D, workforce planning, performance management) which need to be applied to the business. As long as each of these is done well – perhaps through establishing Centres of Excellence and following 'best practice' – then HR will likely make a difference to organisational performance.

One *possible* **strength** of this perspective is that it focuses HR's attention on selecting those practices that appear in general to be most effective. This may help ensure that everything the function does is done to what is regarded as a high standard.

However, the 'best practice' perspective has several serious **limitations** and, more generally, it's worth noting these same limitations apply to the idea of 'best practice' across many other professional settings. First, in order to claim a particular practice is, in fact, 'best practice' requires a reasonable quantity of high-quality evidence. This is rarely the case. Second, it is only possible to consider 'best practice' if we are doing so for very similar organisations in very similar contexts: A practice that might be most effective for a particular organisation in a specific context is unlikely to be equally effective across all types of organisations and contexts.

A third limitation of adopting 'best practices' across everything a HR function does is that different areas of practice are not all equally important. Again, it depends on the context. For example, doing recruitment and retention extremely well may be vital for one business but not particularly important for another. In other words, in order to drive organisational performance we need to understand which parts of HR add the greatest value to outcomes the organisation cares about and ensure we do those very well, rather than attempting to do everything very well. We need to avoid what Jonathan Crookall describes as *"flower-arranging HR."* This is creating something that's exquisitely designed but is not what the organisation needs.

PRACTITIONER VIEWS

WHY FOLLOWING BEST PRACTICE MAY LIMIT THE FUNCTION'S ABILITY TO DRIVE ORGANISATIONAL PERFORMANCE

One of my favourite phrases is flower-arranging HR. What I mean is that you create something that's beautiful but has no utility for the organisation whatsoever. So, for example, I've got this wonderful talent and development process, but it's not what the organisation needs right now.

Jonathan Crookall, Chief People Officer, **Costa Coffee**

CONCLUSION

The approach suggested by this perspective is unlikely in itself to drive organisational performance.

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4.3 PERSPECTIVE 3 IMPLEMENTING BUNDLES OF HR PRACTICES (E.G., HIGH-PERFORMANCE WORK SYSTEMS)

THE UNDERLYING LOGIC OF PERSPECTIVE 3

Implementing bundles of HR practices

There are certain bundles of HR practices, such as those associated with High-Performance Work Systems, which work in a complementary and synergistic way. By adopting such systems HR functions will help drive organisational performance.

One **strength** of this perspective is that it helps us to focus on those key HR practices which shape vitally important aspects of work and job design (e.g., setting goals and giving feedback) which are likely to impact organisational performance.

Another strength of this approach is that it contains the idea that HR practices work together as a system such that they complement each other in a synergistic way such that combinations of practices produce effects greater than the sum of their parts.

Perhaps the main **limitation** of this approach is that it is unlikely that there is one particular bundle of HR practices which will help drive organisational performance across all businesses. It is still the case that the context will strongly determine which combination of HR practices is most effective. A second limitation is that not everything HR does is necessarily about bundles or combinations of practices: Sometimes, specific strategic objectives may be most effectively met though single, highly-targeted HR practices.

PRACTITIONER VIEWS

WHY IMPLEMENTING BUNDLES OF HR PRACTICES MAY LIMIT THE FUNCTION'S ABILITY TO DRIVE ORGANISATIONAL PERFORMANCE

You can have the best HR systems in the world and the best HR interventions, but if you're not focused on what's important for what the business is trying to do it won't make any difference.

Mike Haffenden, Chairman, **CRF**

Our idea, which we apply to all functions, is fit-for-purpose functions. You first need to take account of the business, the sector and the context to understand what is the purpose of the function and then design and staff it accordingly.

Sarah Morris, Managing Director, **Bain Capital**

CONCLUSION

The approach suggested by this perspective is unlikely in itself to drive organisational performance though, in general, considering how HR practices work in combination and in synergistic ways could be helpful when designing interventions aimed at driving organisational performance.

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4.4
PERSPECTIVE 4
PERFORMANCE MANAGEMENT

Performance management is a widespread HR practice which typically involves activities such as setting goals or objectives, giving feedback on progress towards those goals, providing the support and resources required, and linking various forms of reward to achieving, or exceeding, performance expectations. Usually, this is done through some form of performance appraisal process which is designed and managed by HR but completed by line managers and employees.

This particular approach represents the most common way in which HR functions think about how they drive organisational performance.

THE UNDERLYING LOGIC OF PERSPECTIVE 4
Performance management

Managing individual and/or team performance through a process of setting and monitoring employee goals will improve individual and/or team performance which in turn will help drive organisational performance.

This perspective has several **strengths**. Often it seems that HR functions are focused on high-level strategies or sets of practices. One strength of this perspective is that it focuses on shaping what employees are actually doing and achieving in their work on a month-to-month or yearly basis and, ideally, the role of the line manager in that process. Another strength is that it emphasises the key role of tangible and explicit goals as drivers of employee performance.

A third strength of this approach is that *if* (and only if) individual and team goals are carefully designed such that they directly or indirectly contribute to the *organisation's strategic objectives* then the performance management process *will* contribute to organisational performance.

This third potential strength can also be one of the major **limitations** of this perspective. It often seems to be the case that, as discussed earlier, organisational objectives are *not* cascaded down effectively through the organisation. What this means is that *even if individuals are performing well in relation to the goals they have been set, achieving these goals makes no contribution to strategic objectives or to organisational performance.*

PRACTITIONER VIEWS
WHY WITHIN PERFORMANCE MANAGEMENT SYSTEMS INDIVIDUAL GOALS DO NOT CONNECT TO ORGANISATIONAL GOALS AND PERFORMANCE

I think in a lot of organisations the cascade from goals or objectives at senior levels down either does not exist or is very poorly done. The reason we don't see performance down here laddering to up there – to the company level – is because there's no ladder. The goals at the top don't translate in an effective way to CEO-minus-4-level. I'm still really shocked by that. It should be the easiest thing in the world. It's so straightforward. There's the assumption that is happening but it simply isn't.

Marc Effron, President, **The Talent Strategy Group**

Why goals don't cascade is the age old question. There's a lot of snake oil on offer – systems and software that promise to do this but don't work. If I think about where we've got a cascade working well I observe two or three things. First, is that the CEO personally over-communicates the importance of the red thread of alignment of individual to organisational objectives. Every conversation focuses on finding out how what people are doing lines up to what the organisation has to achieve and makes it simple and easy for people to understand. Second, we simplify it. Let's say there are eight strategic priorities for the organisation. Your goals don't need to match all of these as some will have nothing to do with you or your function. You simply need to be able to draw the line between your objectives and two or three that are relevant at the organisational level. And third, I'm a big fan of simplicity and this is my favourite one of all: If you can't count your priorities on one hand then you probably have no hope of delivering them.

Sarah Morris, Managing Director, **Bain Capital**

The strategic outcomes of your performance management system need to identify if and how critical objectives are being delivered across your business. Connecting Vision to Mission to Key Results Areas and Objectives, through your leadership cascade can help steer everyone in the right direction. Each objective is likely to draw on core knowledge and skills in order to deliver them. Reviewing what's needed and where people need help adds critical value both at the individual and organisational level.

Rob Field, Learning and Development Director, **APS**

PRACTITIONER VIEWS

WHY WITHIN PERFORMANCE MANAGEMENT SYSTEMS INDIVIDUAL GOALS DO NOT CONNECT TO ORGANISATIONAL GOALS AND PERFORMANCE

In performance management it's important that you align employee performance in a way that supports organisational performance. Do we make sure everyone has got goals which are aligned to organisational performance? I'm not so sure this part of the process works very well in organisations. I've not yet seen a successful cascade working in a bigger organisation.	Focus Group Participant
I don't think the cascade in performance management often happens well. What are the three strategic priorities in your organisation? You need to make strategy explicit. You have to write it down, communicate it and make sure everybody's lined up and agreed to it. But the cascade that comes down in most cases is word of mouth rather than a clear expression of what we're going to do as a business. There's some wonderful examples where it does happen, but by and large, it doesn't.	**Mike Haffenden**, Chairman, **CRF**
We can spend a world of time looking at performance management that is entirely disconnected from the core of the business. It needs to be anchored to what we mean by organisational performance whether that's revenue generation, growth targets, and so on.	Focus Group Participant
We now design sharper and edgier goals that are stretch goals you can achieve or get very close to achieving. Then we keep updating them through regular conversations about our goals to see how they might need updating and how they link back to what we're trying to do as an organisation. I think that golden thread is very important. Goals need to be commercial, tangible and movable. And this approach is very different to how it's been in the past.	**Michelle Blayney**, Director, One Bank Capabilities & Culture, **NatWest Group**

A second limitation is that this approach only works where organisations are clear on their strategy and setting and communicating strategic objectives. Some organisations are good at this while others are not. It is not possible to set individual or team goals that relate to strategic objectives if the organisation does not have any.

A third limitation is the extent to which each individual employee's performance makes a contribution to organisational performance varies enormously (see also Perspective 5 on strategic management below) with some making a large difference and others perhaps almost none.

One reason we don't always see a clear correlation between individual performance and firm outcomes is that the impact of my job on company performance may not be that great because my job isn't linked to stuff that's strategically important. If I do a good or a really good job it doesn't actually matter.	**Marc Effron**, President, **The Talent Strategy Group**

As performance management systems and processes tend to treat everyone in the same way this means that a lot of time and resources are spent managing the performance of employees whose contribution makes relatively little difference.

A fourth limitation occurs when goals are not regularly reviewed and then reset or readjusted when circumstances or business objectives change.

The challenge is that goals are actually live and dynamic but we have a history of 'set and forget'. A once-a-year activity rather than something that's revisited as priorities shift. So for us, the challenge is to be able to keep realigning and having the discipline around collaboration and communication for that to happen.	Focus Group Participant

If performance management adopts a 'set and forget' approach to goals then it may be that performance management systems help employees to achieve goals which are no longer relevant to organisational objectives and performance.

A fifth limitation is that because performance management systems may often seem to be (and are) ineffective, this encourages HR to constantly 'tweak' and redesign the system. This wastes further resources and in most cases such tweaking will not bring about significant improvements to the system which leads to further redesign and may in fact lead to the process becoming more cumbersome. There is a clear risk of over-engineering the processes rather than first identifying specific performance challenges relevant to the context and then thinking through the best way of addressing those challenges.

PRACTITIONER VIEWS

THE DISADVANTAGES OF CONTINUOUS REDESIGNS OF THE PERFORMANCE MANAGEMENT SYSTEM AND ORGANISATIONAL PERFORMANCE

We found we were wasting hours on performance management admin rather than actually having better conversations. We were so heavily process driven and regimented about sticking to the process that we'd lost all sense of what we were actually trying to do from a performance perspective. Our solution was to strip out all of the process, keeping it to a very thin layer, and to focus on building line manager capability to have better conversations. From a cost saving perspective, we saved a lot of hours, and we are continuing to measure every element of the process to monitor what it is doing for driving performance.

Michelle Blayney, Director, One Bank Capabilities & Culture, **NatWest Group**

If you take performance management and say, "I'm going to tweak the process. I'm going to go from one meeting a year to four meetings a year and change the rating scale from a three point to a five point". In an organisation like mine that's probably a financial investment of several million euros in time. In which other part of your business would you be willing to spend that sort of sum without testing, understanding and really making sure it works?

Dave Kowal, Chief People Officer, **Idemia Secure Transactions**

The question I always ask people when they say they want to change the performance management system – the boxes, the metrics, the forms, whatever – is, "can you give me a case study of an organisation that's changed its approach to performance management that has generated a demonstrable organisational performance improvement?" The conversation usually goes quite quiet at that point.

Jonathan Crookall, Chief People Officer, **Costa Coffee**

Perhaps the most fundamental limitation of performance management is that it encourages what can be described as **widget factory thinking** to contexts where it doesn't apply particularly well. In a widget factory there is a very tangible, observable, measurable and relatively immediate link between individual employee behaviour (what they do), employee performance (the number and quality of widgets they produce) and the performance of the organisation (how many widgets are sold and at what cost).

This thinking makes a lot of sense in some forms of manufacturing and some other contexts such as retail or customer service organisations. But in knowledge work, for example, or settings where it takes many months and the input of many people to make a 'widget' this thinking makes rather less sense. **In many, if not most cases, the links between individual employee behaviour, employee or team performance and the performance of the organisation are far less tangible, and much more difficult to observe and measure.** This doesn't mean that such links don't exist but rather they need to be understood with thinking more appropriate to those contexts.

CONCLUSION

The approach suggested by this perspective can drive organisational performance but only if the goals individuals are set clearly relate to or cascade down from organisational strategic objectives and if those objectives in turn drive organisational performance.

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4.5
PERSPECTIVE 5
STRATEGIC TALENT MANAGEMENT

This perspective is based on the observation, discussed earlier, that different roles or positions or functions within the organisation are likely to contribute disproportionately to organisational performance.

THE UNDERLYING LOGIC OF PERSPECTIVE 5
Strategic talent management

Identify the key positions in the organisation which are most important for organisational performance and ensure you get very good performers in those roles, keep them in those roles, and develop others who can take up those roles.

The main **strength** of this approach is that it focuses attention on managing and enhancing employee performance where it matters most: a relatively small number of key roles. This allows the HR function to target recruitment, retention and development activities in ways that are likely to have the greatest impact on organisational performance. This also means that *under*-performance in these roles will have a disproportionate impact and therefore, should it occur, needs to be managed.

A similar approach can be taken not only to roles but to teams or even whole functions which are particularly important for organisational performance.

Cons: Depends on having an organisational design clear enough to understand which roles are most important and being able to identify those most likely to perform very well. Could this be another hygiene factor? Or at least this is about ensuring that the 'machine' runs very effectively but doesn't guarantee it's going in the right organisational performance direction.

PRACTITIONER VIEWS
THE IMPORTANCE OF IDENTIFYING WHICH ROLES MAKE MOST DIFFERENCE IN DRIVING ORGANISATIONAL PERFORMANCE

For a business like ours, where performance is driven by innovation, there's a huge piece around how we do marketing, demand generation, and premiumisation. That requires high-quality, high-calibre people. If you can get those people then they will add significantly more value than the average person.	**Matt Stripe**, Chief People Officer **Lipton**
Having the most talented people in the most critical roles disproportionately has the biggest impact on organisational performance. To understand which roles are most critical you also need to understand organisational design and organisational structure.	**Craige Heaney**, Formerly VP Talent and Organisation Effectiveness, **Pandora**
What's the organisational strategy and which roles contribute disproportionately to that strategy?	**Dave Kowal**, Chief People Officer, **Idemia Secure Transactions**
This may not be solely an HR job. Identifying key roles and more importantly what skills and behaviours may be important plays a big part in overall success. We often hear about accidental leaders, in place through technical excellence, tenure or recruiting bias. But are these leaders able to effectively lead others? Can they motivate, engage and align functional and organisational direction? Acquisition processes and development programmes need to be aligned so that it is clear 'What Good Looks Like' to give the organisation the best chance of success.	**Rob Field**, Learning and Development Director, **APS**

CONCLUSION
The approach suggested by this perspective can drive organisational performance but only if the work of the high performers placed in these pivotal roles is directed towards achieving organisational strategic objectives and if those objectives in turn drive organisational performance.

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4.6

PERSPECTIVE 6

FOCUS ON THE ORGANISATION'S STRATEGIC OBJECTIVES AND HOW HR CAN HELP ACHIEVE THEM

This approach represents the most direct way of thinking through what HR can do to help drive organisational performance.

THE UNDERLYING LOGIC OF PERSPECTIVE 6

Focus on the organisation's strategic objectives and how HR can help achieve them

With a sound understanding of the organisation's strategic objectives and how HR practices can make a difference to achieving those objectives, the HR function will be able to devise a strategy which directly contributes to those objectives. It will also be able to evaluate progress towards the objective.

The major **strength** of this approach is that it doesn't start by considering what HR can do but, rather, it starts with understanding what it is the organisation is trying to achieve and only then what HR can do to help the business meet its objectives. This approach is more-or-less the same as Evidence-Based HR (see our latest report on this topic *Evidence-Based HR: A New Paradigm*).

PRACTITIONER VIEWS

THE IMPORTANCE OF UNDERSTANDING AND FOCUSING ON STRATEGIC OBJECTIVES OF THE BUSINESS IN DRIVING ORGANISATIONAL PERFORMANCE

Start with 'what is the organisation there to do?' How does it measure its success, its performance and its output? Then work out where you can have the biggest impact on those outcomes. Maybe it's profitability, maybe it's about sales, maybe it's cash generation, maybe it's about the service experience. Whatever the big stuff is for the organisation, work that out – and don't just take that from a senior management view or one particular population – check it out. Then you need to work out what levers you have in the people space that are going to help to move the dial on those outcomes. And then you need to be relentlessly focused on delivering against those outcomes and deprioritise the rest of the stuff.

Jonathan Crookall, Chief People Officer, **Costa Coffee**

For HR directors and leaders to make a difference they need to be genuinely curious about the business and really try to understand how the business fits together.

Dave Kowal, Chief People Officer, **Idemia Secure Transactions**

Do we understand the three or four things that really differentiate performance in our organisation given the strategy that we have? As simple as that sounds, it's a missing element in most companies. What are the few things that matter most around here? Once you work that out, then you align every single thing you do against those three or four capabilities. That sounds so simple, mechanical, and easy. But first, most organisations don't have that clear view of the few capabilities that will give us differentiated performance. I think you solve 80% of the performance equation by doing something as straightforward – not easy – but as straightforward as that.

Marc Effron, President, **The Talent Strategy Group**

Regardless of whether you are planning next year's development budget, thinking about how the AI tools you are using are going to impact the operations team, or considering the future LTIP measures with your Board, it's essential you understand how the business makes and loses money and the impact your work has on all the key strategic outcomes. Long gone are the days where understanding HR and your own function is enough. Credibility and impact comes from being a brilliant commercial business leader who has a superpower in people.

Sarah Morris, Managing Director, **Bain Capital**

PRACTITIONER VIEWS

THE IMPORTANCE OF UNDERSTANDING AND FOCUSING ON STRATEGIC OBJECTIVES OF THE BUSINESS IN DRIVING ORGANISATIONAL PERFORMANCE

First, work out how the business makes money, and what are the things that are stopping it from making money? Second, remember you don't need a separate HR strategy. What you need is a business strategy and whatever you do in HR needs to contribute to that strategy. HR functions feel a need to create a separate people strategy. It shouldn't be separate. You've got one strategy as a company and what you need to clearly define is, what are the people levers you're going to use to drive the business outcomes.

Craige Heaney, Formerly VP Talent and Organisation Effectiveness, **Pandora**

HR doesn't exist for its own gratification. We exist to support the business. So if you want to be successful, the most important thing that you can do as a CHRO is to truly understand the business, where that business is going and what that could mean for the people agenda. Whether it be expansion, restructuring or downsizing or whether it's a business transformation that requires a change in the skills mix.

Maria Antoniou, Chief Human Resources Officer, **Morgan Advanced Materials**

I don't think HR takes the time, away from the busyness of driving process, to really identify the business problems and consider how HR could leverage in its function to effectively solve those problems.

Craige Heaney, Formerly VP Talent and Organisation Effectiveness, **Pandora**

I don't think it's inherently complicated to think about what HR needs to do to support the business strategy. You have to understand what the business drivers are and what the business is trying to do because there are some areas you need to get right. You need to actively listen to the senior leaders and take time to understand the business strategy and what it means for HR.

Katey Howard, HR Leader Europe, **Tropicana Brands**

With my team, I keep repeating the idea that they have to show the commercial outcome that we're generating. "What are you going to take to the bank?" "Does it make the car go faster?" Those are two of my favourite phrases. What's the tangible business outcome we can generate from the work that we do? It's also so much more fulfilling and exhilarating if you feel that what you did impacted the performance of the business.

Jonathan Crookall, Chief People Officer, **Costa Coffee**

The major **limitation** of this approach, discussed earlier, is that it can only work if senior leaders are very effective at setting and or communicating strategic objectives. It also requires that senior leaders are good at designing strategic objectives that, once achieved, drive organisational performance.

A second limitation is that it depends on the quality of the relationship between the CHRO or CPO and other senior leaders such as the CEO and CFO.

PRACTITIONER VIEWS

THE IMPORTANCE OF THE RELATIONSHIP BETWEEN THE CHRO AND OTHER SENIOR BUSINESS LEADERS IN DRIVING ORGANISATIONAL PERFORMANCE

The best HR people are those who are prepared to have courageous conversations. My CEO expects me to tell her when I think she's right or when I think she's wrong. She wants my advice, and she expects me to give it. But sometimes I see HR people behaving as order-takers, just doing whatever the client asks for. There needs to be a golden triangle of CEO, CFO, and CHRO working together as equals in that core team.

Matt Stripe, Chief People Officer **Lipton**

This is the classic combination of CEO, CFO, CHRO. You should walk into a room and not know who's who based on the discussion that's taking place. I think I'm seeing a lot of my CHRO clients definitely elevate themselves based on where they were 10 years ago, to have that level of impact on the conversation and the desire to know about the business.

Marc Effron, President, **The Talent Strategy Group**

When you have a group of business leads having strategic discussions and making decisions it's really important the CHRO sits at that strategic table. You shape organisational performance by providing the ExCo with the reality about what is feasible and not feasible. You're influencing upstream. You really need to probe and challenge to get behind the initial presentation of the requirements because typically there's a lot of context that you might not know and need to take into account. Where it works best is when you've got that powerful triumvirate of the CEO, CHRO and CFO working together. When that works well you can move mountains as a business.

Maria Antoniou, Chief Human Resources Officer, **Morgan Advanced Materials**

PRACTITIONER VIEWS

THE IMPORTANCE OF THE RELATIONSHIP BETWEEN THE CHRO AND OTHER SENIOR BUSINESS LEADERS IN DRIVING ORGANISATIONAL PERFORMANCE

The HR director has to be able to form a really good link with the CEO and ExCo. They have to be able to talk about the business and the people. You have to be able to talk to the CEO about what they're doing, what they're thinking, what challenges they face, and what they are worried about. So you have to have a fact-finding ability with the senior executives. Then the second thing is, once you've determined the key business issues, you have to be able to offer solutions.

Mike Haffenden, Chairman, **CRF**

We insist on having an effective triumvirate (CHRO, CEO, CFO) in our businesses and we hire for the three to fit.

Sarah Morris, Managing Director, **Bain Capital**

Business leaders most likely rely on the perspective and opinions of the CHRO in relation to current and future capability of people resources, readiness to adapt to shifting business pressures and availability of market resources. They can advise likely timelines and processes for change, resistances, and problems to overcome through changing people needs and emerging opportunities for internal talent to fulfil business objectives.

Rob Field, Learning and Development Director, **APS**

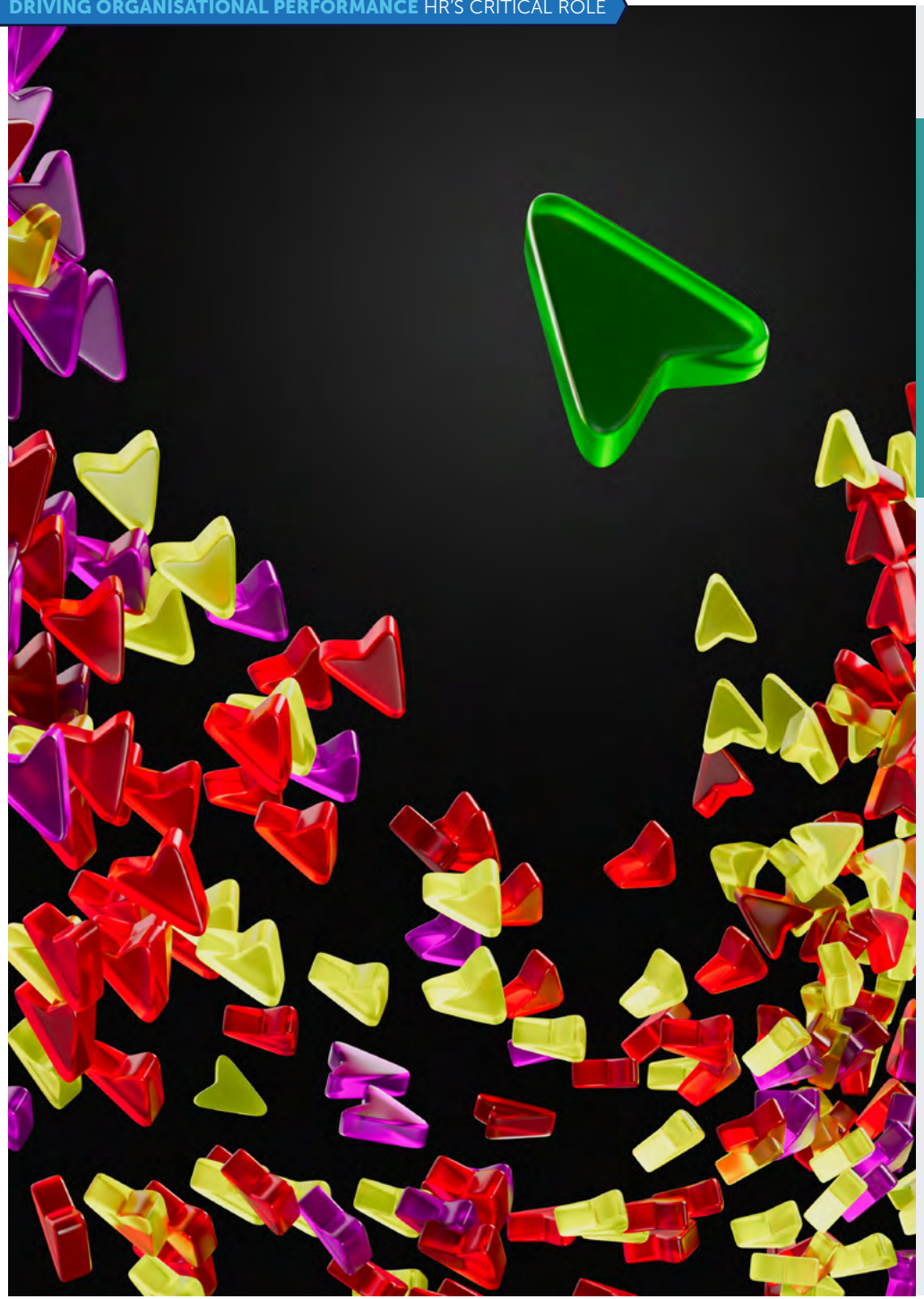
CONCLUSION

Of all the approaches discussed, this perspective is the one most likely to help drive organisational performance because it doesn't start with a consideration of what the HR function should do but, rather, starts with what it is the business is trying to do and how the HR function can contribute to its strategic objectives.

SECTION SUMMARY

In this section we discussed six perspectives or ways of thinking about how HR can drive organisational performance and the strengths and limitations of each:

- Perspective 1 – **Getting HR operations 'right'**
- Perspective 2 – **Doing 'good' HR and following best practices across the function**
- Perspective 3 – **Implementing bundles of HR practices (e.g., High Performance Work Systems)**
- Perspective 4 – **Performance management**
- Perspective 5 – **Strategic talent management**
- Perspective 6 – **Focus on the organisation's strategic objectives and how HR can help achieve them**



5.0 PRACTICAL GUIDANCE FOR HR FUNCTIONS SEEKING TO IMPROVE THEIR ABILITY TO DRIVE ORGANISATIONAL PERFORMANCE

As discussed throughout this report, the most direct and most effective way for HR to drive organisational performance is to understand the business, its strategic objectives and how the function can best help the business achieve those objectives.

This is easier said than done, not least because of the importance of context: What one HR function needs to do to help drive organisational performance in one context will not be the same as what another HR function in another organisation needs to do. In other words, we need to work it out for ourselves.

So, in this final section, we present a range of tools and practical guidance which together with the analysis and insights provided in the previous sections provide a framework for identifying how your HR function can impact organisational performance and which specific actions in your particular context are most likely to help.

This guidance consists of:

- Sets of key questions every HR function needs to be able to answer if it wants to impact performance
- Examples of the connection between HR practices and strategic objectives and three illustrations of how you can join the causal dots between HR practices and organisational performance
- A self-evaluation continuum for assessing your function's contribution to organisational performance
- A process model of how HR drives organisational performance

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5.1 ANSWERING KEY QUESTIONS ABOUT THE BUSINESS, ITS OBJECTIVES AND HR'S ROLE IN ACHIEVING THOSE OBJECTIVES

HR functions can only be effective in driving performance if they have a sound and detailed understanding of the business, its objectives and how the function can help.

Here we present three sets of questions covering these areas.

EXAMPLES OF KEY QUESTIONS ABOUT THE BUSINESS

These questions are designed to help HR get a detailed understanding of the purpose of the organisation and business, how it is organised, and the processes and mechanisms by which the organisation achieves its objectives:

1.	What is the purpose or mission of this organisation?	?
2.	What is the history of this business? How has it changed in the past and how is it changing now?	?
3.	What, exactly, does it produce and deliver for its clients and customers?	?
4.	How are those products and services produced? What are the processes involved?	?
5.	Do we have competitors and how do we deal with them?	?
6.	What is the economic context of the organisation? What is happening in our sector locally and globally?	?
7.	What measures of organisational performance are important for this business? Do I understand how those measures are calculated and what they mean? Are there identifiable trends? What drives changes in those measures?	?
8.	Do we have unique organisational capabilities? What are they? Which are most important for driving organisational performance?	?

EXAMPLES OF KEY QUESTIONS ABOUT STRATEGIC OBJECTIVES

These questions are about the current short- to medium-term goals of the business. Answering these questions will help HR unpack and understand these objectives:

1.	What are the key strategic objectives of the organisation? Do I understand exactly what they mean?	?
2.	What are the timescales involved?	?
3.	Have these strategic objectives been communicated throughout the organisation?	?
4.	Have these strategic objectives been cascaded down through the organisation such that functions, teams and individuals are aware of how their goals contribute to these objectives?	?
5.	How will progress towards these objectives be measured and monitored?	?
6.	Do I understand the processes and tactics being adopted to achieve these objectives?	?
7.	What is the assumed theory of change through which organisational actions will achieve these objectives?	?
8.	How will achieving these strategic objectives drive other indicators of organisational performance such as long-term share price?	?

EXAMPLES OF KEY QUESTIONS ABOUT HR'S ROLE IN ACHIEVING THESE OBJECTIVES

These questions are designed to help HR leadership and the HR function more widely understand how and the extent to which HR can help achieve these objectives:

1.	Is the function aware of the main strategic objectives of the business?	?
2.	Does the function understand these objectives?	?
3.	How and how much can HR help with each of these objectives?	?
4.	What new HR actions or HR interventions are required to do this?	?
5.	Will HR need to work with other functions within the business in order to help the business achieve these objectives? If so, which functions and how will you work together?	?
6.	How will our actions help the business achieve these objectives? What is the theory of change or processes through which we believe that will happen?	?
7.	Are multiple alternative interventions being considered and compared?	?
8.	How will we monitor and measure the impact of our interventions on the objectives?	?
9.	Are we taking an Evidence-Based HR approach to understanding the issues and choosing and designing interventions?	?
10.	What are we doing within the HR function which is *not* focused on driving organisational performance? Why are we doing it? Can and should we stop doing it?	?

HOW TO USE THESE QUESTIONS

These questions can be used in a variety of ways to achieve different purposes.

First, start with simply trying to answer each of these questions. This could be done individually by any HR professional in the function. More useful is to attempt to answer these questions together with other colleagues. This could be done in a meeting of all the senior HR professionals within the function or even in a meeting of the whole function given that knowing the answers to these questions may be important for most if not all those working in HR.

Once you have done this and recorded your answers a second stage involves identifying those questions you feel you have been able to answer well, those questions where you are not too sure about the answer, and those questions you are unable to answer at all. Are there other questions that might be important for you in your particular context that are not listed here? If so, write down and try to answer those questions too. Then consider:

- What do your answers suggest about your function's level of understanding of the business, its objectives and your function's role in helping achieve those objectives?
- Is that level of understanding shared right across the function or does it vary?
- Given your answers, where do you feel you already have a reasonable level of understanding?
- Given your answers, where do you feel you have a relatively low level of knowledge and understanding?

A third stage can involve identifying those particular areas and questions where the level of knowledge is low and finding ways to increase it through, for example, setting up task groups to research the answers and present them back to the whole function, asking directors to brief the function, inviting senior managers in different functions to do a Q&A, and so on.

It may then be worth going back to the second stage to review how many more questions you can now answer and what, if any, gaps still remain.

Of course, having answers to all these questions does not guarantee that the function will help drive organisational performance but not being able to these and related questions makes it very unlikely that it will.

5.2 JOINING THE DOTS CHOOSING HR PRACTICES (AND BUNDLES) THAT WILL HELP MEET STRATEGIC OBJECTIVES

As emphasised throughout this report, context is crucial. What this means is that in order to understand which HR practices are likely to help impact business performance we also need to understand the specific strategic objectives of the business at that time, the rationale for those objectives, and what else is happing in the business and the sector.

This table provides examples of HR practices and strategic objectives. Given a particular context it is possible to join the causal dots between practices and objectives.

EXAMPLES OF HR PRACTICES AND STRATEGIC OBJECTIVES

EXAMPLES OF HR PRACTICES	< >	EXAMPLES OF STRATEGIC OBJECTIVES
Recruitment and selection	< >	Top line growth
Onboarding	< >	Bottom line growth
Reward	< >	Increasing market share
Skills training	< >	Launching new products
Development	< >	Downsizing
Talent management	< >	Customer retention
Performance management	< >	More diverse revenue streams
Job design (and technology)	< >	Enter overseas market
Employee experience	< >	Increase operational efficiency
Organisation development/design	< >	Increase new customers

We now present two example cases and one case study from Ricoh to illustrate the ways in which specific HR practices can be designed and implemented in ways that support the strategic objectives of the business.

EXAMPLE CASE 1

Large supermarket chain with decline in sales, market share and customer satisfaction relative to competitor organisations

This supermarket once had a dominant position. Over time sales had declined and customers were going elsewhere leading to a reduction in market share. Analysis showed that lower sales were, in part, the result of poorer customer service experience and customer satisfaction in the stores particularly compared to competitors.

In order to meet the **strategic objectives** of **increasing market share** and **customer retention** the business launched a number of new initiatives in various functions including operations, marketing and HR.

In order to meet these objectives, the HR function designed a number of **HR practices** to help store staff to be more customer-focused and to deliver a much higher level of customer service. First, it redesigned part of its **skills training** practice. This involved conducting a training needs analysis to identify those customer service-related skills and behaviours which needed to be improved and designing a training programme to enhance these skills and behaviours. Second, it examined its practices around **recruitment and selection** and changed them to ensure that the selection process prioritised candidate characteristics (e.g., personality, experience) that are most likely to predict customer service behaviours. Third, it looked at its **reward** practices and introduced a store-based recognition system to reward staff who delivered a particularly high level of customer service.

EXAMPLE CASE 2

Insurance company whose sales have stagnated

A well-established and successful insurance company had been selling more-or-less exactly same products for many years. However, sales had not increased for some time. The business believed that the most effective way of increasing sales was to set the **strategic objective** of **launching new products**. This had been tried previously but had not been successful. This failure was not attributed to the products themselves but, rather, to the ability the business, and in particular the employees, to deliver them effectively.

The HR function considered how it could help the business achieve this objective. After examining the reasons for previous new product failures and discussing it with managers and other staff it became clear that a lack of employee flexibility was the major HR-relevant issue. Staff are comfortable working with a range of products they know well and understand and are not so willing to work with new and unfamiliar products.

HR set itself the goal of increasing employee flexibility such that they would feel able and willing to work with the new products. This involved a number of new **HR practices**. First a **development** programme for line managers was devised as a lack of line management support was identified as one cause of low employee flexibility. This programme involved developing line manager skills around coaching, leadership and performance management. Second, HR examined their practices around **employee experience** as another reason for low flexibility related to the psychological contract: Employees did not feel the 'deal' was fair and so were unwilling to do new things or put in the extra effort required to work with the new products. HR identified several aspects of the employee experience including the physical environment and opportunities for development, which needed to be improved to increase perceptions of fairness in the deal and help employees feel more able to be flexible.

RICOH CASE

Reskilling to meet a strategic objective

Over the last decade imaging and electronics company Ricoh has been reinventing its business model as it moves away from its traditional printer and copier market to being a digital services business. This strategic shift has led to a significant need to **reskill technical specialists,** not just in terms of learning **new technologies,** but also learning how to **work differently with customers,** for example **building capability in solutions selling**. The company has rolled out a plan to support this transition, which includes **acquiring smaller digital businesses** to bring in new skills and substantial **reskilling and upskilling programmes.** Reskilling was particularly important due to the high number of digital vacancies and the difficulty of bringing in external talent. Reskilling also supports Ricoh's philosophy of providing fulfilment through work.

The elements of Ricoh's reskilling and upskilling programme include:

- A flagship reskilling programme – SCALA. This involves retraining top technical specialists from the legacy businesses to prepare them for digital roles. Candidates are selected through an assessment process including psychometric assessments which measure attributes that predict success in digital roles. Three cohorts have now completed the programme, covering over 4,000 employees who were eligible for the programme, of which 1,000 applied and 300 were selected, with 100 learning hours per participant completed in total.
- SCALA consists of three modules: a digital literacy foundation programme which aims to get all candidates to the same level of digital proficiency; a technical module with five workstreams which leads to certification in high priority technical skills such as process automation; and temporary work placements across the group for 3-6 months to build experience. Candidates also receive career support to help them plot a new career path, develop their CV and gain interview practice with a recruiter. On completion, the recruiters provide candidates with hands on support, pairing them with new roles across the business, thus accelerating their permanent moves into new roles in digital services.
- The business case was based on comparing the cost of the reskilling and upskilling programmes against the potential restructuring costs of making those people redundant from the business. Savings also resulted from reduced recruitment and onboarding costs associated with filling vacancies in the digital businesses and from reduced use of contingent labour.
- Ricoh recently took stock of the impact of its reskilling efforts. It wanted to know whether people would have automatically enrolled in learning, even if it was not offered as part of a structured reskilling programme. HR monitored participation rates in digital certification programmes and discovered that the only people who completed digital certifications without prompting were typically those who were already in digital roles – and therefore not in need of reskilling. People who were the targets of reskilling programmes – engineers in the traditional business – were more likely to require reinforcement and encouragement to engage in learning. This provided a strong justification for continuing formal reskilling programmes, as otherwise the volume and pace of learning among engineers in the legacy business would likely reduce.

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5.3 HR'S CONTRIBUTION TO ORGANISATIONAL PERFORMANCE: A SELF-EVALUATION CONTINUUM

How can you judge or evaluate the extent to which your HR function is likely to be contributing to organisational performance? Doing so is an important starting point if you want to improve your function's ability to do this.

In Section 4 we discussed six perspectives or ways people think about how HR drives performance.

PERSPECTIVES OF HOW HR CONTRIBUTES TO ORGANISATIONAL PERFORMANCE AND LIKELY VALUE

PERSPECTIVE	=	VALUE
1. Getting HR operations 'right'	=	Unlikely to drive organisational performance.
2. Doing 'good' HR and following best practices across the function	=	Unlikely in itself to drive organisational performance.
3. Implementing bundles of HR practices *(e.g., High Performance Work Systems)*	=	Unlikely in itself to drive organisational performance though, in general, considering how HR practices work in combination and in synergistic ways could be helpful.
4. Performance management	=	Can drive organisational performance but only if the goals individuals are set clearly relate to or cascade down from organisational strategic objectives and if those objectives in turn drive organisational performance.
5. Strategic talent management	=	Can drive organisational performance but only if the work of the high performers placed in these pivotal roles is directed towards achieving organisational strategic objectives and if those objectives in turn drive organisational performance.
6. Focus on the organisation's strategic objectives and how HR can help achieve them	=	Most likely to help drive organisational performance because it doesn't start with a consideration of what the HR function should do but, rather, starts with what the business is trying to do and how the HR function can contribute to its strategic objectives.

One way of evaluating your function's likely contribution to organisational performance is to consider the extent to which you and your function thinks and acts in accordance with each of these perspectives. If, for example, if you think and act a lot in relation to *Perspective 2 – Doing 'good' HR and following best practices across the function* then it is unlikely you are making a strong contribution to organisational performance. If, on the other hand, you think and act a lot in relation to *Perspective 5 – Strategic talent management* then, if the conditions set out for Perspective 5 are met, it is likely you are making a contribution to organisational performance.

Another way of thinking about your function's contribution is by assessing where you think you lie on a continuum. If your approach, activities and the CHRO characteristics are mostly towards the left, then it is quite unlikely that the function is making much impact on business performance. If your function sits mostly on the right then it is likely you are having a significant impact on performance.

HR'S CONTRIBUTION TO ORGANISATIONAL PERFORMANCE: A SELF-EVALUATION CONTINUUM

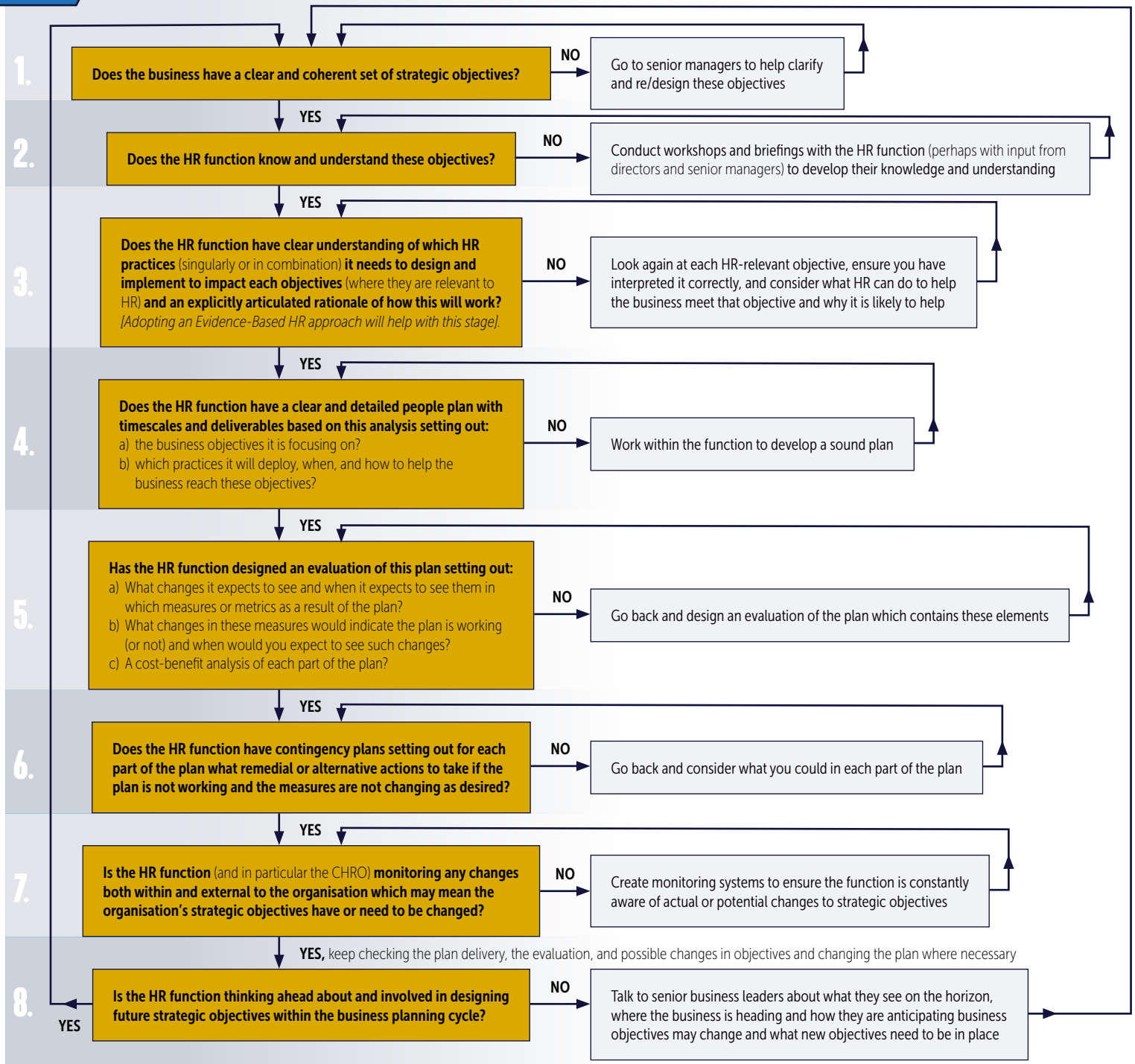
LOW CONTRIBUTION → HIGH CONTRIBUTION

	HR activities with no clear purpose	HR focus on internal HR efficiency	HR focus on strategic objectives handed down from ExCo	HR works directly with and part of ExCo
APPROACH	» HR for HR's sake » Just doing 'stuff' » Following fads	» Legal compliance » Managing HR costs » Operational efficiency	» Takes orders from Ex-Co » Interpret but not influence objectives » Works under ExCo direction	» HR intrinsic to setting and designing strategic objectives » Maximise role of people in business performance
ACTIVITIES	» Sheep dip training » Stand-alone engagement surveys » Unfocused redesign of HR processes	» Internal HR KPI metrics (e.g., time to hire) » Monitoring and checking » Policy-writing	» Design projects and practices to help objectives » Evaluate through numbers	» Integrated people-business plan » Iterative refocusing based on HR practice-performance links » Using HR practice clusters
CHRO CHARACTERISTICS	» Limited understanding of the business » Limited understanding of how HR drives performance	» Cost controller » Strong on legal compliance » Internal HR focus	» Business skills and HR knowledge » Business partner » Project manager	» Part of ExCo CEO/CFO/CHRO triumvirate » High performance consultant » Deep understanding of the business

5.4 A PROCESS MODEL OF HOW HR DRIVES ORGANISATIONAL PERFORMANCE

The most effective way for HR to drive organisational performance is through taking an explicit and structured approach starting with the organisation's strategic objectives and then carefully developing a plan for how HR can help the business meet those objectives.

This process model sets out the main steps in this process and, crucially, what HR functions can to do meet the requirements of each step to enable them to move on to the next.



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5.5

WHAT IS HR DOING IF IT'S NOT DRIVING ORGANISATIONAL PERFORMANCE?

Clearly, not everything HR does drives organisational performance. Although the primary purpose of HR is to help the organisation achieve its goals there are other activities, as discussed, that HR also needs to do which don't enhance performance as such but are simply required such as legal compliance.

It is also clear that HR engages in many discretionary or non-required activities which do not drive performance. As a way of concluding this report it is worth identifying some of these and why we do them. Having greater awareness of these mostly low-value though costly activities is important because they can distract and push us off course from our main purpose of driving organisational performance.

What is HR doing instead? Opposite are some alternatives to driving performance.

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An effective manager is one that improves business performance. Through this course, understand what is meant by high-performance, learn how to create a culture that builds and develops performance, and master the processes of managing performance.

DISCRETIONARY HR ACTIVITIES WHICH DO NOT DRIVE PERFORMANCE

Flower-arranging HR	Creating HR practices, processes and policies that are beautifully put together but unrelated to business performance.
Constant tweaking of performance management systems	Thinking that the best way to improve performance is to constantly tweak the system in mostly trivial and irrelevant ways that make no difference.
Focusing on operations rather than adding value	Identifying lots of internal HR KPIs (e.g., time to hire, uptake of training) which measure HR activity and efficiency but which have nothing to do with the business.
Always seeking out and implementing the latest HR idea	Being on the cutting-edge of HR fads but nowhere near the cutting-edge of what HR needs to do to drive performance.
Collecting and then structuring ever-increasing volumes of employee data within HR systems	This is based on the assumption that simply having more data is better when usually it's not.
Creating more and more policies and practices	A bit like tweaking performance management systems, one response to policies and practices that do not seem to be working is to add more and more which doesn't help.
HR Theatre (not substance)	This occurs when the function is more focused on impression management (being busy, doing lots of 'stuff') than it is on the business.

SECTION SUMMARY

As we stated at the start of this report, the fundamental purpose of the HR function is to help the organisation achieve its objectives. While this sounds simple, we also know that it does not happen as much as it could or should.

We hope that the analysis and guidance provided in this report will help HR functions to focus more attention and resources on what really matters for driving business performance and to focus a little less on what does not add value.

6.0 APPENDIX

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