

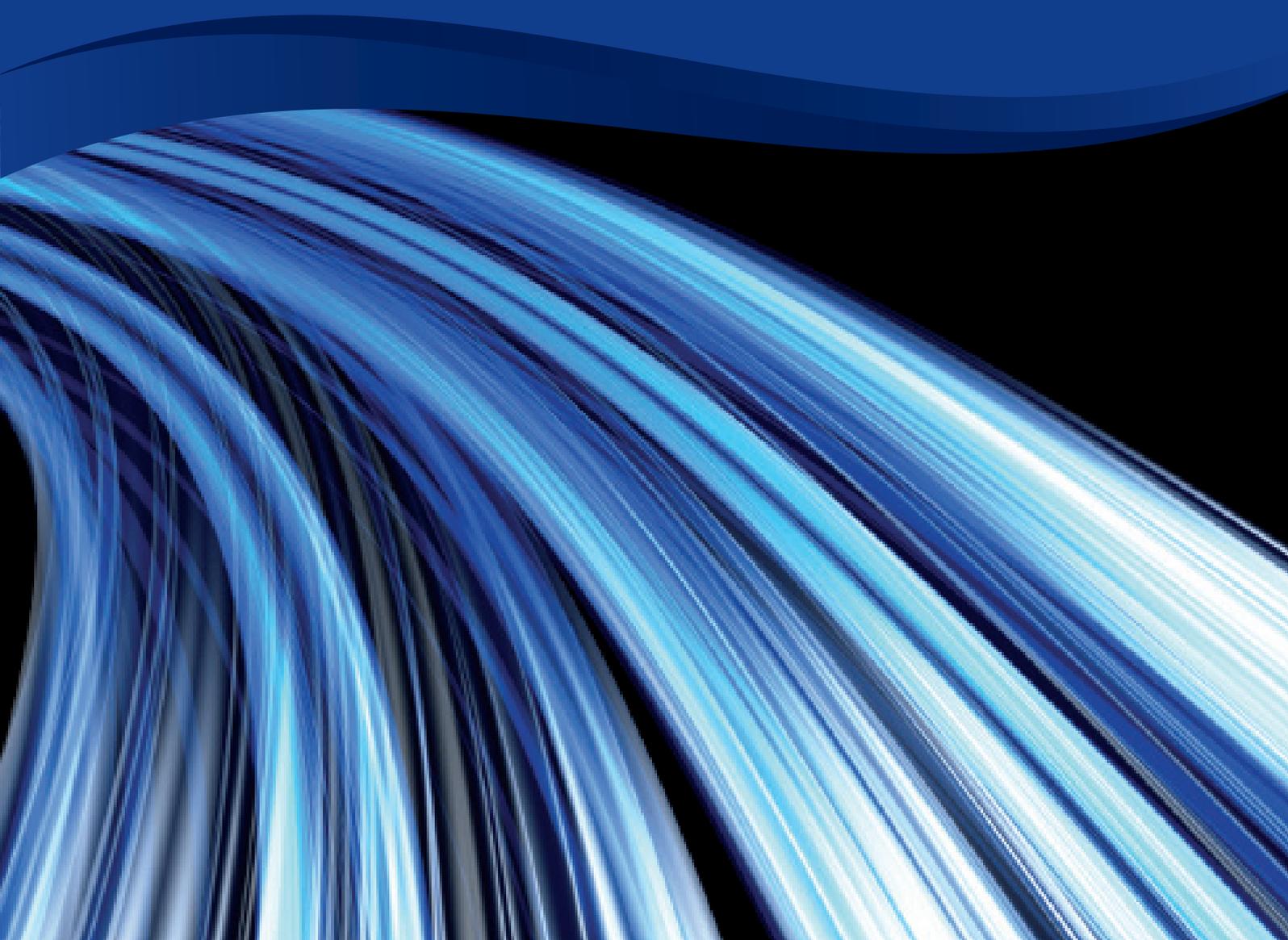
White Paper

Zero based HR: A study by the Henley Centre for HR Excellence

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Zero-based HR

A Henley Centre for HR Excellence research study
into the current and future value of HR

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Introduction

Zero-based HR builds up the HR function from a 'clean sheet of paper' questioning all assumptions about the need for activities and how activities should be delivered so as to be most effective. It has no preconceptions about departmental structure etc. The aim of this study is to provide research-based information to support HR functions in looking at their organisations from this standpoint.

During the latter part of 2010 and early 2011 the Henley Centre for HR Excellence undertook an investigation which addressed five key questions relating to HR's future:

- 1 What are the key challenges facing the HR function?
- 2 What roles are being undertaken by the HR function?
- 3 How can HR's performance be evaluated?
- 4 What future role is envisaged for the HR function?
- 5 How does HR go about transforming itself?

A review of recent literature was carried out that focused on research-based evidence in relation to the questions being posed. In addition it explored zero-based HR by reviewing its origins in zero-based accounting.

In addition, an empirical study was carried out amongst 15 member organisations with a total of 30 executives being interviewed. Interviewees represented other functions in addition to HR. The interview transcripts and notes were subjected to analysis using ATLAS-Ti software.

The report is divided into four main sections; an executive summary of findings, the analysis of the interview data, opportunities for improving the overall performance of HR by applying the concept of zero based HR and lastly, the key enablers for moving the HR function forward. An overview of relevant key research findings is presented in table form in an Appendix.

Executive summary

The current challenges facing HR are:

- An ever-increasing remit stretching across operational and strategic areas, and often now including elements of risk management, reputation and brand.
- The increasing need to balance competing needs; global and regional, central and local. This is reflected as structural, policy and process challenges.
- The need to balance cost-cutting with growth and innovation. Not only does this challenge exist in terms of HR's need to support the business with managing this paradox, but it is felt acutely in HR itself.
- Supporting business with a never-ending stream of change, whilst often being in transformation as a function itself.
- Ensuring that employees remain motivated through change, whilst at the same time ensuring that performance is managed and the right people are delivered at the right time with the right skills

- The requirement to look at the broader context and ask the bigger picture question about operating models and strategy
- To do all this whilst ensuring that its offer to the business is cost-effective and not over-complex or bureaucratic

The role of HR is:

- a pivotal one - being part of the strategic discussion and as coach and 'voice of reason' to the organisation, but not at the expense of excellence in the basics. Delivery of these operational basics was seen to be below expectation in many cases, acting as a barrier to HR's entry into the more strategic debate.
- to be business people and understand the context of their organisation and business customers.
- to play a key role in change – in coaching the organisation and its people, in communicating the messages around business change and in enabling the change itself through its own tools and processes.
- The growing role of HR in the arena of organisational effectiveness and development, with recognition that there was more to do in this area with regard to building HR capability.
- The evolving role of HR was creating increased pressure on HR as a function and on individuals in terms of workload and bandwidth.

Measuring the effectiveness of HR

- HR is neither consistent nor rigorous in the way in which it measures its effectiveness and this is a barrier to demonstrating its value as a function.
- HR is sometimes seen by the wider business as escaping the same scrutiny given to other parts of the business but it is recognised that some of this relates to organisational challenges in measuring the impact of people change.
- Where measurement occurs, it tends to over-focus on the process rather than the impact. In some cases external benchmarks and broader organisational metrics are employed but this is the exception rather than the rule. Having a 'composite' approach which looks at process effectiveness, benchmarking and wider organisational impact is seen as sensible.
- Measurement approaches often tend to be over-elaborate.

Criticisms of HR

- Access to tools and the effectiveness and application of technology is seen as an issue by some organisations.
- Relevance of HR activity to business need is commonly cited as a criticism.
- Lack of rigour in implementation and delivery skills is seen as a key development need for many HR functions.
- General inefficiencies in the way in which HR is structured, duplicate activities and role overlap.
- Over-complex, under-flexible processes and policies are seen as barriers to business by many managers and create additional work in the wider business and also in HR itself.

- A lack of the necessary competence in strategic agility and business acumen is a criticism levelled at some HR functions.
- A recognition that HR has to deliver paradoxical and competing requirements, but also that it struggles in operating with this reality.

The future direction of HR

- HR must balance its portfolio of activity between adding value to the future direction of business and delivering excellence in the basics.
- HR does not invest enough effort or capability in developing a forward-looking view of its function.
- There is an undeniable need for HR to focus much more on what it does with what it has and to make hard decisions about where it invests its time and resources.
- The importance of data in decision making is becoming ever more important and HR functions will need to translate HR data into insight and scenarios.
- Responsibilities in HR are becoming more confused as time goes on and HR functions run the risk of tripping over themselves if this is not continually reviewed in a pragmatic way.
- HR is yet to understand the impact on its own capability of Gen Y.
- HR's future role is limited by its own capability; directly in so far as this might cause it to focus only on areas of expertise, and indirectly in so far as business' expectations of HR are flavoured by its perceived capability. Strategic agility and business acumen remain key barriers to the evolving value of HR, despite many years of apparent focus.

Implications of the application of zero-based theory

- HR has the potential to be more cost-effective than it is now through a combination of selected outsourcing, system automation and the application of consulting models.
- There is no real consistency around what should or should not be part of an HR function and where it should sit, since there is a strong contextual influence to how value is delivered.
- There are many things which make it hard to envisage a revolution in the way that HR is delivered in practice in the short term. However, the questions posed will continue to gain traction in today's business environment and HR functions should use a zero-based mindset as a basis for decisions around HR functional evolution going forwards.

Moving forward: enablers

- Technology and automation will be key factors in delivering increased HR value moving forwards, both as enablers to cost reduction and simplicity, but also to support decision making in an environment where a more data-based approach to risk management is becoming commonplace.
- HR must try to break through the barrier to developing greater commercial acumen and strategic agility since the current approach does not appear to be bearing fruit. It should perhaps look to more fundamental issues around assessment and career development in light of this.

- HR must become comfortable in creating and using data differently and must take greater steps to ensure its accuracy.
- Excellence in project and programme management is seen as a key enabler for organisations but increasingly for HR itself. If HR cannot manage its own projects well, what right does it have to support change in the wider business?
- There is an increasing need for risk management to become part and parcel of HR's role. In particular, a need to achieve a comfortable balance between governance and flexibility. This will test HR's ability to be pragmatic.

The outcomes of the interview programme

Introduction

As indicated earlier, interviews around the key questions listed above were undertaken with senior HR practitioners in a number of companies and, in most, with key senior operational executives.

1.1 The key challenges facing HR

The challenges identified by respondents very much reflected the context in which they currently operate. This is particularly noticeable amongst those with a global reach who tended to focus on issues relating to globalisation whereas those operating exclusively in a UK environment, as to be expected, were more focused on local issues. Organisation turbulence was clearly creating new challenges for HR and a changing focus in demand. The changing make-up of the work-force is also creating the need for a policy rethink. Dilemmas exist where organisations seek cost-cutting measures but at the same time as growth and innovation. Standardisation and simplification are being sought to reduce costs but changing legislative requirements as well as societal expectations introduce even greater complexity. HRIS still presents unresolved challenges and a failure to date to fully meet expectations. Input into the strategic debate, strategy making and high level implementation working alongside executives is an on-going challenge.

Global businesses are challenged by growth in some regions and declining markets in the more developed regions. One outcome is the degree of closure of existing, and opening up of new, facilities and the HR issues involved. These enterprises are faced with the question of where and when to develop facilities and supply decisions, whether from other parts of the world, outsourced manufacture locally or wholly owned and managed operations.

Business demand fluctuations across the globe were also resulting in a skills challenge and issues around getting 'the right people into the right places'. There was a recognition that a programme of localisation was generally preferred to the costly option of moving people between locations particularly expats from developed countries. But this was seen in itself as presenting challenges. As one respondent put it – *'Lines of business make it difficult to bring on country talent. ...Successful people have done multi-geographical roles etc and it is now harder to do this'*.

It was recognised that, particularly amongst the young, there is a changing employee expectation with a much greater focus on short-term rewards rather than pay-offs from longer-term incentive schemes. Employees in some regions are looking at the attractiveness of the current role and their decision to stay is increasingly unlikely to be impacted by marginal salary differences or promises of future promotion or benefits. Delivering on the employment promise is seen as increasingly important in building trust with employees. In developing regions, where there is strong competition for well-trained staff and a strong awareness amongst staff of the labour market and the personal benefits derived from mobility, the organisation will struggle to retain talent in the longer term. Providing for local conditions vs. a consistent approach across the organisation remains a challenge.

The problem of skilled labour shortages is seen as likely to impact in turn on performance management where there will be a greater inclination on the part of managers not to aggressively manage poor performance and be more tolerant. One HR respondent felt that the function needs to get better at 'on-boarding' and cultural integration. Additionally the reward system is seen as impacting on employee engagement particularly where teams are working globally and differences become highlighted.

One tough question posed in relation to globalisation was – *'Do we really understand what global means and what it costs to operate a global structure and do we have to in all instances? We also have challenges that are being worked on at the moment in relation to how to structure effectively for a global business. We don't think systemically about the best approach for people in emerging markets and so we don't think about the best way to support that from an HR perspective.'*

'The whole philosophy driving the business is to simplify, consolidate and automate'

In some respondent companies there was a strong emphasis on cost-cutting but at the same time expansion into developing markets. Cost-cutting was seen as coming through standardisation, whereas there is a belief that localisation can lead to greater innovation as the local firm seeks to meet its own local conditions. Resolving the dilemma surrounding how much to integrate and standardise the global organisation with a view to simplification and overall cost reduction and just how much local discretion to grant presents an ongoing challenge – *'just what to standardise and how to do it and how to squeeze out the assumed benefits'*.

HR's challenge in creating policies that are standardised across organisations was highlighted by one respondent – *'Creating policies that allow us to be flexible, more specifically one size fits nothing'*. This is in contrast with another company – *'The whole philosophy driving the business is to simplify, consolidate and automate'*.

HR departments were reported to be under pressure to cut their own departmental costs and to demonstrate value for money. This pressure is for a more commercial approach to running the function. Indeed, until HR can demonstrate the value it adds as opposed to simply what it costs, it will always be under pressure.

HR's input to strategy making and implementation is still a major challenge for many of our interviewees. This, in some cases, stems from weaknesses in tackling those strategic issues deemed vital at any point in time, in others the inadequacies seen in HR's outputs are in the areas of talent management, leadership development and strategic manpower planning. HR functions who are rising to this challenge are balancing business uncertainty with increased

use of scenario planning and solutions offering maximum flexibility.

The new organisational realities are leading to changed operating models which offer an opportunity to HR as organisations seek to adapt to these new realities and move even further in many cases from a production orientation to a service focus. HR can perform a key role in focusing thinking around culture change and the new style of leadership/management required.

The role of HR in questioning executive plans and actions and having an input into key decisions was acknowledged by several of our respondents – *‘What’s the cost benefit of being structured / operating in that way? Is there an alternative that would be more cost effective in terms of cash / assets and people’s wellbeing? HR should be thinking about this, not just for HR but also for other functions e.g. finance – that’s what I mean when I speak about an organisational design focus in the future’.*

On the one hand HR is being expected to have conceptual models, which lead to explanations of how to achieve effective organisation but at the same time are big asked to focus on simplification of processes. *‘I think that the business gets frustrated by our tendency to overcomplicate things’.* HR is also reportedly seen as putting unreasonable demands on others, such as line managers, to undertake much unnecessary paperwork and unless HR departments are seen to make effective use of the outputs of this administrative work they will be criticised.

HR information systems are still an issue for some. They are acknowledged as having the potential to reduce HR headcount and costs overall but on the other hand even senior executives do not want to use the systems preferring a personal touch. Call centres are not seen as providing the junior and inexperienced manager with the personal support needed and hence the individual’s personal development is limited.

Staff motivation is of concern to several respondents. Factors such as the maturity of the industry, the cyclical nature of business and pressure from all sides to reduce costs are seen as having a poorly understood impact on staff. For one respondent a transformation programme is requiring HR to examine performance and talent management as well as incentivisation of staff. Performance management was a major challenge for another respondent – *‘We need to up our game.... guess we have about 50% of our managers actually managing performance properly, exiting poor performers and actively managing the career of good ones’.* Another indicated the need *‘to develop a high performing culture based on engagement’.*

Organisation reputation management was seen by one respondent as a challenge for HR and one not yet taken up.

One respondent from a functional role was concerned about an emphasis on developing specialist roles and specialists rather than the more general. Where outsourcing had become commonplace there was also recognition that talent development was problematic because lower entry jobs had been outsourced.

Where outsourcing is planned or has been implemented many challenges exist including working out how to operate effectively with the outsource partner. One non-HR respondent based in a company which is in the process of large scale outsourcing identified the challenges being faced – *‘If we are to make a success of our relationship with our outsource partner then we need to make sure that we have the skills in the business to do this well. Most parts of the business are not used to working with an outsourcer so there are some real skills that need to be developed in terms of relationship management and process compliance. ... (there) are big cultural challenges and HR should be helping us address them’.* But

I think that the business gets frustrated by our tendency to overcomplicate things’.

'In general we need to build an organisation that is right for these times, lean, nimble, able to respond quickly,'

in another company the opposite was the case - activities were being brought back in-house and in his view HR had played a key role - this being achieved with minimum disruption and at the same time off-loading underperformers.

Managing the HR function was seen as a challenge by one respondent – *'In general we need to build an organisation that is right for these times, lean, nimble, able to respond quickly, don't forget responsibility to keep out of jail and out of papers...danger is HR is too risk averse, HR leaders lack confidence.'*

1.2 HR's role

HR has striven for many years to get away from its earlier role in personnel management and to become more involved in strategic decision-making. It has also sought to find means for rationalising the administrative and clerical work and find more cost effective ways to deliver its transactional services. It has succeeded in moving from being seen as the employee's champion to being recognised as a resource knowledgeable about organisation and behavioural aspects. The 'business partner' role may be viewed as a top level support to the executive but it is also apparent at lower levels of management where much more of the work is being done through projects and strong HR partners can add value to the work of project teams.

Our respondents reflected these changes. One HR interviewee, in particular, commented about the perception of HR – *'There is a much greater view of HR acting in the interest of the business and dealing with individuals rather than HR being the champion of the employee.'* Another indicated that HR now often represents *'the voice of reason'* in discussions but struggles with this to the extent that HR often does not make an impact and tends to be seen as *'policing'*. Taking this view of the role as the *'voice of reason'* further, one respondent identified the role as more active in moderating the interests of various parties – *'to mitigate the conflict between the interest of shareholders and the employee and find mutually beneficial ground.'*

Line managers still really value the role of HR as a trusted advisor. Typical quotes included *'I value the counsel/wisdom of people who are used to dealing with challenges, problems and issues day in day out. Dealing with the tough stuff is what makes HR good.'* *'Where it makes a difference is the insight and sounding board from someone with different experience to you who is also focused on your team.'* and *'I think they are a key enabler for the smooth running of the organisation. They are the oil in the engine. If you take out the oil it's going to break down. A lot of the work they do is unsung and people don't realise all the little things that they do, the hundreds of conversations that keep the thing moving along.'*

Success in these roles does seem to depend upon HR being able to *'understand the business sufficiently to be able to advise on and provide solutions to business challenges - this is true at all times but it's hard to see how HR can justify a role as supporting organisational effectiveness if this approach is not deployed.'*

But HR departments have perhaps been their own worst enemy in terms of defining their own role and themselves not always recognising where they would best be deployed – *'The more senior HR people have to let go of the operational stuff and do what they are supposed to be doing, i.e. coaching and leading the change.'*

In their defence, however, the realities of organisation are such that whilst HR may aspire to become a business partner and involved in the more strategic, the immediate demands placed on it may mitigate against this. This is reflected

in a view from a seemingly frustrated executive operating in a lean HR function within a lean organisation, *'We are being misused. Because of falling employee engagement and the impact of inflation people have been checking out from day to day responsibilities. HR has been sucked into doing employee relations and sometimes doing the manager's job, also as a helpdesk function and source of information. This is not adding value.'*

But HR in many organisations has a role beyond the strategic and transactional, working with the line to support ongoing operations. – *'It's really a coaching function, helping people to manage and learn to manage and they deal with the tough stuff. (HR) helps managers to get on with their jobs where their skills really are, rather than fretting about dealing with all the tough stuff. The line managers have to do it themselves but they know (thanks to HR) what to do and how to do it.'*

But HR's ability to provide the sought-after services may well be impacted by its own search for more cost effective organisation. For many this is involving considerable change within the HR function itself. One example, *'HR is going through its own transformation from each region having its own talent, reward etc - and providing its own solutions, to products being owned/ mandated by the centre and a common process across regions.'*

One theme paramount amongst many respondents was change. Many saw HR as having a role to play but there were differences depending upon the needs of the situation, the capabilities of other functions and the capabilities as perceived within the HR function. Different respondents saw the emphasis of HR's role in change management differently, as shown by the quotes:

Coaching

- *'...the provision of tools, techniques and support to get through it possibly providing coaching and counselling.'*
- *'...any change to business will affect your people in terms of operating models and then HR's role is coaching the leaders through it and then designing the (new) organisation and helping build the new organisation in term of culture.'*

Supporting implementation through communication

- *'...not the project management but more about identifying barriers and synergies and thinking through the key messages in communication. It's about properly implementing the change and getting the chemistry right.'*
- *'...it plays a strong role in implementing changes in operating models and downsizing. HR plays a strong role in explaining the meaning of the change and maintaining the engagement of the employees. They need to take stress out and bring energy in.'*
- *'...the new head of corporate communications is looking at employer brand and external attraction.'* But one HR executive was clear – *'I do think that we have a key role to play in creating alignment of the executive team on core messaging.'*

'The more senior HR people have to let go of the operational stuff and do what they are supposed to be doing, i.e. coaching and leading the change.'

Enabling change

- *'...we will also get involved in restructuring and redundancies and motivating retained employees as well as bringing in new skills and retaining talent that you don't want to lose. It's supporting people with resilience programmes, managing performance i.e. anything to do with managing change.'*
- *'...areas we focus on are the new channels to market. We are working on bringing in new skills and resources and helping business leaders shape the new future and solving issues in new processes...we need to train people and support the introduction of those new processes. We need to recruit externally so people come in with new ideas.'*
- *'...equipping managers with the skills to lead in a context of change when they have been used to doing so in a steady state environment.'*

One consequence of this change is that HR was feeling under pressure in some cases – *'the amount of change activity has increased. HR has accommodated that. The end result is that we are feeling pretty stretched but useful.'* For some the HR role in change management was not too clear – *'We have a change management team that sit in IT so some blurring over what is in HR's remit and what is not.'*

Organisation design & development was seen as an important role for HR. *'... describe the business we want then what capabilities and processes are needed. Then design the organisation to run these. But these tools and processes are not available from core HR.'*

'...equipping managers with the skills to lead in a context of change when they have been used to doing so in a steady state environment.'

So, we have seen that HR is currently much in demand in change programmes and in many types of role from initiation and basic design, through to support through the process, the management of relationships and communications. Whilst not wishing to have day-to-day involvement in transactional aspects of HR clearly there is the need for expertise to specify, support introduction, monitor and evaluate particularly in the case of HRIS systems. The strategic role still appears to be a challenge and to some degree will depend upon how executives view the contribution they need and the capability of HR to fulfil it. But many respondents recognised the need for support on people related issues for line management across functions.

1.3 Evaluating HR's effectiveness

We turn our attention now to the thorny issues of the evaluation of HR's effectiveness. For the general assessment of organisational performance the Balanced Score Card (BSC) has been introduced by many organisations and our respondent companies are no exception. But HR seems not to be as advanced in its application as other functions, *'...having a Balanced HR Scorecard that incorporates cost, value and productivity is an imperative for the business. The metrics to measure HR's own performance have been missing.'*

So, without the BSC, how is HR's performance evaluated?

- 1 Process metrics** – e.g. one respondent with a talent management responsibility looked for timely, high quality reports showing that the process was being operated effectively in the different regions.
- 2 Benchmarking** – Some organisations have established a benchmarking process e.g. *'We are working with (consultants) to benchmark productivity vs. world class organisations and we are looking for something similar for HR.'* One organisation reported the use of Saratoga data for benchmarking.

‘..having a Balanced HR Scorecard that incorporates cost, value and productivity is an imperative for the business. The metrics to measure HR’s own performance have been missing’

3 Broader organisational metrics – e.g. ‘We are a performance-oriented business. We regularly review operational expenditure and wages and benefits of people and additional OPEX in terms of discretionary spend. Also we have productivity measures at departmental and business level which are aiming to make better use of data we have anyway from our systems e.g. headcount trackers and forecasts to help us understand how we are funding new investments through productivity improvement vs. incremental spend. If we are tending to complexity in any area (level or geography), data shows where we may need to dig deeper. We measure hard and take action where we need to. We have a good measurement capability - until this year though we hadn’t used this data as intelligence rather than just data.’

4 A ‘suite’ approach to metrics - One respondent identified three types of measurement in use: ‘We look at three levels...

- process measures - is it working, does it feel right?
- impact measures - is there an impact on performance, what people do?
- organisational impact - what does this do for the organisation?’

The need to avoid over-elaboration of measurement approaches was emphasised by one respondent – ‘we are going down the route of lots of metrics but I’m not a fan of developing lots of metrics. You end up measuring the things that are easy to measure and whole industries develop around this.’

The lack of performance measurement was a common theme throughout the interviews. Comparisons were drawn with other functions such as manufacturing, engineering and scientific work. But whilst methods exist there appears a reliance on soft approaches such as survey instruments.

One line manager said – ‘It would be good if (we) could measure HR in the same way that we measure other functions but this does not seem to happen. I am not sure why except in most areas of HR there doesn’t seem to be a lot of data...it may be harder to apply hard measures in HR but that does make it difficult to know whether your HR function is really adding value except through personal experiences and these may be inconsistent across the business... I know we do some benchmarking in some areas so we should be able to have a scorecard for HR.’

We have seen that respondents do not have a clear-cut view on the method for assessing performance of the function. This no doubt reflects the complexities in measurement: reliance on soft rather than hard measures, supporting line management who have direct influence over outcomes. There was a consequential emphasis on process rather than outcome measures and customer satisfaction. Without an acceptable set of metrics some felt rather vulnerable.

1.4 Areas of criticism of HR

HR was seen as needing to improve in a number of areas, for example:

- **Tools** – providing insufficient access to appropriate tools and processes to assist in the design of organisations.
- **Relevance** – not responding to the commercial imperative, which in turn had an impact on its ability to add value. Not prioritising well and ‘working on pet projects that are not immediately relevant nor high priority.’ Too much energy and time devoted to staff attending generic courses, which did not have a direct pay-off.

‘we are going down the route of lots of metrics but I’m not a fan of developing lots of metrics. You end up measuring the things that are easy to measure and whole industries develop around this.’

'Actually, really good execution of a limited number of good products is much better than designing a whole load of new products.'

- **Implementation issues** – not doing enough to ensure implementation of processes and systems such as performance management. Some reported that other functions do not trust HR to deliver and so have taken direct responsibility for activities such as their own talent programme.
- **Being generally inefficient** – having *'duplicative (sic) processes, overlapping roles, poor organisation design and too many staff failing to deliver on time.'* One executive held the view that *'HR has the worst reputation in the company in terms of organisational effectiveness.'*
- **Being over-complicated, inflexible and bureaucratic** – *'HR have to recognise that a well-designed recruitment process applicable in a Western country may well be far too slow for fast moving recruitment markets such as India and hence has to be flexible.'* One organisation was said to have 40 different talent systems. *'Actually, really good execution of a limited number of good products is much better than designing a whole load of new products.'* One respondent felt that HR has overdone the *'governance stuff.'*
- **Not getting technology in the right balance** – *'we are also a bit like cobbler's children over technology.'* It was recognised that systems/self service could reduce costs but at the same time it removed the personal touch so welcomed by line management. *'It's a delusion that it helps the manager, it confounds the manager. I'm paid £120k and I'm an expensive, ineffective PA.'*
- **Not being adequately proactive** – *'It would be good to have HR as a true partner in my team as I think about how to manage and develop my people but they tend to come in after the fact to help with issues rather than being proactive on this.'*
- **Lack of people capability in areas** – HR was criticised for capability gaps compared to other functions. Some saw HR as being too dependent on outside consultants. HR also got criticised for its lack of strategic capability. *'There is a level of frustration from business leaders that they don't have the input to strategy from HR. It's the same for culture.'*

The criticisms of HR's performance might well be seen as a result of the organisational conundrum the function finds itself in. Expected to be lean it is then criticised for lack of responsiveness, not being 'on-call' to fire-fight and not being proactive. Whilst being criticised for introducing complexity it is faced with ever changing external requirements for compliance which will undoubtedly increase complexity in management and reporting and which HR is then required to implement. Whilst seeking standardisation to reduce costs the systems and processes put in place then receive criticism for being inappropriate or just plain unacceptable in different parts of the world. If functions take over responsibility for elements of people management this is then interpreted as the result of HR's inadequacies but for HR it is a positive move towards self-reliance and a cost effective solution.

1.5 A future for HR

In looking at the future, HR is emphasising a role in meeting strategic business needs, but, at the same time there is the need for operational excellence. As one respondent put it very clearly – *'They (HR) have to get the basics right. This is critical particularly when you are moving to a different delivery model. There is very little reward for getting this right but it can have a massively demoralising effect when you get it wrong.'*

Another felt that HR was *'very poorly equipped to make forward-looking decisions... we are very backward looking rather than future modelling (e.g. workforce planning). Without that predictive instinct it makes my job very difficult. We don't have organisational modelling of future scenarios. These are big gaps in an organisation with ambition to be world class. We muddle along.'* This need to develop a strategic perspective was identified by another *'... what I see as the biggest gap is around strategic perspective. We need to develop flexible, strategically savvy people who can work with ambiguity, diagnose causes rather than symptoms and use solid judgements to work out what the percentage plays are.'*

It was recognised that HR needs *'... to take the longer-term view such as looking at our skills and capabilities and whether to buy or develop them, what is needed to win.'* HR needs to be externally savvy also – *'HR hasn't looked externally to see trends in HR. It is very narrow in its thinking with too much internal navel gazing.'*

For some the changing shape of the business meant that HR had to reposition itself and decide where it needs to focus its resources. *'I think that this is an area where HR has to focus - we need real plans to understand where our key talent is and what we are doing to manage their careers and hook them into us for the right reasons'*. Also, involvement in organisational development and organisational effectiveness work. *'I'm bound to say that OD issues should be a priority for our HR folks - we could definitely do with more specialists in this area.'*

'We need to develop flexible, strategically savvy people who can work with ambiguity, diagnose causes rather than symptoms and use solid judgements to work out what the percentage plays are.'

At a more operational level there are still issues going into the future about the ability to provide good quality and timely data – *'Risk management, understanding data and how it can support your decisions, global mindset.'* However at a basic level there is the need *'to keep the business legal and clean.'*

There is a need for rather different thinking underpinning the activity – *'If you have scarce funds then where are you going to invest? Who do you really want to keep vs. people you don't? HR really needs to become more hard edged to help people make those choices.'*

Understanding how HR should be organised and who should do what is seen as a key future need, with the way that HR is structured sometimes causing as many issues as it seeks to solve. *'5 years ago I wouldn't have mentioned OE but there has been an increased consciousness of this in the business arena... now there is a specific OE function that undermines the business partner role... I wonder if the opportunity here is to collapse the centres of excellence into a service organisation and make business partners true business partners doing change and talent.'*

Putting this into a global perspective one respondent stated, *'As you globalise your decisions are heavily influenced globally. 'Local' will be about implementation. We might incubate something locally but then pass over to the group.'* But he also added *'We used to think geographically, now we think function but we need to start to think business process.'*

The role that HR takes on in the future will also in part be determined by perceptions of capability and value. *'Like most companies I am sure, we have a range of capability in our HR teams and this has an impact on what we focus on' or 'having the right skills to deliver strategic alignment activities through the function is potentially a gap in HR.'* There is a need to sense-check capability against value and continually be reassessing this balance – *'we have an army of OD people... we over-engineer... Business has moved beyond our OD capability. It is much more accustomed and familiar with change than the OD population would like to believe.'*

Increasing the level of intellectual agility and business acumen were seen as key needs. *'HR people have to flex up and down between different levels and have some specialist knowledge... we need a broad appreciation of the whole business as well as the ability to spot detail.'* On the commercial front, *'...not all the HR people I know are strong at numbers, so being better at financial stuff would help them and us... I fail to see how HR can justify a role as supporting organisational effectiveness if it does not understand the basics sufficiently to be able to advise on and provide solutions to business challenges.'* When it comes to understanding the business - *'we tend to have more difficult conversations with HR because we are not coming at the problem from the same angle so it takes a while for us to get on the same pace about cost and value.'* This is no new issue, but to what degree has it been properly addressed? - *'For some bizarre reason everyone tells HR you need to be commercially aware but still it is not taken on board - it's a broken record but no one seems to listen.'*

Having this knowledge and skill brings with it the responsibility to use it for good - *'The HR generalists know the business but go native - they don't challenge the business enough; they don't have the confidence to challenge as they are too eager to please; they are working long hours on low value work as they want to feel loved.'*

Thinking about the make-up of the workforce going forward is a key need - *'The challenge is what will be the impact on the HR agenda of issues such as Gen Y, IT revolution, what is the role of the employer how do HR policies have to change.'* This issue will face all respondent organisations, some earlier than others and it is one where HR will no doubt be expected to give sound guidance. *'Gen Y is fluid in what are they looking for? How should we use technology to engage them in communication.'*

There are clearly issues for our respondents about the degree of insularity, levels and breadth of experience and how it will be gained in the future, basic capabilities, tools and approaches in the 'kit bag' of HR practitioners and the extent to which HR is able to respond to changing needs. This tends then in turn to shape the HR offering. On the one hand it limits what can be offered. On the other it sets the organisation's expectations and then limits the opportunity for HR to extend its role beyond the existing.

2. Zero-based HR - determining the opportunity for more effective HR.

In a zero-based approach, assumptions about costs and their breakdown are suspended to allow a fundamental look at operations to identify those elements essential to whatever process is needed for delivery. Outside the field of accounting the approach adopted may be seen as being the design of the organisation starting with a 'clean sheet of paper'. The principals of the approach can be applied to a function, department or section of an organisation. This can aid in decisions about where in the organisation to locate activities and whether or not to maintain the activity within the organisation.

If we applied these principles to an HR function one might look at the broad areas of activity shown below:

- Operational delivery
- Strategic delivery
- Operational development
- Strategic development

'HR people have to flex up and down between different levels and have some specialist knowledge... we need a broad appreciation of the whole business as well as the ability to spot detail.'

It is clear that organisations have needs in all areas. Also failure in any one area to meet expected delivery requirements can lead to a severe loss of credibility. No more so than in the transactional area where a lack of attention to detail can severely damage overall reputation. So the questions to address are:

- just what level of service should be provided
- how customer expectations can be managed
- where within the organisation the service would ideally be located so as to maximise contribution.

Those HR activities which have undergone the greatest change over the last ten years are widely seen as transactional in nature. The moves towards automation through HRIS, self-service and call centres have forced the function to become much more process driven. But the specialisms needed for the management of HRIS and call centres lie outside the traditional expertise of most HR staff and, in many organisations, could be passed over entirely to an operations function with then minimum support from specialist HR technicians either employed within the call centre or working virtually. Then the role of HR professionals would be two-fold: ensuring that systems reflect current HR policies and legal requirements and working in multi-disciplinary teams on the development of systems to ensure their compliance, functionality and user acceptance.

In many organisations this would much reduce HR's involvement in transactional work and thereby shift responsibility for service delivery to operations management. By removing much of the day-to-day work HR would be splitting out operational management from its consultancy and other roles.

If those remaining staff were deployed more as consultants and were organised accordingly the nature of the function and the level and style of management would change. In this scenario, the senior level consultants may well primarily be generalists working with the executive on strategic issues as well as on leader development. The more junior consultants would be involved through partnering in offering support to the line. An internal research capability might be engaged in ensuring that HR is in touch with leading edge thinking within the discipline as well as delivering the information required for evaluating the effectiveness of HR policies and practices. HR would lead multi-disciplinary teams in designing new HR policies and procedures as necessary.

'failure in any one area to meet expected delivery requirements can lead to a severe loss of credibility. No more so than in the transactional area where a lack of attention to detail can severely damage overall reputation.'

The consultancy concept might be taken somewhat further by creating an internal multi-disciplinary consultancy service to include HR specialists equipped to work at both strategic and operational levels. This might be created regionally in global businesses but with strong virtual working to ensure knowledge transfer and utilisation of specialist expertise. One role of any group would be to have a network of potential suppliers within their discipline and then to manage their engagement as consultants or interim staff.

Whilst this scenario could result from a zero-based approach, there is no doubt that a core HR resource is essential even though much other work could be contracted out to specialist consultants or consultancies. There is a vital role, however, for some staff to act as the 'glue', ensuring that there is continuity and overall coordination and integration, that lessons are learnt and the benefits of the enterprise's history maintained.

The Appendix at the end of the study takes this model and looks in more detail at the areas where HR needs to be competent. This is a good check list – enabling us to first identify which are most critical for the business and then match this with the current level of capability as opposed to the other way round.

'By removing much of the day-to-day work HR would be splitting out operational management from its consultancy and other roles.'

<p>Operational delivery – a limited support role Transferred to operations function or outsourced and managed by contracts division with some local or virtual HR</p>	<p>Operational development – a lead role Input from HR into multi-functional teams in the design and approval of new systems and monitoring performance</p>
<p>Strategic delivery – a lead role Engaging and managing specialist consultants</p> <p>Strategic delivery – a consultancy role HR consultants advising on change, acting as facilitators, monitoring progress. Involvement in innovation programmes, in capability development, the 'human voice', ensuring lessons learned are captured. Working with line to implement policies. Assessing effect of HR policies in delivering strategic intent.</p>	<p>Strategic development – a lead role Monitoring the effectiveness of People Management policies and practices. Formulation of HR strategies and Implementation plans.</p> <p>Strategic development – an internal consultancy role Involvement in strategic planning. Identifying relevant outside developments in HRM in particular and business more generally and stimulating internal reviews.</p>

In seeking the most cost effective delivery of the range of services currently delivered by the HR function, the result could be the disbanding of what has been the traditional function to be replaced by a somewhat reshaped organisation.

This is all very fine in theory but what views did our respondents express about the future role for HR? Most of the responses were context-specific, and reflected the particular circumstances prevailing within the organisation. However, there were areas where respondents felt that HR was not getting or giving value for money and opportunities for a rethink about the role and the means for delivery.

In conclusion, our questioning about 'zero-based HR' did not produce a list of areas where HR was not needed or where the service would be better provided by a different function or outsourced. However the responses did offer an opportunity for creating a means of questioning and deciding the future role for HR.

3. Moving the organisation forward – key enablers

The zero-based approach does not readily offer a response to short-term pressures but rather ought to be looked at with a longer time horizon. So what enablers emerge from our research, which are needed to be put in place to result in effective implementation of the changes to the organisation of HR?

3.1 Technology/automation

HRIS is here to stay. The future challenge is just how far can such systems take over HR activities and how much they can offer in overall cost benefit terms. The major development in the application of HRIS is likely to be in the use of its data in decision making. Here the greatest challenge is probably in the development of the means by which data is translated into knowledge and actionable

insights. HR has a key role to play in the further development of systems and their implementation but this demands that HR practitioners have a broader-based set of knowledge to include systems design and data management. They need to be more comfortable with IT systems thinking and recognise the implications of decisions on standardisation vs. customisation, on putting process first or second etc.

Further developments in technology should enable HR professionals to operate more effectively across language and cultural boundaries. This should enable HR expertise located anywhere within the organisation to be more productively deployed. However, this does assume that knowledge management systems are such that the expertise can be readily located and that staff are then competent in working remotely within teams using the available technology.

3.2 Commercial acumen

Despite concern over many years about the commercial acumen of HR practitioners this still persists as a major issue and is proving still to be a barrier to acceptance at executive decision making levels. In order to build credibility HR practitioners need to understand business more generally, understand the 'language' of other functions and be capable of joining in debates across a broad spectrum. This is the basis of personal credibility and the HR executive of the future will be expected to be more than just knowledgeable about the specifics of HR.

Commercial acumen can be developed through exposure to other functions within the enterprise or by bringing staff in from other areas. But those brought in often see their period in HR as a temporary assignment and as a result do not have the requisite knowledge nor are they fully committed to developing the function. For those from HR moving outside their discipline there is the possibility that if successful they will not return. So other ways may need to be found to accelerate the development of business acumen amongst HR professionals including periods of secondment to other businesses or charities, involvement in multi-disciplinary project teams, assignment for short periods to more entrepreneurial parts of the business, as well as traditional course attendance and coaching and mentoring. In short a talent management programme focused on ensuring that the organisation has the necessary HR talent able to contribute at the highest levels.

3.3 Data and data analysis

As executives are called upon increasingly to justify decisions and report associated risks, there has been a clear move in the direction of evidence-based decision-making. HRIS should be playing its part by providing more timely, comprehensive and accurate data on which to base people-related decisions. However, there is always the danger of over-elaboration both in terms of the models and the data requirements. The pragmatic and targeted use of data intelligence is therefore key to HR's contribution to decision making.

'In seeking the most cost effective delivery of the range of services currently delivered by the HR function, the result could be the disbanding of what has been the traditional function to be replaced by a somewhat reshaped organisation.'

3.4 Project and programme delivery

Programmes and projects are dependent for success on 'getting the people elements right'. This is placing a requirement on HR practitioners to understand project and programme methodologies and their application. That is fine but in addition HR is faced with the challenge of introducing change in its own function and without project and programme management expertise or access to partners with such expertise the changes will not be well implemented. There is little doubt that without building on its knowledge of change management by constantly enhancing its skills and expertise HR will fall further behind in influence. HR has an opportunity to demonstrate its expertise in the many aspects of change management by the exemplary introduction of any changes to its own function and how it operates.

3.5 Risk management

Whilst risk management has emerged as a science, the areas of increasing concern to organisations such as succession risk, reputational risk and employment brand risk do not lend themselves readily to quantification. Other aspects of people-related risk are those that organisational change leads to; loss of motivation and commitment of staff and the potential impact of cultural disruption. These are all areas which can be directly impacted by changes in the way in which the Human Resource function is organised and delivered.

HR should be playing a role based on assessment of risks to the organisation and its stakeholders. However, our research indicates that when it comes to implementing change HR cannot afford to be seen as conservative or a barrier to progress. This balance is again seeming to stretch the competencies of HR practitioners.

'the greatest challenge is probably in the development of the means by which data is translated into knowledge and actionable insights.'

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Appendix

Operational delivery			Operational development				
Operational delivery	Area of need	Issue to be tackled	Operational development	Area of need	Issue to be tackled		
	Global			Expatriation and repatriation services	Global		Establishing common policies and practices
							Harmonisation of employment conditions
	Managing employees			Management competencies and support	Managing employees		Culture
				Performance management systems			
	Employees			Recruitment/on-boarding	Employees		Managing changing expectations
				Changing focus e.g. customer service vs. ops			Gen Y
				Coaching			Reward systems/motivation packages
	HR Services			Reputation management			
				Communications			
				Facilitation			
				Executive coaching			
				Relationship Management			
	Leadership capabilities			Programme delivery	Leadership capabilities		Programme design
	Change			Supporting implementation	Change		Toolkit
Coaching							
Culture							
Outsourcing		Relationship management					
		Skills development					
HRIS		Managing performance	HRIS		Data migration		
		Organisational acceptance			Integration		
		Call centres					
		Managing effective use of data					
		Evaluation					
HR function		Centres of excellence	HR function		Organisation of HR		
		Responsiveness			HR capability		
		General business acumen					
		Managing communications					
		Availability of off-the-shelf tools and processes					
		Training and development					
		Executive coaching					
		Facilitation					
		Employees relations including TU's					
		Legalities/regulatory systems					
		Due diligence					
		Reputation management					

Strategic delivery			Strategic development			
Strategic delivery	Strategic input	Accessing/joining in the debate	Strategic development	Strategic input	Defining future needs	
		questioning/voice of reason			Reshaping paradigms	
		Creative input				
		Conceptual/predictive models				
		Evidence-based decision making				
		Advising on implementation issues				
	Global	Expanding/contracting/relocating facilities		Global		Monitoring external best practice
		Skills shortages in emerging economies				
		Talent – expats vs. locals				
		Rising employment costs				
	Employees	Employment/employee brand				
	Leadership capabilities	Talent management				
	Change	Cost saving		Change		Identifying/defining new business models
		Designing organisation				Innovation
		Advising on appropriate routes				
Outsourcing	Vendor management	Outsourcing		Design/specification		
HRIS	Data analysis and insight development	HRIS		Monitoring and assessing system needs/developments		
HR function	Defining roles	HR function				
	Processes for alignment with overall strategy					
	Evaluation of performance					

White Paper

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