

## The Management of Human Resources: Creating a Virtuous Circle of Influence and Impact

### Part 3: Unbundling the Human Resource function

By Dr. Paul Aldrich

#### The human resource management organisations' deserve

Ultimately the CEOs and business-line managers of organisations get the quality of human resource management they 'deserve.' If they feel it is not efficient and effective it may be revealing to first take an inward look at the HR environment they have developed and funded.

With the leadership of a CEO who understands the importance of an effective human resource environment, organisations have an opportunity to establish an integrated system that will support them in the battle to acquire and retain the best talent in their sector, and to manage the risk in their talent portfolios on a dynamic basis.

In a study on roles and influence in human resource management by Paul Aldrich, Managing Partner, CTPartners, it was found that the structure of human resource functions and their interface with the human resource environment will change over time.<sup>1</sup> Meanwhile, the degree of institutionalised influence, on the human resource environment, by all those responsible for the management of human resources, is likely to depend on the following six factors, the:

1. historic and current environmental context;
2. philosophy of the CEO relating to the management of firm human resources;
3. adoption of this philosophy by senior business-line managers;
4. nature of the business decision and the need for boundary spanning;
5. personality and competencies of individual human resource professionals, which ultimately reinforces or diminishes their credibility; and
6. success of the entire human resource function team in delivering human resource services.

In consideration of these factors, an example has been developed, see below, that draws on the lessons of extant research in order to illustrate how the human resource function can be 'unbundled' so as to facilitate a virtuous circle for the management of human resources.

#### The importance of credible and critical human resource professionals

The need for human resource professionals to have a credible, and critical, voice is demonstrated by the losses incurred by UBS, as well as other financial institutions, in the wake of the 2007 sub-prime mortgage crises. In the bank's report to shareholders (UBS, 2008) UBS states that by 31 December 2007 losses of USD 18.7 billion were attributed to US residential mortgage exposures. Some of the reasons noted can be summarised below:

- people risk was not considered adequately in business strategy;
- people risk was not considered by senior business line management;
- people risk existed due to a lack of succession planning;
- people risk existed due to over-utilised management bandwidth; and

## HRM: a Virtuous Circle of Influence and Impact (Part 3) (continued)

- people risk existed due to under-resourced infrastructure support.

It would appear that business decisions taken without integrating a human resource strategy may have contributed to the failures that occurred. If the management of human resources had been considered as an exercise in Talent Portfolio Management (in which credible human resource professionals, with a critical voice, had been focused on people-risk management, See Paper One in this series) then losses might have been less significant.

Losses of the magnitude suffered by UBS, whilst an extreme example from the financial services sector, should be seen as a wake-up call for the management of human resources to be considered as a core business discipline for CEOs and business-line managers. In turn, these executives should demand greater support from credible human resource professionals.

From 2008 onwards, CEOs and the boards of investment banks have faced greater scrutiny from shareholders and governments as they manage their way out of the financial crises. Indeed, a Financial News report on the 'Future of Capital Markets' in December 2008 states that governments will 'want assurances about executives' competence' and 'a culture whereby chief executives are challenged'.<sup>2</sup> This same trend was already prevalent across industry sectors in the wake of Sarbanes-Oxley legislation in 2002.

A new emphasis on competency and governance is predicted which offers human resource professionals a platform to establish their credibility, form partnerships, and influence decision making, while acquiring greater resources to support the management of firm human resources.

### Implementing change – unbundling the Human Resource function

The example below (*see Appendix*) shows how a human resource function could be unbundled to attain greater influence and impact for human resource professionals. However, changing the reporting structure, titles, and proximity of human resource professionals to business-line managers, so as to unbundle and segment delivery, is not enough. A process of consultation between the CHRO/HRD and CEO should precede this process, followed by the involvement of the divisional business leaders.

Firstly, there should be absolute clarity around the responsibility business-line managers must accept for managing human resources, as well as around the supporting role played by the Talent Management Advisors, Specialists, and Employee Services professionals.

Secondly, there should be agreement on the competencies required for each role and about the provision of funding to ensure the appropriate standard of professional can be retained or upgraded.

Thirdly, a review of people-related metrics should be undertaken. These can be divided into Efficiency, Effectiveness/Business impact, and Risk. Business-line managers should be involved in selecting these metrics, and their requirements will help define the fourth area of review, the adequacy of people-related management information systems and reporting.

The above process should lead to a more integrated approach to the management of human resources in which business leaders accept and embrace their role in managing human resources and invest in human resource professionals and the infrastructure that supports them.

## HRM: a Virtuous Circle of Influence and Impact (Part 3) (continued)

### Summary

According to the PricewaterhouseCoopers (PwC) 13th Annual Global CEO Survey 2010, 79% of the companies surveyed intend to revise their strategies for managing talent. An equal number responded that they plan to increase their focus on, and investment in, managing people through a process of change; meanwhile, 68% of those companies surveyed plan to increase investment in leadership and talent development. This corporate focus on gaining and retaining top talent will become ever-more critical as labor shortages, and particularly shortages among highly trained and experienced professionals, exacerbated in emerging markets, continue to increase. Even governments are taking note and formulating talent management strategies of their own (see *'China's Blueprint'*).

### China's Blueprint

The central government in China has set out a blueprint for creating a highly skilled national work force: 'The National Medium and Long-term Talent Development Plan (2010-2020).' One aspect of this plan is proactive overseas recruitment. According to Dr. Huiyao Wang, the Director General of the Center for China and Globalization in Beijing, who participated in drafting the Plan, China aims to have 40,000 international business-savvy executives working at its state-owned enterprises (SOEs) within this time period. The plan even sets a target for cultivating around 100 business leaders and CEOs who can lead Chinese firms in successfully entering the ranks of Fortune 500 companies by 2020.

How are human resource professionals placed to help formulate and execute these strategies? In IBM's 2010 Chief Human Resource Officer Study, CHROs across the globe and across sectors cite the ability of their organisations to develop future leaders, to rapidly develop workforce skills and capabilities, and to foster collaboration and knowledge sharing as being some of the most important factors in future success, however, these executives confess that they are relatively ineffective in supporting these activities.

It would be good to understand whether this problem is due to an environment of: **absence** (that is, low CEO, low senior business-line manager and low human resource professional understanding and capability); **presence** (low CEO, low senior business-line manager but high human resource professional understanding and capability); or **dissonance** (high CEO, high senior business-line manager but low human resource professional understanding and capability). The next challenge, then, would be how to transition this situation to one of **resonance** (high CEO, high business-line manager and high human resource professional understanding and capability.) For more background on relevant concepts, please see Paper Two in this series.

The creation of a virtuous circle of influence and impact in the management of human resources starts with the CEO's commitment to creating a successful environment for the management of human resources. This must then flow through senior business leaders and their teams.

The human resource function should be reviewed, unbundled, and staffed with: a competent and credible CTO/TD; equally competent and credible Talent Management Advisors and Specialists; and an efficient and effective Employee Services offering (see *Appendix*).

## HRM: a Virtuous Circle of Influence and Impact (Part 3) (continued)

Additionally, the management of human resources should be seen, at least at one level, as the management of people-related risk and this should be undertaken through dynamic, business-driven Talent Portfolio Management, supported by the application of appropriate metrics.

Finally, a review mechanism should be designed to ensure both objective and subjective feedback (see *'HR Function Satisfaction Surveys'*).

### HR Function Satisfaction Surveys

When surveys are designed to determine the relative satisfaction with the human resource function, care must be taken to make the questions relate to each part of the human resource function's service offering so that: (a) the internal clients are forced to be specific and constructive about what is working and what isn't, and (b) the human resource function can then use the results to effect change.

In the unbundled human resource function noted in this paper each part of the service offering is distinct and, therefore, it is possible to deliver a satisfaction survey that will obtain more accurate and useful information.

One strategy might involve delivering the surveys for each part of the service offering at different times throughout the year. This could help isolate each topic in people's minds.

It is also recommended to survey, at points of interface, the satisfaction of Talent Management Advisors, Specialists, and Employee Services professionals (see *Appendix*) with each other.

The importance of managing human resources has been discussed for many years, however, it is mainly during the past decade that we have seen significant progress in CEO and senior business leader recognition of its importance. This has been driven by a number of factors, including: increased regulatory oversight, a growing scarcity of talent, and an increased use of employee engagement metrics by equity analysts to determine the value of companies.<sup>3</sup>

These factors have caused CEOs to ask more of their CHROs. Concurrently, many CEOs have increased their investment in human resource professionals and the infrastructure that supports them. If human resource professionals rise to the challenges that are being placed in front of them, they will transform the perception of their value once and for all. As one CHRO put it: *'It's not a question of being at the table, we have been at the table for a while now, for some the challenge is knowing what to do next.'*

## Appendix

### Example: Unbundling the Human Resource Function

#### The Problem

The Ulrich (1997) model of human resource function delivery is strong where policies, practices, processes, and methods of delivery are matched with the nature and demands of the various business divisions they serve. However, when the concept is used as a 'one size fits all' solution problems occur. In addition, the failing of one service housed within the larger function often undermines the reputation, and perpetuates a negative view, of the function as a whole.

The paradigm suggested by Ulrich in 1997 has sometimes been poorly implemented, with no consideration given to the adaptations required across group business divisions or to the need for educating the internal clients and human resource professionals regarding their relative roles and responsibilities. Indeed, it has been noted that many questions are left unanswered by Ulrich's (1997) model of human resource function structure and roles. For instance, several areas of differentiation and clarity have been suggested for human resource partners.<sup>4</sup>

According to some,<sup>5</sup> the business partner role should be defined in strategic terms with clearly identified involvement and influence in the business strategy process, and the competencies for human resource partners should also be defined with performance evaluations carried out.

Human resource business partners ultimately need credibility to form partnerships, and by forming partnerships they are then in a position to impact business decisions at the appropriate time. However, they need to be clear about their mandate, and their

internal clients need to be clear about the business partners' role and how best to use these HR professionals. Meanwhile, the organisation must be prepared to invest in high quality business partners -- and that comes at a price. It should also be remembered that these 'partnerships' are not institutional but bilateral and transient in nature. Therefore the education process and necessity to invest in building credibility are ongoing priorities.

#### A Solution

If the name of the human resource function is changed, for example, to 'Human Capital' or 'People and Culture,' but no other changes are made organisations' may still end up with people criticizing the entire function when in fact they have a problem with the provision of a specific service or services. Such a labeling change also overlooks more significant opportunities, for example, to review and upgrade the institutional view of how human resources are managed and who is responsible for their management.

The example below takes the Ulrich (1997) model and emphasizes the need to:

- unbundle and segment its application to address the needs of each business division;
- unbundle and segment various parts of the service offering and use a different title for each;
- emphasise the role played by business-line management from the CEO down through the organisation; and
- emphasise the dynamic nature of people risk through Talent Portfolio Management

## Appendix (cont'd)

### **Structure, titles, and proximity to business-line management**

#### *CTO / TD*

The title Chief Human Resource Officer, CHRO, or Human Resource Director, HRD, could be changed to Chief Talent Officer, or Talent Director, TD, so 'Talent' replaces 'Human Resource.' All employees should be referred to as an organisation's 'Talent,' not just the elite; after all, if an employee does not add value through his or her particular contribution, then presumably this person should not be employed in the first place.

The CTO/TD is the most senior Business Partner in the organisation and, as such, often has various component parts of the Ulrich model reporting to him or her (for instance, Business Partners, Specialists and a Service Centre).

#### *Talent Management Advisors*

In this solution, the Business Partner role would be known as 'Talent Management Advisor' with a Global Head of Talent Management reporting to the CTO/TD for each main business division. The Talent Management Advisors should sit in proximity to the business-line managers they support; the business cards of these professionals should read 'Talent Management Advisor.'

#### *Specialists*

In this solution, the functional Specialists would be known precisely by the service they provide, for instance, Resourcing, Training/Learning and Development, Performance Management, Reward/Compensation and Benefits, and People Risk; additionally, there would be a Global Head of each Specialisation reporting to the CTO/TD who is

responsible across all business divisions) but who has a team located within each division to ensure practices, processes, and methods of delivery are appropriately tailored to each divisions' respective needs. There would be no significant requirement for these professionals to be located next to business-line management. Meanwhile, their business cards would simply describe the service they provide, for example, 'Resourcing' and 'People Risk.'

#### *Employee services*

Finally, in this solution the Service Centre, which contains a number of delivery channels, both internal and outsourced, would be called 'Employee Services' and there would be a Global Head reporting to the CTO/TD for delivery across all business divisions. This Global Head would have people reporting to him or her for each area of delivery (for instance, 'Payroll') and would typically be located in lower-cost premises. The business cards of those providing a centralised service of whatever kind would read 'Employee Services.'

### **Summary**

For a global organisation with three major business divisions, this structure would provide a senior team of one CTO/TD with three Global Heads of Talent Management, five Global Heads for the major Specialisations, and one Global Head for Employee Services. This structure can be rolled out to each geographical region as a matrix to ensure local factors are considered.

Differentiation in this way confines conversations to discussions about how well the Talent Management professionals are covering their business-line clients; whether people think, for instance, Resourcing is doing an effective job; and whether Employee Services are delivering the payroll efficiently. The component parts ultimately would report to the CTO/TD, but in the eyes



## Appendix (cont'd)

of divisional business-line managers, the service is unbundled and segmented.

The above solution allows for the management of human resources to be tailored for each major business division. Some Group policies will be enforced across every business in every region (for instance, those relating to culture and values), while others will vary (for instance, those relating to Reward/Compensation and Benefits.) Appropriate fit will ensure relevance and isolate any problems relating to execution.

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<sup>1</sup> Aldrich, 2008

<sup>2</sup> Rothnie, 2008

<sup>3</sup> Barber & Strack, 2005; CFO Research Services 2003; Nalbantian, 2003

<sup>4</sup> Brown et al. 2004; Caldwell, 2003

<sup>5</sup> Brown et al. 2004 and CIPD 2007a,b

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