



Transformation

Building Human Resources from the Outside In

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PREFACE

The bar has been raised on human resources.

In the last 50 years, HR professionals have moved from industrial relations where they negotiate the terms and conditions of work to personnel specialists who have expertise in HR practices like recruiting, compensation, training, and organizational development to business partners who deliver value to business success. We have been privileged to observe and in some cases influence this transition. In the 1990s, we wrote *Human Resource Champions* where we encouraged HR professionals to focus on outcomes more than activities and defined four roles that reflected the outcomes they should deliver (administrative expert, employee champion, strategic partner, and change agent). We evolved these ideas in *HR Value Proposition* by focusing on the creation of value to employees and line managers inside and customers and investors outside the company. We researched and documented the competencies required for HR professionals in *HR Competencies*. In each of these books as well as in dozens of articles and hundreds of workshops, we have learned that HR's more strategic role is much less about having "a seat at the table" than it is about business leaders managing talent and organization issues to reach business goals. When HR professionals help business leaders deliver value to investors, customers, and communities, HR in turn creates value.

As business challenges become more complex with economic, global, technological, competitive, customer, and demographic changes and pressures, business leaders seek innovative solutions to managing short- and long-term cost and growth, both locally and globally. For HR professionals to contribute to these demands, they must transform how they work. This fundamental transformation must occur in the way the HR department is organized (into service centers, centers of expertise, embedded HR); how HR practices are designed, integrated, and aligned to business requirements;

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and how HR professionals must be prepared so that they can contribute. The urgency to transform HR is only heightened by an increasingly uncertain economic environment.

The RBL Institute

Throughout our thinking, writing, and consulting on these issues, we continue to learn a great amount from thoughtful and innovative HR leaders. We formalized our learning opportunities when The RBL Group, our consulting firm, founded The RBL Institute, a forum dedicated to helping senior HR executives of member companies create value by advancing the field of strategic HR. Through interactive think tank sessions with leading HR practitioners and thinkers, we link emerging theory with practical solutions that can be immediately applied to create lasting, meaningful results. On frequent calls with the most senior HR leaders in the world, we explore new frameworks for addressing the most pressing problems and identify new venues to test best practices. We then circulate our thoughts with white papers, many of which have been seeds for this work. Finally, we arm our Institute members with tools, processes, and training as they continue to trek through daily quagmires and prove our collective ideas in the trenches. We are honored to learn from thought leaders in leading firms who have taught us by their creation and application of ideas. We feel privileged to work with such a strong group of HR leaders from around the world. Through dialogues with these leading firms and thinkers, we created a series of books about topics critical to the HR profession, including measurement of HR, managing talent, organization redesign, and the like.

Through our discussions with thoughtful HR executives, from our own research, and based on our own experience, we wanted to document how to go about transforming HR. We know the academic theory, have done the empirical research, and have had a number of wonderful consulting engagements. This work is the compilation of our insights: a handbook for HR transformation.

Our Hope for the Future of HR

As observers of the HR profession, we have enormous confidence and hope for the future. In this book, we lay out the pathway for that hope. We suggest the reasons why HR must matter to business leaders and ways in which HR can connect its work inside the organization to customers, investors, and community leaders outside. We define outcomes of good HR work not in terms of activities but organizational capabilities. We offer specific guidelines for transforming HR departments or functions, HR practices, and HR professionals. These guidelines redesign, reengineer, and upgrade the HR profession. We suggest specific roles for line managers, HR professionals, employees, and advisors to deliver on the hope of transformation. We know that we do not have nearly all the answers and that other brilliant colleagues have tackled these problems in slightly different ways. We acknowledge their insights and hope we have complemented their work. By accomplishing transformation, we envision HR continuing to be center stage as organizations face greater business changes than they have ever faced. We are advocates for the profession and the leaders who make it happen. We hope this work and the other books in our series will help continue to make HR the essential source for strategic solutions.

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CHAPTER 1

INTRODUCTION TO HR TRANSFORMATION

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A few years ago, we sat with a dozen senior human resources executives and academic colleagues, talking about how HR departments should respond to increased expectations given constantly changing and challenging business conditions. We listened as the executives described the business challenges they had faced and how they had transformed the way they work. While our academic colleagues toiled to conceptualize the theory to study their new processes, we realized that we had participated directly or indirectly in the HR transformation with almost all of these executives and with others in a wide range of industries. In many cases, we had experienced firsthand their efforts to contribute to their business. We had helped them discover ways to reshape HR to meet these increased expectations. We had learned with them what worked and what did not work. In short, we had the privilege of working with them to develop the implicit theory, logic, and processes of HR transformation.

Sources (Where This Book Comes From)

This book synthesizes and summarizes the lessons we have learned about HR transformation. We have learned these lessons not in isolation but by working with thoughtful and innovative HR executives who have helped their organizations and the HR profession make meaningful progress in contributing to the performance of their companies. We have learned these lessons both from successes—where the transformation delivered value—and from failures—where we did not make the progress we intended. We hope this book captures both the theory (ideas, rationale, and approaches) and the practices (tools, processes, and actions) for creating a successful HR transformation. Transfor-

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mation theory draws from change literatures found in sociology, psychology, anthropology, organizational development, systems theory, high-performing teams, and economics. These disciplines teach ways to approach both large-scale and personal change. Transformation theory and practice come as we have applied these ideas in dozens of organizations. Theory without practice is conjecture and is usually irrelevant. Practice without theory is idiosyncratic and unsustainable. We hope to combine theory and practice so that those charged with and affected by HR transformation can make sustainable progress.

Audience (Who Should Read This)

HR professionals: The ideas and tools in this book are targeted primarily to HR professionals. Senior human resources executives face increased accountability for making sure that HR practices and functions align with and drive business results. To fulfill their HR leadership role, they need to be active participants in the process of setting business strategy. They can then set direction for transformation, design a process that focuses on HR results, engage people in the process, execute to ensure transformation happens, and make sure it endures. HR professionals should also be aware of the principles of HR transformation. HR professionals who continually complain about lack of access to business leaders will never gain access. In contrast, HR professionals who understand the transformation principles we present and then implement them will be in a much better position to add significant value.

Line managers: A second important audience for this book is line managers. We find increasing numbers of line managers who believe that issues like talent, organizational capability development, strategy execution, and leadership are the keys to their business success. They increasingly look to HR for thought leadership, insightful recommendations, and practical processes for these issues. If and when they understand the principles of HR transformation, they can be more confident that HR will add value to business success and help them reach their goals.

Staff functions: A third audience for this book is made up of professionals and leaders of other staff functions, including information technology, finance, and legal, like HR, are challenged to deliver value. We are finding that principles of HR transformation can readily be adapted to these functions so that these professionals can also successfully transform current processes and practices to help their business meet the challenges in an increasingly difficult environment.

Perspective (Why Our Approach Is Different)

A successful HR transformation increases the value human resources adds to the business. This is a simple statement and one that is easy to gloss over, but it reflects an approach to transformation that is not always practiced. In workshops with HR professionals, we often begin with the general question, “What is the biggest challenge you face in your job today?” As we go around the room, the challenges range from doing HR practices better (hiring people, training leaders, building incentive compensation) to relating to business leaders (having a voice at the table, getting buy-in) to managing the increased personal demands of the HR job (managing time, feeling overwhelmed with so much to do). As heads nod in affirmation of the inevitable and obvious challenges facing HR professionals, we then say that these answers are wrong. Silence ensues.

Simply stated, we propose that the biggest challenge for HR professionals today is to help their respective organizations succeed.

In businesses, promoting success may mean reducing costs, increasing market share, growing in global markets, or innovating new products or services. In government agencies or nonprofit organizations, it may mean delivering services, achieving externally imposed goals, meeting constituent needs, or operating with reduced budgets. Our point is that HR professionals often focus internally on the function of HR rather than externally on what customers and investors need HR to deliver. If HR professionals are to truly serve as business partners, then their goals must be the goals

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of the business. Transforming HR professionals into business partners isn't an end in and of itself; it's the *means* to a strategic, business-oriented end. Granted, the activities of HR are important—we do recognize that when we say focusing on these HR activities is wrong, we overstate the position to make a point.

Our point is that HR should begin from the outside in. We should be at least as worried about the outcomes of our activities as about the activities themselves. Thus, we ask people to add two simple words—*so that*—to their biggest challenge at work. The “so that” query shifts from a focus on what we do to what we deliver, from the activities we perform to the value that these activities create.

Likewise, an HR transformation should begin with a clear understanding of the business context because the setting in which you do business offers the rationale for the HR transformation you will do. Basic supply-demand logic asserts that if supply is high for any given product or service but demand is zero, then its value is zero. If what we do on the inside does not create value on the outside, in the ability of the company to attract, serve, and retain customers and investors, its value is zero.

This logic has many practical implications. For example, many HR leaders launching an HR transformation have an all-hands meeting to share the vision and goals of the new HR organization. We strongly suggest that this event begin with a detailed discussion about the business. In one case, a new head of HR in the airline industry spent the first two hours reviewing fuel costs, load factors, customer satisfaction indexes, regulatory changes, equipment age, and competitive positioning. As we sat in the back of the room, we heard a number of HR professionals whispering to each other, “When are we going to get to HR?” In fact, he was defining the agenda for HR transformation by focusing on the business first. In monthly staff meetings, in performance reviews, and in casual hallway conversations, when we begin our business conversations by talking about the business, it sends a message: HR transformation is not about doing HR; it is about building business success.

Common Pitfalls (Detailers to Watch Out For)


With our focus on business success in mind, it is easier to see some predictable and common mistakes often made when starting an HR transformation:

- *Action before rationale.* Some companies begin an HR transformation by doing things in human resources such as implementing e-HR, restructuring the HR function, or designing new HR practices. These HR investments are then defined as transformational. If these actions are not tied to a business rationale and rooted in the business context, however, they are not transformational and are unlikely to be sustained. HR transformation needs to be grounded in the context of business demands.
- *HR in isolation.* At one company, we worked with HR leaders who had set aside time in July (because this was a slower time for HR) and drafted a strategy about what the HR department was doing and which HR practices would be developed. Meanwhile, the line managers drafted their business strategy in the fall to focus attention on the next year. The result was painful misalignment. When an HR strategy is drafted in isolation from the business strategy, both suffer as stand-alone documents that probably won't be sustained. HR transformation needs to be aligned with business transformation. It needs to be done in a way that focuses on adding value to the business rather than simply optimizing HR as a function.
- *HR in increments.* Some companies design an innovative talent management, performance management, or total rewards process and declare it an HR transformation. These piecemeal efforts are only part of an HR transformation. HR practices need to be integrated with each other around key business results if they are to have lasting value.
- *HR by individual fiat.* Some companies invest in an HR transformation because of the whims of an individual leader or a desire for more personal or functional influence. These individually sponsored initiatives probably won't be transformational. HR transformation needs to be connected to the overall success of the organization, not just an individual champion.

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- *Placing HR structure before business strategy.* Occasionally HR departments believe that reorganizing human resources is the essence of HR transformation. They may spend considerable time establishing service centers and centers of expertise or hiring a league of HR business partners, and then declare that they have transformed HR. HR transformation can only be complete as it helps implement the business strategy and drives business results.
- *Efficiency equals transformation.* We are finding more and more HR departments that equate efficiency improvements with HR transformation; for example, a major global pharmaceutical company recently announced that its creation of a shared service center constituted transformation. A leading consumer products company described self-service as its HR transformation. Efficiency improvements can and usually are key elements of transformation, but efficiency alone does not make for transformational change.

We call these derailers viruses, because they infect and can cripple the process of transformation. When identified and confronted, they can be treated and overcome.

TOOL 1.1	<i>Full Virus List</i>
	In our work on managing change, we have identified more than 30 common viruses—common reasons why change does not proceed as intended. Download the full list of organizational viruses and learn more about virus busting.
	► <i>Go to www.TransformHR.com</i>

Our Definition of HR Transformation

A true HR transformation is an integrated, aligned, innovative, and business-focused approach to redefining how HR work is done within an organization so that it helps the organization deliver on promises made to customers,

investors, and other stakeholders. This work begins by being very clear about the rationale for doing HR transformation. The rationale for HR transformation is too often from inside the company (say, when a senior leader complains about HR practices, structure, or people), whereas the rationale should actually come from outside the company.

A Model for Transforming HR

We propose a four-phase model for HR transformation to ensure that HR drives business success and avoids the common pitfalls of such efforts. This model (see Figure 1.1) addresses four simple questions about HR transformation:

- Phase 1: Build the business case. (Why do transformation?) HR transformation begins with a clear rationale for why transformation matters. This is addressed in Chapter 2, in terms of knowing the business context and building a case for change.
- Phase 2: Define the outcomes. (What are the outcomes of transformation?) This phase clarifies the expected outcomes from the transformation. What should happen because we invest in HR transformation? Answers to this question are addressed in Chapter 3, which defines the outcomes of HR transformation as the capabilities of a firm or the intangibles that an investor values.
- Phase 3: Redesign HR. (How do we do HR transformation?) HR transformation requires change in HR strategy around departments, practices, and people. Chapters 4, 5, and 6 focus on how to change HR departments, people, and practices.
- Phase 4: Engage line managers and others. (Who should be part of the HR transformation?) HR transformation requires that many people participate in defining and delivering the transformation. Who is involved is discussed in Chapter 7. This chapter focuses on transferring ownership to line management and on strategies for building HR's capability to create sustained change.

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Finally, in Chapter 8, we summarize these phases with a set of milestones, each with outcomes and activities that can be performed to successfully accomplish transformation.

While we list these four phases sequentially, in reality they occur concurrently. For example, while knowledge of business conditions has to frame HR transformation (phase 1), having the right HR transformation team (phase 4) is critical to initiating HR transformation. The formation of the HR transformation team is critical to the entire process.

Figure 1.1 Model for HR Transformation



Our recommendation in using this model is that it needs to be adapted, not adopted. We believe that the issues raised in each of the four steps are important and should be considered in ways that make sense for your organization. It is clearly dangerous to simply adopt a model, regardless of its source, whether a successful competitor, an academic, or a consultant, rather than to adapt it. How would you tailor these steps to your situation? How would you cook a meal that works for you? How would you improvise based on the recipe? This book offers some recipes for HR transformation. To make HR transformation work in your organization, you will have to adapt these ingredients and improvise your own original HR transformation recipe. Chapter 8 suggests how to go about doing the transformation.

To flesh out the principles and tools for HR transformation, we have divided the book into two parts. In Part I, we propose the four-step HR Transformation Model and present principles and tools for how to design and deliver a HR transformation.

Part II includes four case studies from organizations that have recently embarked on transformation journeys. They provide examples of how they have combined different transformation ingredients to achieve results that have had an impact in their organizations. Chapter 9 presents HR transformation at Flextronics; Chapter 10 discusses Pfizer; Chapter 11, Intel; and Chapter 12, Takeda. We are grateful to these organizations for their willingness to share their experiences and knowledge with us all.

We hope these case studies help enliven the theories and steps we outline in Part I and give readers a sense of the possibilities they can achieve in their own organizations.

Tools for Transformation

In keeping with the goals of the HR Leadership Series, we provide a toolbox in the Appendix to support you as you design and deliver your organization's

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HR transformation journey. We also provide a short, carefully selected list of books and articles that may prove helpful to you or your transformation team in designing the transformation. You'll also find biographies of all the contributors who have helped make this book a success.

TOOL 1.2	<i>HR Transformation Model Overview</i>
	<p>Watch a video of Dave Ulrich introducing the HR transformation model. Learn as he grounds this theory in reality with examples of how companies have implemented each phase of the model.</p> <p>► <i>Go to www.TransformHR.com</i></p>