Human Resources: Changing to Drive Business Strategy

by Toddi Gutner

Huge transformational changes taking place in business have demanded that human resource professionals adapt their strategies and operating procedures.

Transformational Change and How It Relates to People

Now able to take advantage of technology to automate the time-consuming face-to-face personnel and transactional tasks, HR professionals are becoming strategic partners to C-suite executives. "We have created a new operating model for human resources so that HR can make more of an impact on company operations," says Marcela Perez de Alonso, executive vice president of human resources for Hewlett-Packard (H-P) and a speaker at The Conference Board November 2007 Senior Human Resources Executive Conference.

No doubt, C-suite executives need the HR expertise. In The Conference Board's 2007 edition of the *CEO Challenge*, the new category *Excellence in execution* took precedence over the bread-and-butter issues of *Profit* and *Top-line growth* as the number-one challenge for CEOs.[1] In fact, most of the top 10 CEO concerns are, in some way, people challenges. "It's a good time to be in HR because talent is what will distinguish one company from another," says Lucien Alziari, senior vice president of human resources for Avon. "The days of begging to be included in business decisions are over, but let's just make sure we equip ourselves well," he says.

---

1   Esther Rudis, *CEO Challenge: Perspectives and Analysis,* 2007 Edition, The Conference Board, Research Report 1418, 2008.

Transformational Change within the Company and the HR Department

Many HR executives are being hit simultaneously with two changes—within their companies and inside their departments. Tumultuous corporate changes in companies such as Avon have put HR in a crucial role to help senior management make key strategic decisions.

Avon needed to undergo a major restructuring. The total revenue growth each year for five consecutive years had been between 10 percent and 11 percent and then fell to 2 percent in 2004–05. Alziari and his HR team were at the heart of the restructuring and worked closely with CEO Andrea Jung (with whom he spoke several times a day), the rest of the executive team, and an outside consulting firm to create and implement the following goals:

1. Change the operating model from a highly decentralize company to a matrix operating structure.
2. Downsize and delayer the organization to:
   - Get senior management closer to the markets, and compress existing layers from 15 to seven or eight–and even closer in top markets
   - Identify skills gaps
   - Increase management span of control from five to 10 people

Alziari and his team were the architects and directors of the restructuring, playing an extremely important strategic business role in the future direction of Avon. HR worked with each department to decide who to eliminate, and at a company where company loyalty to employees is so important, such staffing changes were significant. The restructuring eliminated 30 percent of middle and top management jobs, which improved organizational and operating effectiveness and produced savings of $150 million annually and $200 million, respectively.

Alziari also sought new leadership for the company. "We needed to get the right people in the business so they could help determine the strategy," he says. To that end, of the 14 members on the executive committee, six have fewer than two years with Avon and another five are in new roles. Of the top 120 executives, 35 percent have been with Avon for fewer than three years.

A few lessons learned may be considered as best practices for managing an organizational restructuring:

- Develop a list of three or four things that will govern you and your HR team
- Avoid giving time-bound commitments
- Cut deep, and make sure the company doesn't have to do it again
- Make top leaders accountable for changes
- Get external help
- Create organizing principles to keep focused
- Have visible C-level leadership
- Communicate honestly and often with hope

Such upheaval within corporations has required HR executives to also transform how their departments work. H-P is one such example. "We needed to align the HR operating model and objectives to help drive the business strategy," says Perez de Alonso. To build a best-in-class HR department, H-P had to:

- Employ technology to eliminate the transactional functions (which resulted in a 20 percent reduction in HR costs)
- Create a new HR model with Centers of Expertise
- Assess HR talent, and close the gaps through talent benchmarking and assessments
- Develop HR competencies in business and financial acumen, organizational effectiveness, and management/leadership training
- Lead and implement workforce planning to put the right people with the right skills in the right place at the right time and at the right cost

Demonstrated by H-P's directive to develop new HR competencies, HR professionals are increasingly expected to have an overall understanding of business and financial issues. While they might not initially understand nor be comfortable with this new set of skills, many HR executives have begun to hire and/or partner with finance professionals, among others, within their organizations to acquire the necessary expertise.

HR's New Tools

Strategic Workforce Planning

For HR professionals to effectively help senior management implement the strategic business plans, they need a new set of tools, including strategic workforce planning (SWP) and evidence-based human resources (EBHR).

SWP is "the analytic, forecasting, and planning process that connects and directs talent management activities to ensure an organization has the right people in the right places at the right time and at the right price to execute business strategy," as defined by Mary Young, senior research associate, Management Excellence, for The Conference Board and a speaker at the November conference. Say, for example, a company needs to decide where to build a future call center between three separate locations. Using SWP, HR can analyze the local workforce and model the long-term labor costs for each location. With better technology, HR can mine workforce data to help the business better understand their future needs.

Hewlett-Packard has made good use of SWP "to create a new HR operating model and make sure we had the right people in each role," says H-P's executive vice president Marcela Perez de Alonso, who used the tool to transform the HR department, then help direct the change in some other business units. For her HR division, H-P did assessments of the HR senior leaders with the help of outside consultants and then compared how they were doing in their positions versus competitors' senior leaders in the same positions. "We then analyzed the data to see trends and identified what competencies were needed," says Perez de Alonso. She realized that to further develop some HR competencies, H-P needed to create new courses for executives to build business, financial and leadership skills. She also changed the way in which managers were recognized and rewarded for performance.

Perez de Alonso, who noted that SWP is one of the best tools her company is using, followed the outline below to help in the process.

A SWP primer

- Pilot SWP in select business units
- Seek partners: Collaborate with Finance, IT, Strategic Planning, Risk Management and /or Budgeting to develop and conduct SWP
- Establish definitive and consistent data that will be used company-wide
- Create a common language to describe competencies and jobs
- Ensure that data on skills and competencies are updated frequently
- Adapt workforce planning to different business needs and workforce dynamics within the organization

- Make the SWP process and tools simple and user-friendly
- Develop HR staff's capabilities and confidence to be effective partners in the SWP process
- Use segmentation to focus on the most critical, high-impact jobs and talent
- Seek the means and opportunities to use SWP to leverage internal talent
- Integrate SWP with the business planning process
- Make business units accountable for delivering against their workforce plans

Evidence-Based Human Resources

"If we're serious about saying that talent drives the business and connecting HR with business strategy, then we need to apply scientific methods and standards of causation to show how HR functions actually drive relevant measures in business," says John Gibbons, senior research advisor, Management Excellence, for The Conference Board. EBHR attempts to do just that: It applies scientific standards of causality to demonstrate how intangible human capital can be observed and shown to add tangible business results. In practice, a company looks first at the financial and organizational performance measures that are most critical to its business, then at the human capital strategies that empirically drive those outcomes.

While EBHR is relatively new, some companies are leading the way:

1. Capital One demonstrated positive causal links between branch bank turnover, customer opinion scores, and branch-level revenues per account in 2007.

2. From 2002–05, H-P was able to demonstrate causal links between employee engagement scores, successful demonstration of desired customer service target behaviors, customer satisfaction scores, repeat purchases, and subsequent business unit financial performance.

3. During 2003–05, Eaton Corporation used evidence-based interventions for improving employee morale at an aging manufacturing plant. The result was a demonstration of causal links between improved satisfaction with supervisors and multiple plan performance indicators, including a drop in work-related lost days, product returns/re-work rates, and improvements in the plant's J.D. Power quality scores.

Marketing and communications is another vital partnership for HR. When a company is undergoing transformational change, "HR must work collaboratively with marketing so the [company] change is communicated," says Donna Morris, senior vice president of HR for Adobe Systems.

What It Takes to Find, Engage, Develop, and Manage Today's Workforce

Armed with the necessary strategy data, HR executives must then find and recruit new talent, engage newly hired employees, develop those who are identified as leaders, and then manage the overall workforce—all in a 24/7 global workplace. No small job, to be sure. "Human capital is the differentiator and makes or breaks the corporation," says Bonnie C. Hathcock, senior vice president and chief human resources officer at Humana, Inc.

Finding new talent

Challenges abound for all industries as 77 million Baby Boomers enter the phased retirement period of their careers, while half as many young adults are coming up the ranks. Globalization and greater workforce mobility puts additional pressure on HR to fill its company's talent needs. Perhaps one of the most competitive landscapes is in technology, where IT companies routinely poach talent from one another. One such company, Adobe Systems, has a few strategies that have worked well, including:

- Use a Talent Acquisition team, a research-based division of HR, to find and acquire small companies of one to 30 developers with unique skills in worldwide locations.

- Hire college students as interns, bring them back for consecutive years, and recruit upon graduation.

- Build and nurture employees who want to grow their careers at Adobe (25 percent of all positions are filled internally).

- Search the Internet through blogs, social networks (such as Linked-In), and wikis for individuals with specific skills and capabilities.

- Collaborate with universities and work with professors who can help identify future talent.

Engaging and branding employees

Blogs, podcasts, YouTube.com, MySpace.com. No longer do companies control their corporate brand or reputation; consumers do. To counter the impact, companies "need—more than ever before—engaged employees who live the company brand promise," says Hathcock. Indeed, an unenthusiastic or disengaged employee is not only less productive, but also reflects that attitude in the marketplace, diminishing a consumer's experience and compromising the brand promise. "We want our associates to be emotionally connected to our consumers because engaged associates create engaged customers," adds Hathcock. Successfully engaging employees provides a unique opportunity for HR professionals to play a strategic leadership role in their companies.

It certainly was a unique opportunity for Humana, a health insurance company. To reflect the brand promise of "Guidance when you need it most," Humana had to change its leadership competencies seven years ago to:

- Innovates
- Builds trust
- Champions the customer
- Drives for excellence
- Is accountable
- Sees the whole system
- Acts strategically

To ensure these competencies resonated with employees, Hathcock wanted to create leaders who had certain competencies so they could engage employees and encourage them to "go the extra mile" and feel a sense of commitment or engagement to work. To that end, Humana created a best practices platform, which was composed of:

- New associate on-boarding: intensive orientation

- New leader on-boarding: two-day business strategy course for new hires or newly promoted

- Functional orientation and manager training programs

- Leadership Institute: CEO-driven program for top 150 and high potentials that includes competitive business simulators, executive coaching, and CEO dialogues

- Continuous and online learning though webcasts, seminars

- Employee engagement: impact, feedback, and measurement

The most significant initiative for Humana, however, was to first try the new platform on its employees. The idea was to turn the company into a laboratory. "We began with healthcare consumerism inside our own organization," says Hathcock. Humana's HR department initiated the More Options and Choices for Humana Associates (MOCHA) program to implement healthcare consumerism at the company. This program directed each employee to become a consumer of Humana products just as they are consumers in every area of the economy. With its success, the company introduced all new products and services to their employees first, collected feedback, and used it to improve the product before offering it to their consumers.

The results were impressive: Not only did Humana save $25 million in avoidable costs, a survey indicated that 75 percent of employees said they felt aligned with the company and had a direct impact on its success.

Similarly, MetLife engaged and educated its employees on their own employee benefits so that they could become ambassadors for the MetLife brand. The company called it the "Chairman's Challenge" to reflect the high-level support for the program. MetLife sent home mailings, conducted employee benefits surveys, distributed ongoing intranet communications, and introduced web tools and webinars to educate employees on life insurance products. Employee participation in the purchase of all voluntary life insurance products rose seven percent. "Making our employees educated consumers gives us an industry advantage," says Margery Brittain, vice president of global benefits, human resources, for MetLife.

Another element of employee engagement is understanding what is driving and motivating your employees and then tailoring your value proposition to encourage what your employees seek. Yahoo! provides an excellent example of a company that has been able to successfully extend its brand to employees.

But the company's success was borne out a crisis when HR discovered that 53 percent of employees didn't understand what Yahoo! stood for. Libby Sartain,

chief people officer at Yahoo!, worked to create a "best employer" reputation through company culture, employee value proposition, work/life balance, compensation and benefits, and work environment. She built a brand from the inside with the following components:

- Identity: Who we are as a business

- Mission: Why we must exist as a business

- Values: What we stand for as a business

- Legend: How we must be remembered

- Reward: What's in it for me

To implement the employer brand, Sartain needed to engage company divisions other than HR, such as Marketing, Operations, and Communications. "HR can't do it alone," says Sartain. "The whole enterprise needs to work on it together." Finally, the employer brand needs to be constantly reviewed by employees.

Developing leaders

Leadership development permeates several aspects of HR. Cultivating leaders starts in the recruitment phase and continues through individual assessments as employers begin to tap high potentials within their organization. Each company has its own leadership development initiative, and discerning a best practices protocol depends on the industry and nature of the business, among other things.

Nearly every HR executive who presented at The Conference Board's HR conference touched on the leadership development strategy at their company. A few of their best practices include:

- Ensure that leadership development is a C-suite or high-level driven process

- Be proactive: Develop programs and processes to fill the leadership pipeline

- Communicate programs and processes to employees and request feedback

- Make managers accountable to both identify and nurture potential leaders

- Move talent around the company to identify high potentials and expose them to varied learning opportunities

- Use tools, such as PMP (Project Management Professional, an evaluation tool used to rate employee performance) and tie compensation to performance

- Analyze collected data to measure and monitor leadership pools

Managing workers

It's not your father's company anymore. For the first time in history, four generations are working side by side in the workforce, each with its own unique perspective, set of values, and learning style. For example, defined benefit plans have been the revered form of retirement account for decades. Not anymore. The younger generation isn't likely to work at one company nearly as long as their parents did. To that end, they want to be able to take their retirement accounts with them, and that's what defined contribution plans offer.

To take it one step further, says Sartain, 42 percent of Generation Y plans to cycle in and out of work because their work goal is not money but, rather, mental stimulation. Sartain argues that talent will put themselves up for auction, similar to eBay. A sobering thought.

Not only are there the flexibility demands of Generation Y and aging Baby Boomers, but there are also the cross-culture issues that surface when working in a global economy.

Adobe Systems, for example, has made many acquisitions of small foreign companies. But rather than immediately impose its culture and brand on acquired companies, Adobe does a "cultural evaluation and tries to figure out the cultural DNA of the other company," says Morris. For Adobe, its talent management approach for integrating acquired employees or new hires is to:

- Support the integration with Adobe employees who act as Ambassadors to reflect the company's values

- Observe with "fresh eyes" what works and what doesn't work

- Assess integration within six to nine months

- Create a development plan

- Reassess after 18 to 24 months

Conclusion

Those HR executives who are embracing new technologies and processes, such as strategic workforce planning, are at the forefront of the transformational changes taking place in the field. The expertise that HR executives are now bringing to top management is affecting business decisions as never before. It is likely that the HR function will continue to become increasingly strategic in coming years as the need for top talent continues to be one of the most pressing issues for companies.