7 Steps Before Strategy

In the rush to get a seat at the corporate table, some HR professionals skip the basics. That ruins HR's credibility and holds it back. Here's what to do before you strategize.

By Bruce N. Pfau & Bonnie Bell Cundiff

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"HR deserves a seat at the table."

"HR must be a champion of change."

How many times have we heard these tired phrases?

In recent years, human resources professionals have been told that their rightful place is as a senior company officer at the top of an organization. Tasks associated with what once was known as "personnel administration" have become the objects of scorn, while activities thought to position HR managers as "strategic partners" have been encouraged and applauded.

Many in HR have taken this message to heart. They are striving to focus on strategy, to participate in decision-making at the highest levels of their organizations, and to elicit respect from other members of the senior management team.

Unfortunately, they are failing. Despite their best efforts, many are still blocked from the head table or only grudgingly given a seat. They find themselves too weak politically to be champions of organization transformation. And they find themselves in a constant battle to prove their worth and to have any influence in key decisions. While this is due, in part, to slow-to-change attitudes toward HR from other areas of the organization, HR also must accept responsibility.

The recent emphasis on strategy at the expense of operations has hurt HR. In their rush to become strategists, HR executives and managers have dropped the ball on some fundamental aspects of HR. This has allowed those predisposed to diminishing the role of HR to point to shoddy basics as evidence of limited abilities.

Does this mean that HR professionals should abandon strategic activities and return to the days of "administrivia"? No. It simply means that HR executives and managers must try harder to find the delicate balance between day-to-day operations and big-picture initiatives. While HR professionals ultimately should be focused on strategy, they must make sure that the basics of the job are taken care of first.

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Ultimately, there is a hierarchy of roles and priorities that must be followed—moving from the smooth execution of the basics of HR to the assumption of a seat at the table to, finally, becoming a champion of change. Following this path lets HR

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professionals avoid the fate of one executive who tried to advise an internal client about manpower issues. The line manager reacted with scorn, asking, "How about getting my open-position requisitions filled before giving me advice on strategic staffing issues?"

The seven steps

Taking care of the basics means taking steps to increase efficiency, streamline operations, link individuals and activities to organizational objectives, and establish sound relationships with multiple stakeholders. The following seven steps will help assure that both the basic and strategic HR needs of organizations can be met:

1. Get rid of what's unnecessary
2. Automate
3. Assess stakeholder satisfaction
4. Communicate regularly with stakeholders
5. Redefine "strategic"
6. Practice what you preach
7. Spread the word

Step 1: Get rid of what's unnecessary

A common complaint from HR managers juggling basic HR operations and strategic thinking is that there isn't enough time to do both. With staff and budget cuts forcing organizations to do more with less, this balancing act is becoming even more difficult.

The solution is simple. Get rid of HR programs and practices that aren't adding value to the organization's bottom line.

We recognize that this is easier said than done. Jettisoning HR programs and practices requires HR managers to know which activities are contributing to shareholder value and which are not. It means they must have the courage to admit that certain practices do not work. And it means recognizing that just because a program is touted by conventional wisdom as a "must-have," that doesn't mean it's right for their organization.

The availability of new research is making this process less complicated. The Watson Wyatt 2001 Human Capital Index establishes exactly which human-capital practices have the greatest impact on shareholder value. For example, effectively implementing a specific set of recruiting practices is associated with a significant increase in shareholder value. Among the practices included in this category are those associated with hiring people who can hit the ground running, involving employees in the hiring process, treating people evenhandedly, and approaching recruiting and retention as mission-critical.

On the other hand, the HCI study also throws a cautionary flag in front of some popular HR practices. Three practices in particular—360-degree reviews, developmental training, and the use of HR technologies with "softer" goals in mind such as culture change and enhanced communication—were associated in the study with a decrease in financial performance. While there may be nothing inherently wrong with these practices, many organizations implement them in ways that decrease, rather than increase, shareholder value.

HR executives and managers must take a hard look at their programs and practices to evaluate which ones are adding value and which ones are not. By focusing only on core practices proven to add value, HR professionals free up time and resources previously invested in delivering programs that bring marginal returns.

Step 2: Automate

Forty years ago, HR staffers kept employee records on index cards. Fortunately, those days are gone. Today, HR should be using technology to automate administrative transactions and to provide efficient, user-friendly self-service systems to employees and managers alike.

Achievement of these goals is dependent on good execution of carefully crafted HR technology plans. When HR technologies first became widely available several years ago, many companies implemented as many eHR applications as they could and made them available to as many employees as possible through e-mail, voice mail, Interactive Voice Response systems, the company intranet, the public Internet, and HR service centers. The assumption was that the faster an organization moved its traditional HR services into an eHR environment, the more efficient HR would become and the more satisfied employees would be with HR services.

However, our research shows that getting results has more to do with a properly focused eHR strategy than with the speed or extent of an organization's eHR progression. Technology must be implemented with a clear objective in mind, and that objective must be tied to hard business outcomes. Using HR technologies to reduce costs is associated with an increase in shareholder value, for example. Similarly, using HR technologies to upgrade service or improve transaction integrity or accuracy also can boost the bottom line.

Unfortunately, implementing HR technology for "softer" reasons has the opposite effect. Using HR technologies to enhance communication, for example, is associated with a *decrease* in shareholder value, as is using technology to promote culture change.

The task for HR is to figure out what can and should be automated, establish quantifiable objectives, draw up a plan to meet them, and carefully execute the plan. Specific steps in this process should include:

- **Understanding and leveraging the link between eHR and business strategy.** HR services and systems must be viewed in the context of helping to achieve company objectives.
- **Quantifying the current cost of delivering HR services.** HR groups must know where they are today before they can identify opportunities for cost control and project expected cost-savings.
- **Defining how eHR will change the delivery of HR services.** This means establishing a vision and articulating what that vision will mean in terms of people, process, and technology.
- **Working closely with the finance side of the organization to develop the required analysis.** Typically, this includes a business case containing a combination of measures, such as net present value, rate of return, and payback period.
- **Establishing measures/targets to maintain focus and assess progress.** As the saying goes, "What gets measured gets done."

Step 3: Assess stakeholder satisfaction

Just because an HR group believes its activities are going well, that does not mean others share the same view. Consider data from the Watson Wyatt WorkUSA 2002 study of employee attitudes and opinions. Only half—48 percent—of participants rated the effectiveness of their organizations' HR functions favorably.

HR executives and managers at every organization should know where they stand in the eyes of their stakeholders, including senior executives, line managers, and employees. What are they doing well? Which areas need work? How are they viewed by the ma-

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jority? As administrative implementers? Strategic planners? Facilitators? Obstacles to progress?

Armed with this information, HR professionals can evaluate their roles in the context of what their organizations want and need from their HR departments.

Step 4: Communicate regularly with stakeholders

The truth is that most stakeholders in an organization don't really care whether HR has a seat at the table or not. They just want their HR needs met.

Consider line managers. They want to see their staffing requirements fulfilled. They want the HRMS to be accurate and up-to-date. They want a compensation system that is easy to understand and lets them reward (and keep) their key talent. In short, they want to see the trains running on time.

When you make changes to the HR process that appear to eliminate HR duties , you might at the same time create confusion and concern among line managers and others in the company. Who will take care of the duties? How will the work get done? In addition, line managers often are unaware of the importance of specific HR processes. A program or practice they dismiss as a waste of time may actually bring significant value to the organization.

The solution is frequent and effective communication. By communicating regularly with stakeholders, HR executives can show them why certain practices and programs are essential. They can explain to stakeholders why changes such as automation of the performance-management system or introduction of self-service benefits administration are being made. And they can make the business case for them—pointing out advantages related to cost, efficiency, accuracy, and ease of use.

By making communication with stakeholders about proposed changes de rigueur, HR managers and executives can alleviate any concerns the stakeholders might have and develop a contract with HR's customers that covers the organization's human-capital priorities.

Ultimately, the key to establishing trust in the HR function is helping stakeholders understand the competitive and strategic human-capital issues facing their organizations and explaining the rationale behind change-related decisions.

About the Human Capital Index Study

tools

The Watson Wyatt Human Capital Index is an ongoing study that quantifies the link between specific human-capital practices and shareholder value. Conducted every two years, beginning in 1999, it has a four-pronged objective: 1) to provide HR with financial-performance metrics; 2) to test the belief that it pays to manage people right; 3) to help managers assess their human-capital investments; and 4) to determine whether some HR practices offer a "bigger bang for the buck" than others.

Seven hundred and fifty large publicly traded companies in the United States, Canada, and Europe took part in the 2001 study. Human resources executives at the companies were asked a wide range of questions about how the organizations carried out their HR practices, including pay, people development, communication, and staffing. Their responses were matched to objective financial measures, including market value, three- and five-year total return to shareholders, and Tobin's Q, an economist's ratio that measures an organization's ability to create value beyond its physical assets.

The 2001 survey linked 49 specific human resources practices to a cumulative 47 percent increase in market value.

To view the results of the HCI study, go to www.watsonwyatt.com/hci.

Step 5: Redefine "strategic"

Let's face it. It's just not realistic for every person working in HR to be focused solely on strategy. If every HR executive, manager, associate, and assistant eschewed administration for strategy, the result would be certain disaster.

Still, everyone wants to be seen as a strategist. With the mantra "think strategic" echoing in their ears, few HR managers are willing to define themselves as anything but strategic partners.

The solution to this problem lies in broadening the definition of "strategic" to encompass both the formulation of strategy and the execution of strategy to accomplish organizational goals. During the past few years, many of the people who focused on strategy at the expense of operational success did so because they saw no connection between their operational duties and the success of their organizations. They wanted to "make a difference" and believed the only way to do so was to become part of the decision-making process.

To solve this problem, organizations must clearly define roles and expectations for people in HR-related positions. The percentage of each person's time likely to be spent formulating strategy versus executing it should be calculated, and it should be made clear that meeting operational objectives is considered a top priority.

At the same time, steps should be taken to clarify for HR professionals in all positions how their work affects the bottom line. We call this "line of sight"—showing employees that their individual contributions do have a measurable effect on their companies' ability to meet business goals.

The best way to accomplish line of sight is through a strategy-mapping process. In the first stage, assess the primary business strategies. What are the business objectives of the organization? The division? The department?

Next, identify the operational plans necessary to execute these objectives. How will the business strategies be carried out? By whom? With what resources? In what time frame?

After the objectives and processes have been established, you can determine the human-capital requirements for executing the plans. Questions to ask include: What type of culture will we need? What type of work experiences will we have to offer in order to acquire top talent? How will our compensation and benefits practices change? Once you know the HR requirements, technological resources can then be evaluated and allocated to support the needed HR programs by reducing administration and maximizing existing resources.

With this knowledge, HR executives can show members of the HR staff where they fit in and how they can contribute to the achievement of business objectives.

Step 6: Practice what you preach

Getting the HR house in order is important from an efficiency standpoint, but it also is crucial for establishing credibility

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within the company. Few line managers are going to be willing to test out new practices such as flexible work arrangements or automated performance-management systems if the HR group exempts itself from practices it asks others to accept.

By modeling behaviors and processes that can be implemented throughout the company, HR can be a testing ground to work out the kinks in new activities and as a showcase for good employment practices.

Step 7: Spread the word

While the HR literature may be filled with articles and editorials celebrating the importance of human capital and its management, few people outside the field of HR are widely exposed to that message.

There are some signs that this is changing. Key newspapers and national business magazines regularly feature pieces on the handling of human-capital issues. And companies are finding that it pays off to position themselves publicly as good places to work.

| workforce.com |

Strategic HR
Get advice on creating a mission for your HR department at workforce.com/02/11/feature3

HR executives and managers should emphasize this growing respect for human capital by showing line managers, senior management, and investors the strong link between superior human-capital practices and increased shareholder value. Three key findings from the HCI study can be used to make this case:

• **Superior human-capital practices are leading—not lagging—indicators of financial performance.** This means that effective human-capital practices drive positive business outcomes more than positive business outcomes lead to good HR practices. Changes made now will help companies recover more quickly and emerge stronger when the economy rebounds.

• **Shareholder returns are three times higher at companies with superior human-capital practices than at companies with weak practices.** During the boom years of the late 1990s, that difference was significant, but not nearly as large. It's even more important to focus on human-capital superiority in tough times.

• **Not all human-capital practices are created equal.** Some create a lot of value. Others actually diminish it. Companies must examine programs and practices to ensure they are adding to shareholder value.

Just because HR experts say HR executives and managers deserve a seat at the table, that doesn't make it so. HR professionals must evaluate for themselves their track record in meeting stakeholders' operational expectations. No matter how brilliant their strategic thinking, unless the basic HR needs of their organizations are satisfied, HR professionals will not be viewed as full members of the organizational team. ■

Bruce N. Pfau, Ph.D., *is national practice director, organization effectiveness, for Watson Wyatt Worldwide and a co-author of* The Human Capital Edge: 21 People Management Practices Your Company Must Implement (or Avoid) to Maximize Shareholder Value, *(McGraw-Hill, 2002).*

Bonnie Bell Cundiff, Ph.D., *is Watson Wyatt's national practice leader for HR excellence.*
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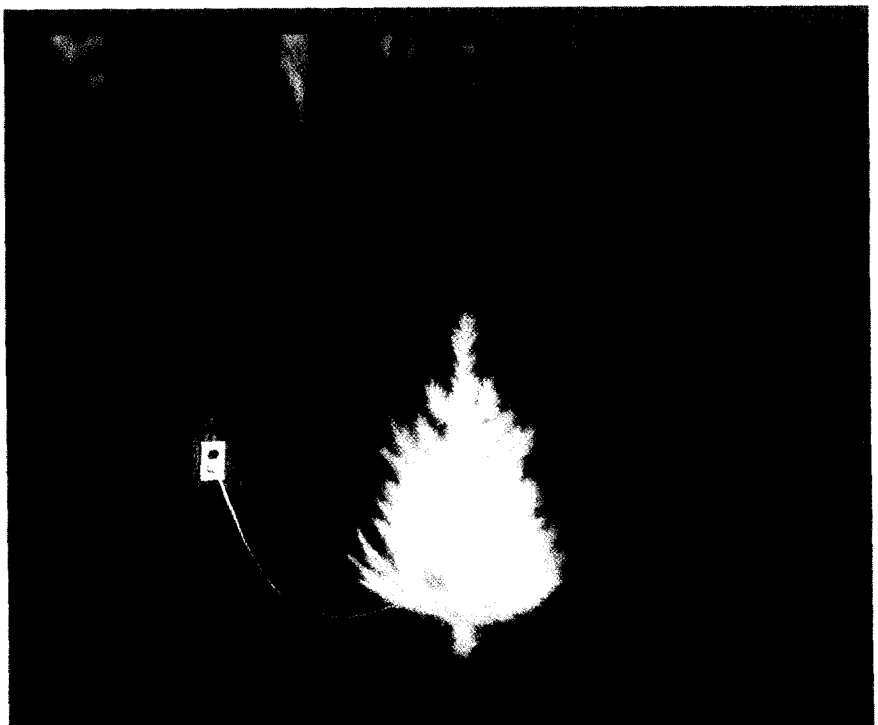

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