Designing next generation HR

How to differentiate your HR architecture to drive real business value

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by Robert Bolton, KPMG UK and
Karen Isaacson, KPMG US

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Executive summary

It appears that the HR profession continues to experience a credibility problem and lacks strategic impact. We believe this is due, in part, to the fact that HR functions are insufficiently differentiated in support of driving value within their respective businesses. Under pressure to demonstrate their worth, they instead pursue best practices, leading to the building of 'copycat' functions that are based primarily on industry, generic good practice and benchmarks, rather than practices that directly reflect the needs and priorities of the business. We contend that this is a trap for HR. However, we believe it is a trap that can be avoided as long as HR leaders architect the people management structures, practices and processes as drivers and enablers of their business strategies.

This paper explores how these problems can be avoided and describes what can be done to create a truly differentiated HR function that helps drive strategic value.

> " The conventional view serves to protect us from the painful job of thinking. "

J.K. Galbraith

The challenge for businesses today

In the last several years, there has been a preoccupation with cost optimization, cost reduction, sustainable cost management ... all things cost. This has required HR to play its part, but this has largely been through making the HR function more cost effective. This is, of course, a good thing as far as it goes. The problem has been that we see many HR functions that have lost sight of how they can drive value in the wider business. This is a significant issue, given that the people agenda within the vast majority of organizations contains a number of significant issues and challenges.

In a recent KPMG survey* of 3,000 business leaders in 31 countries, the issues that respondents said they were most concerned about included:

- **Business model changes,** including technology impacts and the need for ever greater agility and cross-boundary collaboration in order to remain competitive.

- **Exploiting growth opportunities** in a global economy. Specific challenges in this area include emerging markets, growing in more mature markets and not having the talent in the right place to make the most of opportunities in key growth markets.

- **Changing business conditions,** which are forcing companies to focus more attention on cost efficiencies, capital and cash.

- **Managing, developing and retaining the right people,** in particular, engaging and motivating employees to maintain the business when growth opportunities are limited and where career paths have been blocked and disrupted by tactics to secure organizational survival.

All of these issues can have a significant bearing on the people agenda within organizations. The issue for HR is to show how it is addressing these various issues while, at the same time, delivering value.

" I am always doing that which I cannot do, in order that I may learn how to do it. "

Pablo Picasso

*SiCW Business Leaders Survey, commissioned by KPMG in the UK, Date Published: 21 February 2012

The challenges for HR

HR guru David Ulrich describes the HR function as one that offers the greatest promise, but consistently underperforms in reality. This has been a consistent theme for the last 20 years. There has been the hopeful rhetoric of the promise of HR Business Partnering, the execution of the 'Ulrich Model', driving the response to the 'War for Talent'. And while people are supposed to be our greatest asset, we still see HR leaders worrying about their influence, stressed out, excluded from the senior management team in many companies and unable to be heard with a voice that is equal in influence to that of, say, the CFO. As one client CEO of a global retailer described it:

"My CFO tells me the financial health of the business and what we need to do to improve things. My SVP of Marketing gives me predictive insights into what our customers are thinking, feeling and what they are likely to buy. My CHRO tells me that he is redesigning the performance management system … again."

Traditionally, the HR function, somewhat unsure of its credibility in the boardroom and struggling to prove its value, has sought refuge in benchmarks, best practices and the classic 'Ulrich model' of centers of excellence, business partners and shared services.

Indeed, the Finance function has traveled a similar path. But as world-renowned business strategist Gary Hamel has said, following this path sets a trap for HR. He has noted that, *"Unlike the Finance function, HR does not have an explicit and accepted theory about how it adds value to the business."*

The reasons for this are reasonably straightforward. Non-financial benefits of the sort offered by effective HR functions are very difficult to quantify in a credible manner. We know the primary driver of value creation from the HR function is a combination of accurate and predictive information, business-driven and business driving strategy, solid service delivery and valuable business partnering – all engineered to be an integral and holistic part of the execution of business strategy. Indeed, the evidence and KPMG's own research clearly points to the need for HR to be 'architected' as a system of performance, where processes and practices reinforce each other in support of the dominant value creators of the business, such as customer service, innovation or lean operations.

We believe that unlike any other function, HR is based on a situation-specific model of added value. By this, we mean it is dependent on the industry, the competitive landscape, customers and products. So an HR function in a market-leading global technology company must find a role in relation to the value chain that might be quite different from the HR function in a global hotel chain, for example.

> **"The ability to perceive or think differently is more important than the knowledge gained."**
>
> David Bohm

The trap, therefore, that HR can fall into is that it sometimes behaves as if its model is universally-accepted. This approach can cause an obsession with best practices and the latest initiatives in HR, be it talent management, employee engagement or software as a service.

KPMG professionals often see that the leaders of HR are frequently challenged to prove their value and earn their place at the executive table. Talking about this to a senior HR leader at a large global company elicited the response that he felt that his function was being 'backed into a corner', where it repeatedly had to demonstrate functional cost reduction. The conversations with the CFO or CEO never strayed into territory concerning HR's role in growth.

The much-talked-about and implemented 'Ulrich model' of HR functions has helped HR to address the role of service delivery, to recognize the importance of strategic partnering and the potential for technology. These have all helped HR to make a difference. But the Ulrich model has also led to a generic and fairly standardized view of HR: the antithesis of differentiation.

At KPMG, our philosophy is that HR in any organization should find and commit to a specific configuration – the strategy, structure, tools, processes and measures – that directly enable the value chain of the organization in its specific circumstances.

What this means for the future HR function

Leaders of the people agenda should, therefore, strive to break out of the mode of thinking that says there is a universal model for HR that delivers value in all situations, rather like the 'any time, any place, anywhere' mantra. Instead, businesses should aim to create an HR architecture that is unique for each organization and 'fit for purpose'. So, how can they do this?

The first step is to define the key people issues in the context of the challenges facing an organization. One way of doing this is to consider the Value Disciplines, developed by Treacy & Wiersema: Operational Excellence, Product Leadership and Customer Intimacy. KPMG HR professionals believe these disciplines provide a clear framework through which key people issues and the overall people agenda can be developed.

When KPMG professionals look to help member firm clients develop their HR functions, they begin by asking three important questions:

1. What is the business strategy?

This includes identifying their customers, key stakeholders and the ways in which the company can differentiate itself and achieve a competitive advantage. What are the organization's critical success factors for achieving the strategy? What are the required core competencies?

2. How is value created through people and what does the people agenda need to look like?

This approach draws a clear distinction from the HR function strategy and architecture and, instead, focuses on the wider people issues and requirements, regardless of function. The important thing to do here is to translate the strategic critical success factors and competence requirements into people requirements based on an understanding of how people can bring differentiated value. This step involves obtaining answers to a number of questions, including: What are the key roles in the value chain? What are the required culture and behaviors? What are the key people competencies and skills? Where are important judgments made in the value chain and who is making those judgments? How can people drive performance, time or cost measures?

"It is critical to differentiate and have a distinction about the people agenda in the business, from the HR strategy. The people agenda is the bridge between the business strategy and the HR strategy and has all the clues about where the priorities are."

Group HR Director, Major Global Oil Company

3. How can HR drive and enable this value?

This is where we look to configure the HR architecture to drive specific value for the business. So, for example, if the dominant business strategy is based on product leadership, then we configure structures, processes, activities and measures to drive and reinforce the need for innovation.

Through this thoughtful process, KPMG HR professionals look to create *powerful connections.* This is where HR activities, processes and deliverables are mutually-reinforcing, creating a total system of performance. For example, a set of people management processes and systems that enables and drives innovation would look at whether cross-functional team performance was critical to innovation, how team performance management, team reward and even team talent management might be configured to create a reinforcing and enabling dynamic in the business that drives innovation. The engagement team would also look to understand which were the critical roles in the innovation value chain and understand how HR could manage these roles more effectively.

If the dominant value discipline was operational excellence or customer intimacy, or indeed some form of a unique combination of the two, then the route to differentiating the HR function would be different. **The key quality is differentiation and uniqueness, not reported best practice.**

> " The real difficulty … lies not in developing new ideas but in escaping from the old ones. "
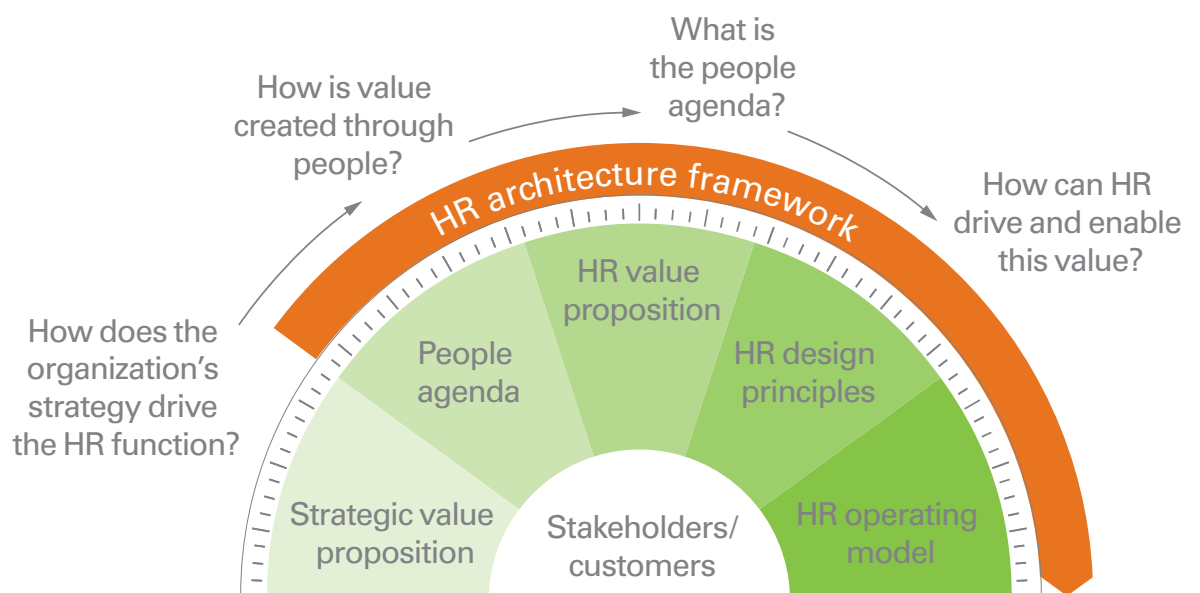>
> John Maynard Keynes

Conversation doesn't just reshuffle the cards: it creates new cards.

Theodore Zeldin.

A new approach to differentiate your HR function and architecture

It's not just a case of asking the three important questions outlined in the previous section. There is a framework and approach that KPMG HR professionals use to understand the implications of those questions (and others), in a disciplined and searching way. This approach helps to enable the translation of an organization's business strategy into the value-through-people agenda and, in turn, identifies the ways in which HR can add value to the people agenda. This is how KPMG professionals can help to identify the right HR configuration for each unique organization.

The diagram below provides an overview of the KPMG framework.

How is value created through people?

What is the people agenda?

How can HR drive and enable this value?

How does the organization's strategy drive the HR function?

HR architecture framework

HR value proposition

People agenda

HR design principles

Strategic value proposition

Stakeholders/ customers

HR operating model

What does a differentiated HR architecture look like?

Based on KPMG professionals' experience in applying this methodology, the table on the following page details how HR activities can be differentiated in pursuit of value, based upon the three strategic value disciplines: operational excellence, customer intimacy and product leadership.

This table shows an idealized view of differentiation based on the Value Disciplines framework of Treacy and Wiersema. This illustration is not an argument for the replacement of one generic 'Ulrich model' with three new templates, as this would fall into the same trap we believe is a key problem for HR. Instead, KPMG's HR consulting practice is advocating a tailored approach that properly represents the specific attributes of each organization's business strategy.

For example, a global telecommunications company required a strong emphasis on Customer Intimacy. However, in addition, Operational Excellence was also seen as an important component of its business strategy. This led to the configuration of a People Services Center that delivered a high level of customer service to employees for lifecycle processes to the extent that it was a role model for the kind of telephone-based support that employees were expected to provide to real customers. The People Services Center also has a centralized function of 'level 2 case worker' capability located in each country of operation. This helps to provide the optimum balance and trade-off between cost efficiency and excellence of service delivery.

> " It's not what the vision is, it's what the vision does. "
>
> Peter Senge

	Business Strategic Value Proposition	People Agenda	HR Architecture Implications
Operational Excellence	• Deploy lean processes • Improve cost to serve • Deliver consistency and quality	• Individuals and teams deliver continuous improvement • A culture of 'right first time' • Competencies enable consistent quality of product and service	• HR centers of expertise (COEs) and business partners focus on learning and development and performance management • HR service delivery role models efficiency and effectiveness • Talent management focused on key roles in value chain that drive operational excellence and continuous improvement • Extensive process and outcome measurement in place
Customer Intimacy	• Customer insight leads to targeted services and products • Segmented service offerings require flexible and differentiated channels of delivery	• Engaged employees deliver better service • Employees encouraged to deliver discretionary effort to build rapport and deliver timely problem solving for customers	• COE and business partners focus on improving employee engagement and experience • Culture of service through reward and recognition • HR service delivery role models the kind of service 'real' customers can expect from the organization • Talent management focused on customer-facing roles and roles that shape the customer experience
Product Leadership	• Innovation, collaboration and high-performing teams across the business • Extensive customer and consumer engagement • Competitive advantage from ideas/innovation and from execution of new products and services	• Enable cross-organizational boundary collaboration and product development teams • Increase the number of connections that are made vertically, horizontally and diagonally across the organization • Innovation focused and supported by disciplined execution through high-performing teams	• Culture of innovation through enablement of team performance management, collaboration and employee connection to customers and strategy • HR processes create powerful connections between team performance management, team reward and line of sight to the business strategy through communication and profit sharing • Talent management focuses on entrepreneurs and key roles that ensure execution of new ideas and products. • Talent management focuses on teams as well as individuals

Creating an architecture for highly impactful and differentiated HR will require the following:

A differentiated HR operating model

Clearly, shared services, business partnering and centers of expertise are all possible components of an HR function. It is the way in which these components are configured that provides the opportunity for differentiation. For example, one organization found that significant opportunities occurred when they reframed centers of expertise from being activity based (such as talent management, reward, learning and development) to being multi-disciplinary and outcome-based. This led to Centers of Excellence for achieving employer of choice, profit-per-employee improvement and building lean capability.

Powerfully-connected processes

We call this the 'two plus two equals five' factor. For example, if team performance is fundamental to the operation of the business, such as in a fast food retailer with hundreds of outlets, each employing five to 10 people, then team performance management processes linked to

team reward and recognition and team-based learning and development could come together to create a powerful reinforcing system of performance. The opposite, deadly combinations, are where the organization relies on team performance for the business, but key processes encourage individual performance management and reward. This would be a case of 'two plus two equals three'!

Talent management of key roles

Key roles are those that have either a significant financial, product or customer impact and can be at any level within an organization. Their relative importance depends on the decision-making impact they have and the downstream consequences of those decisions, either when considered as individuals or from the collective impact. For one upscale hotel chain, this meant their focus on talent management needed to broaden from being solely about hotel general managers to include hotel front desk staff, who, it turned out, had a huge degree of influence on brand perception and repeat business. Another role that had been ignored in terms of talent management – but which was vital to success – was a small group of people

that sought out new locations for hotels. Focusing talent management investments on these roles has delivered a measurable and significant boost to value creation through the differentiated approaches adopted by the HR function.

Taken together, these components of HR architecture can have a direct impact on organization's culture, core competencies and profit-per-employee. These components can also have a direct bearing on the people agenda and when configured to drive value, this can lead to the HR function being integral to business strategy execution.

Conclusion

KPMG has developed a set of tools and workshops designed to enable organizations to identify and deliver differentiated HR strategy and services that can help close the gap between theory and practice in order to achieve competitive advantage for individual businesses.

It is our view that any company claiming people are its most important asset should look to build a strategically-differentiated HR function. This differentiated function would be one that *contributes to the execution of strategy* and *value creation* as much as it is aligned to and responsive to it – one that has the vision, capabilities and influence to make the very most of that vital asset.

" Vision without action is a daydream.
Action without vision is a nightmare. "

Japanese Proverb
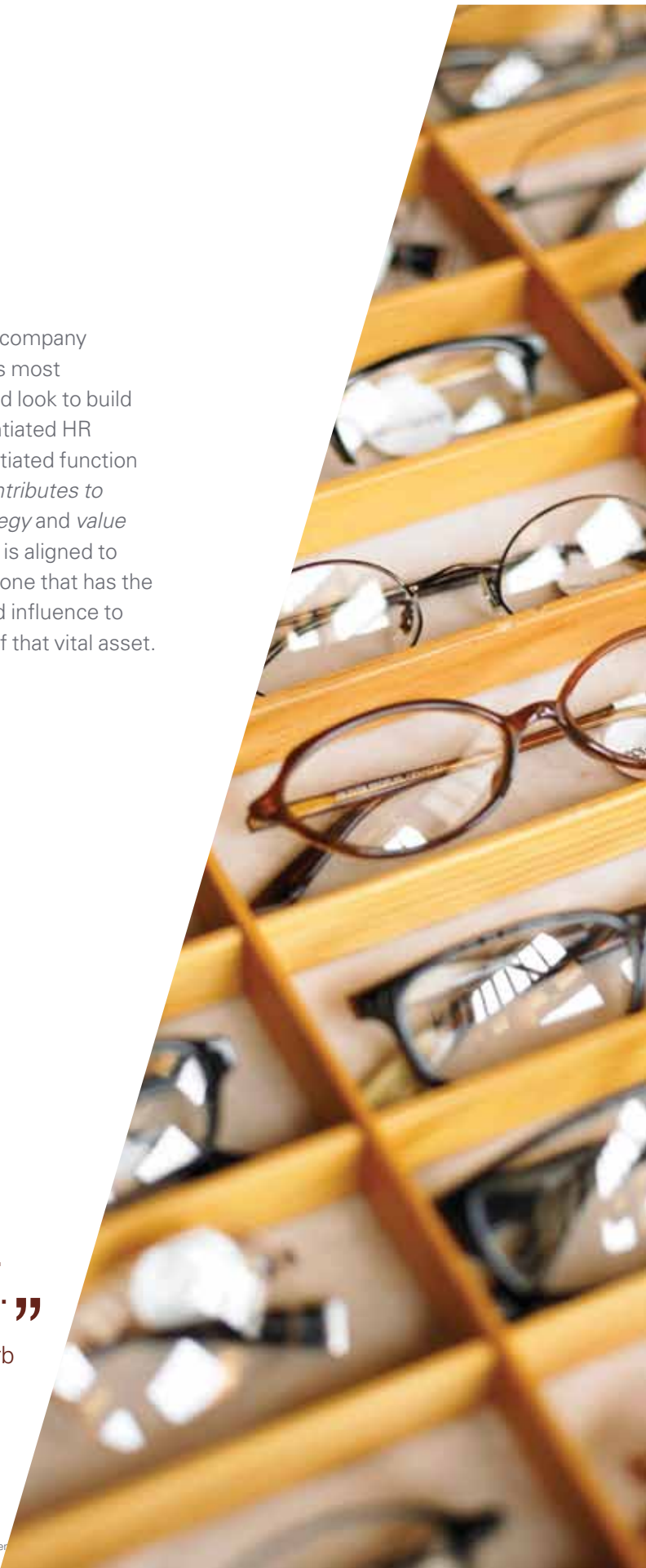
Contact us

United Kingdom
Robert Bolton
T: + 44 (0) 20 7311 8347
E: robert.bolton@kpmg.co.uk

United States
Karen Isaacson
T: +1 (312) 665 1166
E: kisaacson@kpmg.com

kpmg.com/hrtransformation