

Head in the clouds or time to be different? From 'Me Too' to My HR

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This is an exciting time for HR leaders. A genuine opportunity exists to create a differentiated and new approach for the HR function, one that is a demonstrable value driver for business – but it will require significant effort. Changing ways of working, the power of evidence based people management and the increasing accessibility of technology will, in our view, mean that the status quo for HR is increasingly unsustainable.

The challenge for HR

The overriding challenge for HR is to become a function able to make evidence-based decisions that positively impact the business. Even today, after decades of striving to engineer a step-change in the perceived value of the function, examples are common of how hard it can be for HR to adopt the best solutions and strategies that **demonstrably** work for their business.

For example, a KPMG retail banking client had a policy to target younger full-time employees for in-branch roles based on the recognised best practices, insights and information available. As part of our work with the client to introduce analytics to the practice of people management, we looked at the data and identified that bank branches with a higher proportion of part-time workers were performing best across a range of metrics (these workers were typically older, with a higher than average level of personal experience of banking products such as mortgages, savings and investments).

Such scenarios highlight the limitations of 'generic' best practices and of operating without robust data and analytics capabilities.

Best practice is not always best

The HR function, somewhat unsure of its credibility in the boardroom and struggling to prove its value, has typically sought refuge in benchmarks and generic best practices such as the 'Ulrich model' of centres of excellence, business partners and shared services. Indeed, the Finance function has travelled a similar path. But as world-renowned business strategist Gary Hamel has said, following this path sets a trap for HR. He 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 relatively 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 strategy and solid service delivery – all engineered to support the execution of business strategy.

Indeed, the evidence and KPMG's own research in our recent survey¹ clearly points to the need for HR to have processes and practices which reinforce one another in support of the value drivers of the business, such as customer service, innovation or lean operations.

KPMG & Economist Intelligence survey results

Our survey results indicated that while HR is seen as relatively strong in collaborating with senior management, coaching, and managing costs, less than a quarter of respondents believe that HR excels at analytics, supporting new types of workforces, and proving their value to the business.

- ❖ Only 15% of business leaders in the survey believe that HR is providing insightful predictive workforce analytics
- ❖ Less than 20% of respondents believe that HR is measurably adding value to the business
- ❖ Just one quarter of business leader believe HR is achieving operational excellence



¹ KPMG & EIU Rethinking the role of HR in a changing world Survey June 2012

This has led to a world where HR functions in large organisations tend to be more similar to each other than they are different. How can this be if people are the most important asset and therefore a source of competitive advantage?



The failure of the 'War for Talent'²

There is little or no evidence that typical practices engendered by the 'War For Talent' actually contribute to improved business performance. Such practices include rigid forced distribution of appraisal ratings, nine box grids and high potential management development schemes. Indeed, an analysis of the 106 original 'War For Talent' exemplars indicates that 15 years later such practices have not helped corporate survival and performance, contrary to the claims of the authors. Only 25% of the organisations can be said to be performing well in their market place. A third have disappeared entirely.

The need for a differentiated HR approach

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

The HR function is at its best when its strategy, structure, tools, processes and measures are configured to reflect the unique characteristics of its wider organisation – and when data and analytics is at the heart of the function.

At KPMG we believe that technology-driven solutions and processes are now available which have the potential to make change for the better a reality – and a cost effective, timely and achievable reality.

"It's bad enough that fighting the "war for talent" has companies fighting the wrong war, often using the wrong methods. But there is an even worse problem, namely the consequences that are unleashed by even waging the talent war in the first place"

– Jeffrey Pfeffer

HR leaders have for many years been promised technological solutions to empower the function to offer greater capabilities, insights and value. But the reality has largely failed to live up to expectations – solutions have often proved to be relatively inflexible, slow to implement and expensive to maintain. In terms of usability, they have also been years years behind technology commonly used away from the office.

² Survey by AM Azure of the organisations featured in The War For Talent analysing 100 plus firms to evaluate current corporate performance in 2013

Realigning the HR function

A technological solution is of course no panacea on its own: ways of working need to evolve too. HR leaders should, therefore, move beyond the mode of thinking that says there is a universal model for HR that delivers value in all situations. Instead, businesses should aim to create an **HR architecture** that is unique for each organisation and 'fit for purpose'.

The first step is to define the key people issues in the context of the challenges that the business is facing. Three important questions to consider are:

1. What is the business strategy?

This includes identifying customers, key stakeholders and the ways in which a competitive advantage can be achieved through people. A secondary aspect to this is to understand the 'value chain' in the business that takes inputs, adds value to these inputs and then creates business outcomes. Properly understanding the value chain in a business gives strong clues as to where critical roles and teams will drive value.

2. What are the implications for your people?

This is not about your HR Strategy. This is about understanding the role of people in executing strategy and delivering both added value as well as competitive advantage. Here the analysis needs to go beyond what the HR function does and instead focus on critical skills and capabilities, how people are organised to deliver value as well as what practices create a high performance working environment. Critical here is to think about the architecture or 'system' that drives people performance.

3. How can HR (the function) drive and enable this value?

This is about the specific organisation and practices of HR that will enable value creation through people. It is about creating the powerful connections between all the things that HR does so that $2+2=5$. For instance, in an organisation that relies on product innovation to succeed in the market-place; it must look to ways in which innovation can be encouraged through collaboration, career paths, high performance teams etc. The opposite of powerful connections are *deadly combinations*. This is where $2+2=3$ or the equivalent of an organisation that knows that high performance teams are its source of competitive advantage but that all of the performance management practices emphasise individual performance reviews and bonuses. Unfortunately, the unthinking rush to HR best practices leads to deadly combinations rather than powerful connections.

Evidence based decision making and workforce analytics can be the key to understanding where these powerful connections in people management can be made. In our experience analytics bring the rationale for how and where HR should 'place its bets'. It brings the justification for moving away from a 'me too' best practice driven HR to one that is uniquely configured to drive business value: This is the journey to what we call **'My HR'**.

Cloud-based technology as an enabler for change

We believe that technology-driven solutions and processes are now available which have the potential to transform the HR function. The cloud is finally democratising data – offering the opportunity to bring evidence to business decision making that supports the people agenda, and providing the platform to configure the HR function in a way that isn't shackled to any 'best practice' model.

Cloud-based HR platforms, because of their flexibility, usability and accessibility from a variety of devices, allow people management to be approached differently. New questions arise such as; can I operate virtual centres of excellence more effectively? And, do I need a shared services centre if self service is so straightforward? The absence of traditional technology vendor relationships which required long-term commitments also makes the HR function more agile and better able to adapt to changing business needs and circumstances. For example, the time needed for the technical integration of people data from an acquired business could be reduced from years, using a legacy enterprise resource planning (ERP) system, to months for a leading cloud-based platform.

Features of the cloud

- ❖ Object orientated architecture means that each piece of data stored in the system is defined by an 'object' that represents real life; employees, budgets, organisations for example, and the ability to create connections (or relationships) between these objects provides a completely new approach to reporting. Storing these objects 'in memory' also means that the system does not have to navigate its way through complex tables to return search results, making in depth reporting available to all users.
- ❖ The consumer-grade user interface is easier to use and requires less training so there are quicker adoption rates for the entire workforce.
- ❖ Access to cloud systems is global and available from numerous mobile devices meaning that all types of workers can be engaged whether office based or on the road.
- ❖ With more out of the box features and process to start from, cloud solutions have proven to be much faster to deploy than legacy ERPs.
- ❖ Organisational restructures can be updated and applied instantly, reflecting business changes as they happen.

HR data and analytics – the state of play

Fuelled by the relentless flow of numbers that emerges from any typical enterprise resource planning (ERP) programme, most employers maintain at least some basic HR metrics – whether it's workforce demographics, staff turnover rates, absence levels, training spend or cost-per-hire.

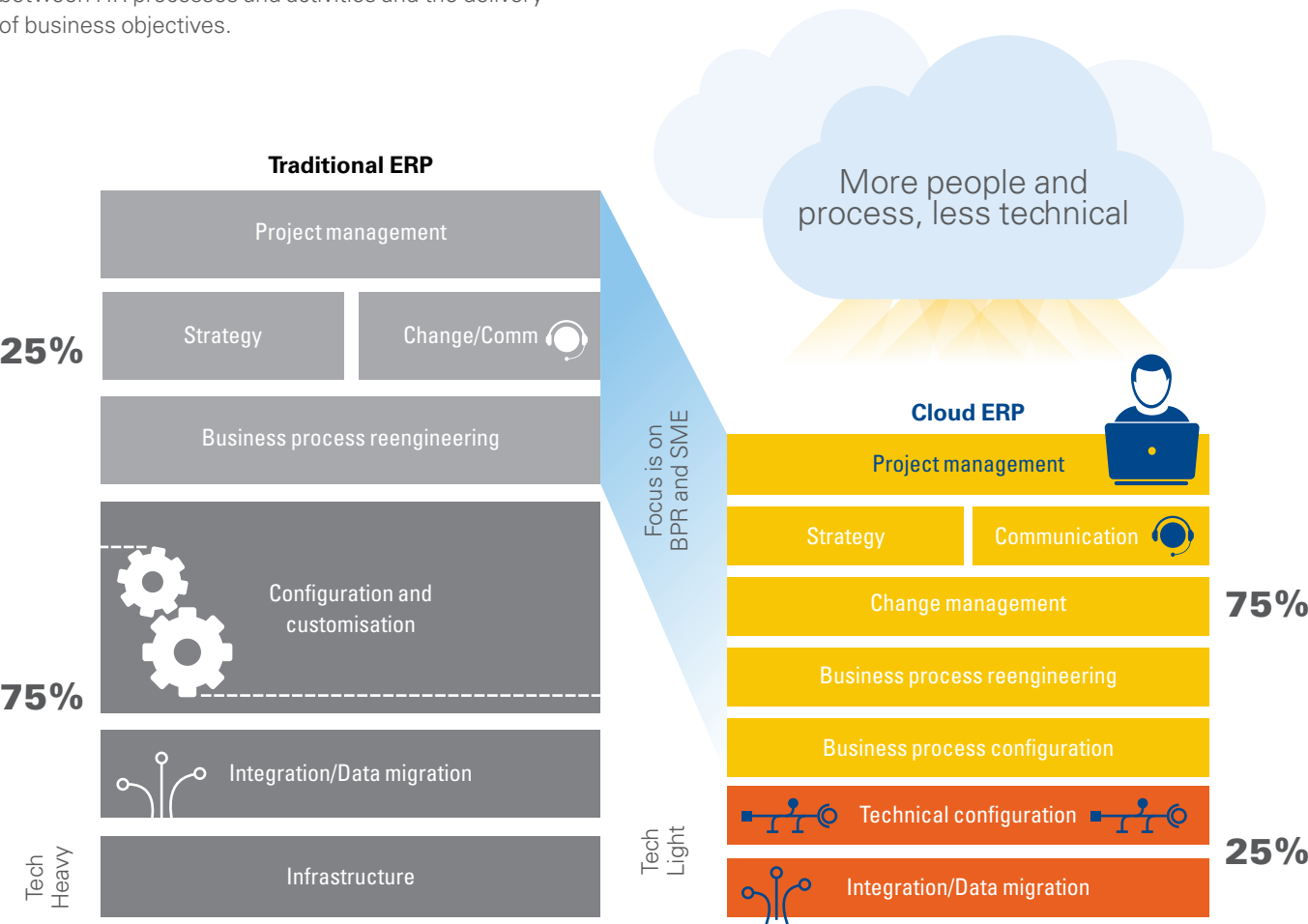
While these operational and transactional measures may be useful, they do little more than provide a 'rear view mirror' or historical perspective of HR's activities.

Other organisations do progress one step further – carrying out a basic analysis of these parameters. Figures from previous years may be compared to assess progress – or data used to benchmark their business' performance against that of other organisations in the same industry or region.

But HR analytics can, should – and must – go far beyond even this second level. Applied properly, HR analytics can show connections, correlations and causality between HR processes and activities and the delivery of business objectives.

For example, while it's helpful to track absences by location or by comparison with prior years, if HR could also show that improvements in absenteeism positively correlated with manufacturing cost efficiency, line leaders would be more likely to see the value of HR. And if HR was able to show that focusing on attendance and wellness programmes caused a positive financial business impact, HR may well find itself helping to shape its organisation's strategy more. By clearly linking HR strategy and profitability, HR analytics can provide the vital link between people management and business performance.

So what, specifically, is stopping HR from unlocking the full potential of analytics? There may be a tremendous amount of employee-related data available, but it's not always consistent. And it may be in several different places – making it very hard to get at or to use in any meaningful way, let alone link with other business measures.



The time is right

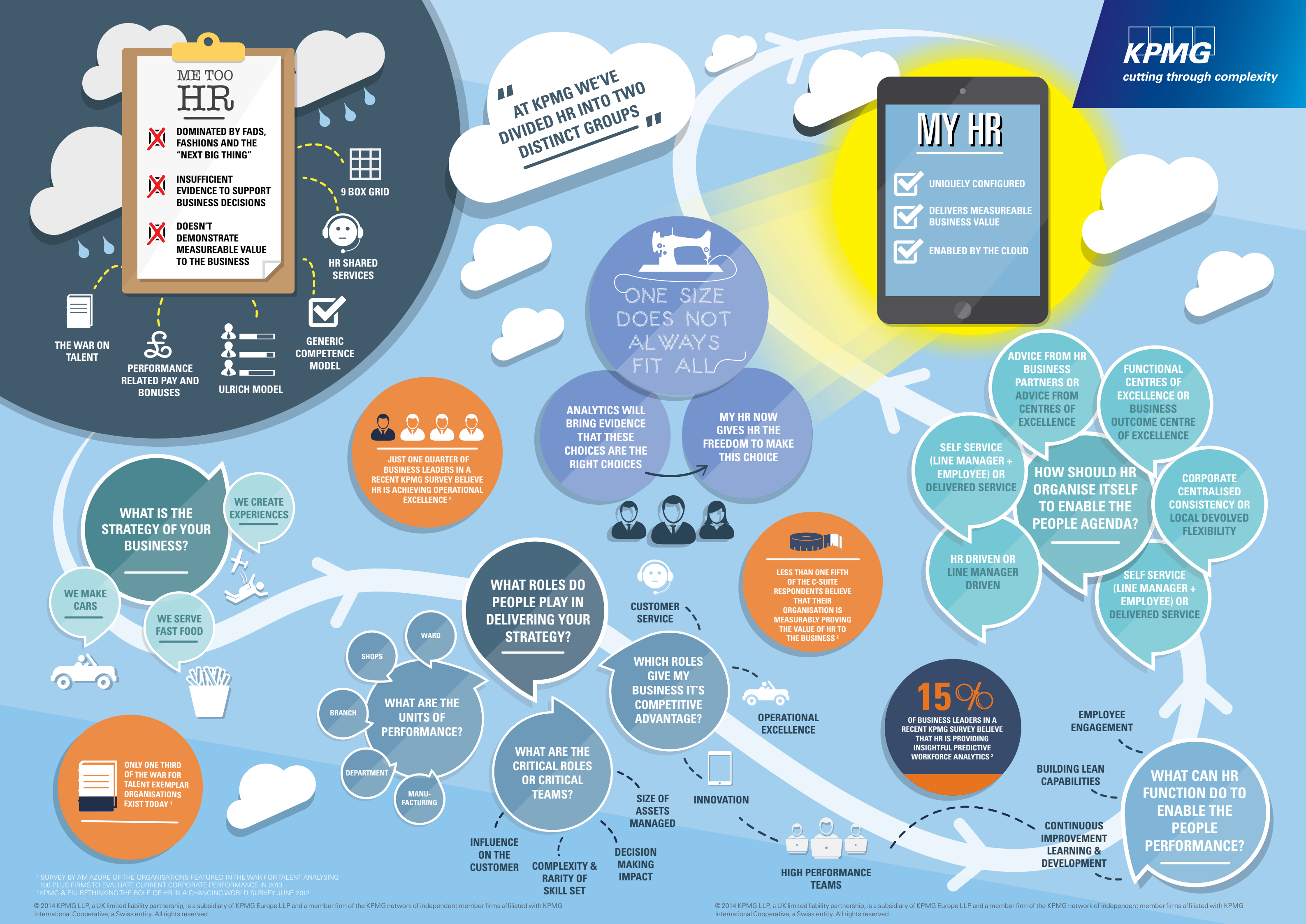
One of the biggest criticisms of HR today is arguably the fact that HR functions, regardless of sector, are more similar to each other than they are different. A strategically-differentiated HR function should be the ambition because that is the route to competitive advantage.

This differentiated function is one that drives the execution of strategy and value creation as much as it is aligned to and responsive to it.

KPMG has formed a strategic alliance with Workday as we believe that through a unified suite of HCM and Financial Management global applications, Workday can empower organisations to configure operating models and processes to reflect the way that their business operates.

Cloud powered HR is the catalyst that can make it possible for HR functions to become evidence based, uniquely configured and, as a result, able to add far greater value. But it really is now or never – optimising human capital is cited as a leading challenge for CEOs and if the HR function is not considered able to support this agenda, its role will be increasingly marginalised.

The journey from “me too HR” to “my HR” is not easy, and there is no universal model that will provide the answers. Rather HR functions must look to their own business strategy to define the people agenda and this is more achievable than ever before. The ambitions of HR are no longer constrained by the limitations of technology; they are only limited by the imagination of HR leaders.



¹ SURVEY BY AM AZURE OF THE ORGANISATIONS FEATURED IN THE WAR FOR TALENT ANALYSING 100 PLUS FIRMS TO EVALUATE CURRENT CORPORATE PERFORMANCE IN 2013
² KPMG & EIU RETHINKING THE ROLE OF HR IN A CHANGING WORLD SURVEY JUNE 2012

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