

Is HR Irrelevant?

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At a time when the business press and academics bombard us with exertions to recognise that this the era of people, it seems odd that the relevance of the Human Resource function should be called into question. My recent experience of working with senior management teams and their HR counterparts suggest that the question is very much to the fore of managers concerns.

The question posed in the title highlights the difference between many senior managers and the HR profession. Senior managers worry about profitability, customer satisfaction, market share, productivity and strategy. The vast majority recognise the vital importance of people. They know that recruiting people that can make a difference and, more importantly, hanging on to them, is essential to continued success. They recognise that all aspects of performance rest on the quality and commitment of the people they employ; whether it is the daily interactions with customers that shape reputation, the creativity to develop new products, services and ways of doing business, or the continuous improvement in quality and productivity that underpin great companies. Never in the history of business have people been more important. But if people are an organisation's greatest asset, as is so often heard, why is that so few HR Directors sit at the top table? Of the FTSE 100 companies, only seven have a Director of HR on the Board.

Faced with a sceptical and increasingly mobile workforce in a world where people's daily actions have a real and visible effect on the bottom line, the call for leadership in managing people has never been greater. So what has HR been doing?

I have asked this question of many HR Directors recently, and, in a number of companies, backed that up with detailed research into what HR people actually do. In this challenging, highly competitive environment where people are so key, HR is spending most of its time on administration. While Rome burns, many Neros are fiddling - in the original, not the Enron sense. My research suggests that between 45% and 70% of HR resource is spent on administration, much of it to service HR policies

that they have introduced. HR is often the greatest creator of bureaucracy in the organisation.

Hence the title of this paper: most of what HR spends its time doing has little or no impact on the performance of the business. As a result, HR is seen as irrelevant.

In a world where so much of an organisation's success is dependent on the skills, attitude, creativity and productivity of its people, HR should be one of the most vital and vibrant functions. Reality often falls short. Much of the reason for this is that the administration of personnel issues is a minor part of what HR should be doing. Administration is a necessary part of the functioning of any organisation but it should always be a minor part. Ensuring that people have employment contracts and that salaries and bonuses are issued correctly are important (try not paying people for a couple of weeks to discover just how important) but these are hygiene factors. They are tasks that other functions have simplified, automated and outsourced.

If HR is to be taken seriously and make a real contribution to the business, here are some of the questions it should be answering:

- What is the productivity difference between the best and average performers and what do they do better?
- Which individuals get the highest ratings for customer satisfaction and what do customers value in what they do?
- How does good management and leadership affect the financial performance of the business?
- What policies and practices help us to attract and retain the talent we need?
- Which practices and policies constrain performance?
- What development programmes have the greatest impact on the performance of the business?
- Have competitors got better people practices than we have?

These are all questions that have a direct effect on business performance. They are also questions that HR cannot answer alone; they need to work closely with managers across the business to find answers. The nature of anything strategic is that operates at the macro level – across boundaries.

There is no simple path to regaining relevance, but here are a few actions that will set you on the right path.

Sell the case

Financial performance is the primary measure of performance of a business; it always has been and I see nothing that is going to change that in the future. Let me state clearly and loudly that I believe that there are more important things in life than money. But that is no excuse for recognising the vital role that money plays in a business. Financial success is both the result and an enabler of the really important things that businesses do. The development of great products/services, ways of doing business and the creation of good relationships with customers stem require investment, which in turn generates the financial returns we all want from work. It is important therefore that HR is able to show how it fits into the firm's financial cycle.

Here are a few collected facts and figures that illustrate just why good people practices go hand in hand with financial success. This 'stuff' is not just nice to do, it's profitable.

The performance difference between average and high performers ranged between 19% in low complexity jobs and 120% in technical sales. The biggest factor behind the difference was the degree to which the employee felt engaged by the company.

Research into the financial performance of companies that have gained the Investor in People award show superior performance.

Performance measure	IiP Awarded Companies	Average Companies	Advantage
Return on Capital	16.27%	9.21%	77%
Sales/Employee	£86,625	£64,912	33%
Profit/Employee	£3,198	£1,815	76%

US polling company Gallup undertakes employee satisfaction surveys for a wide range of companies. Analysis of their collected data shows the importance of having a workforce that is engaged.

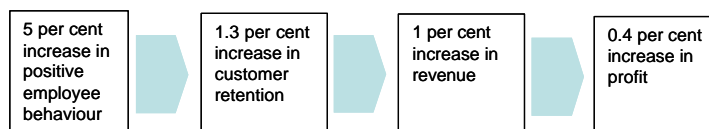
	% of Workforce	Absenteeism	Staff turnover costs*
Engaged Loyal and Productive	17%	4.67	£6.97m
Non-Engaged May be productive but not loyal	63%	5.95	£11.48m
Disengaged Unproductive, destructive influence	20%	10.68	£31m

** Based on an organisation of 20,000 employees and a replacement cost of 0.41 of salary.*

Research into the financial performance of companies listed in the FTSE 100 and in the ‘Best Place to Work’ list shows interesting findings. Over the three years of the study, the ‘Best Place to Work’ companies would have earned an investor a compound annual return of 12.1 compared with a 5.8% decline in the FTSE All-Share index.

Following the appointment of a new CEO, Sears put great effort into building a customer and people focused business. Analysis of data collected from staff, customers and financial systems highlights a positive correlation between employee satisfaction, customer satisfaction and store profitability.

The relationship was quantified by Sears is shown in the diagram below.



Note that all of these pieces of research make the connection between financial performance and people management practices. If it is to avoid the backwater of

irrelevance, HR has to be more aggressive in using financial measures to explain its value to the business. Rather than hide between nebulous phrases like 'human capital' HR has to use the language of business. Don't invent measures that mean something only to HR: rather, adopt the measures used by the business. If HR's real agenda is about improving business performance, then measure HR on productivity, profitability and customer satisfaction.

Clear the decks for change

Many of HR's shortcomings have been because they have shied away from business issues, preferring to stick with good old familiar administration. HR in many companies fails to break out of this administrative focus because it does not know how to remove the administrative workload. Being bound by existing practices and ideas are common obstacles for change. To break out of these constraints takes courage to follow through a different set of ideas. In the case of reinventing HR, this begins with recognising the real role and removing existing activities that add nothing to the performance of the business. This is less about reviewing and revising existing practices than it is about stopping doing things. If something adds no value and is not required by law, why do it? That it has always been done, or that every other company does it is not reason enough.

The first step to building a business focused HR operation is therefore to remove that which is unnecessary. Don't revise, remove. This not only removes much bureaucracy, it requires greater degrees of trust and skill. Unable to turn to policies, people have to think and make decisions based on values and context. Take out your policy manual and remove (not revise) those that cannot show a real benefit to the business. Be bold and ruthless. Take a leaf out of Ricardo Semler's book and replace policies with short and simple principles.

The removal of many policies and procedures will free up time previously spent on developing, maintaining, implementing and policing them. Further time can be released by taking advantage of the range of HR information systems available. Even the smallest company can use web based suppliers to provide basic HR administration, further removing bureaucracy and time. Outsourcing is often viewed

with suspicion, threatening the jobs of people in HR. The greater threat however is the risk of being viewed irrelevant to the success of the business. Far too often it is not the HR manager who chooses outsourcing, it is the Chief Executive who is fed up of paying for services that are seen as irrelevant to what she/he is trying to achieve.

Processes that are essential should be subject to rigorous productivity regimes. The application of continuous process improvement techniques, originally developed under the total quality management banner can make a real difference. Set yourself the outrageous goal of achieving six sigma levels of performance.

Redraw the boundaries

How much of what HR does is really the work of HR? My experience is that HR takes on many tasks that are actually the work of line managers. Recruitment, development, discipline, motivation and management are all tasks of line managers. HR managers step into these tasks, afraid that managers might do the wrong things, and in doing so, disenfranchise managers and block their learning.

Redrawing the boundaries means preparing managers for working in an environment of fewer rules and no instant crutch from HR. Train them in the real skills of managing people: giving and receiving feedback, coaching performance, communicating, creating enthusiasm and dealing with constructive conflict. Help managers understand the difference between management and leadership and to discover the balance between the two that leads to sustainable success.

The most difficult part of this exercise will be the generation of trust: fewer rules requires greater levels of trust. Whilst trust cannot be taught, it can be explored. One of the greatest barriers to trust is the desire for control. Building trust and removing control go hand in hand.

Changing HR at Weyerhaeuser

In 1989, executives with Weyerhaeuser Timberlands and Wood Products businesses re-organised HR as part of a project to address significant shortfalls in financial performance. The goal for HR was to redesign the HR systems and practices to help achieve the business improvement plan. The starting point was to establish a new mission for HR.

The HR headcount was reduced significantly as a result of the reengineered processes. The HR group has been restructured into “pods” of four to five generalists that report to an HR director. Each pod supports the operating units in a particular geographic area. The HR pods are responsible for building HR capabilities within the line organization.

HR Mission

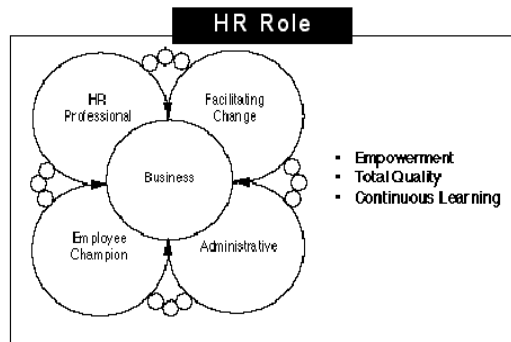
The mission of Human Resources is to provide leadership, services and processes that empower employees to achieve our business goals.

Human Resource processes are aligned and under control

- All HR processes are aligned with the business goals/strategies
- All HR processes are in control and satisfy customer specifications

HR is less functionally oriented, operating more as business partners and consultants in the organization. HR generalists facilitate and help support change around organizational renewal and work systems. In doing so, HR builds skills into the business teams. They also serve as employee champions by understanding employee needs and increasing employee commitment and competence.

Weyerhaeuser is beginning to build the next generation of HR professionals by hiring Masters and MBA graduates into its year-and-a-half long HR Associate Program. Individuals are assigned mentors and work on several assignments to learn about HR and the business. These developmental experiences result in placement into HR generalist roles.



Re-skill the team

This shift from administration to enabling performance also needs a significant shift in skills for HR. HR people need to understand how the business works, how money is made, and lost and the dynamics of the industry. To business and financial skills, HR people need to add an understanding of psychology, leadership and change. Skills and knowledge are not enough; courage, trust and integrity are essential in a HR business partner.

Like any significant change, it is important to recognise that not everybody will make it. Some people will not be able to develop the skills needed: others won't want to make the change; courage to make difficult decisions begins here.

DHL delivers change

International carrier company DHL provide an award winning example for those pondering the real work of HR. A major change was required to bring the organisation closer to its target customer segments, this included a significant number of people changing jobs.

HR built training, communication and tools that took people through the traditional change process of shock, denial, blame, acceptance and understanding. Examples include workshops to prepare people for the change, self-assessments to help people with job selection and coaching and counselling to support individuals.

As a result of the robustness of HR's process, the change was completed successfully. 91% of staff through the change was conducted professionally and 88% felt HR supported them during the change. From a commercial perspective, the number of customer contacts increased by 42%, market share rose by 2% and DHL have seen a significant improvement in customer satisfaction compared to their nearest competitor.

Being relevant is not the same as being popular. HR has to do what is right, not what's politic or popular. One of the criticisms often levelled at HR is that fail to take a stance and lacks imagination in developing solutions. Entrepreneurs take risks, confident in their view of the world; HR needs to do the same.

Relevance Regained

The 'new' HR is not new; it is a return to what HR was before the administrators took over. In a time when success is increasingly linked to the management of people, companies cannot afford to ignore the function charged with this vital role. Equally, HR cannot let their people down by failing to step up to the real task. Being the employee's champion has to be balanced by taking a business perspective. Regaining relevance is to recognise that managers are HR's prime customers and that productivity, profit and customer satisfaction are its prime measures of success.

A final plea.

Throughout this paper, I have used the term HR because it is the accepted term for the function dedicated to people in organisations. But why do we continue to use terms for managing people that are derogatory and picture people as things that organisations exploit? The function changed its name from 'Personnel' to 'Human Resource' management. Hands up those who look in the mirror each morning and admire the resource staring back at them. Now, the latest fad is to talk of the value of 'Human Capital'. Here's another phrase that equates people with physical assets, this time money. It is another attempt to view people as manageable chattels at the whim and disposal of the company that pays them for their labour. In their vain attempt to position themselves at the heart of the organisation, those who peddle this nonsense do nothing but show they have no heart. Managing people is a noble profession because people are the essence of any organisation. We are learning that success requires, above all else, excellence in managing people; more so than managing other resources, including capital. Let's give people the respect they deserve; dump the 'HR' tag and get back to talking about people.