



Linking Business Strategy and Human Resources Management

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Sources of Competitive Advantage

- **Natural Resources**
- **Economic/Financial**
- **Location/Market Access**
- **Technology**
- **Human Assets**
- **Organizational Capabilities**
- **Core Competencies**

■ Core Competencies

- **Focus:** technical and production skills needed to develop and make the firm's products
- **Example:** miniaturization, precision manufacturing, imaging, digital signal processing

■ Organizational Capabilities

- **Focus:** organizational designs and management practices that enable strategic performance
- **Example:** customer focus, speed to market, quality

Organizational Capabilities

- **Quality Focus**
- **Quick Response**
- **Innovation**
- **Customer Focus**
- **Stateless/Global**
- **Partnering**
- **Change Management**
- **Learning**
- **Growth**
- **Cost Control**
- **Leadership**

Resource Allocation

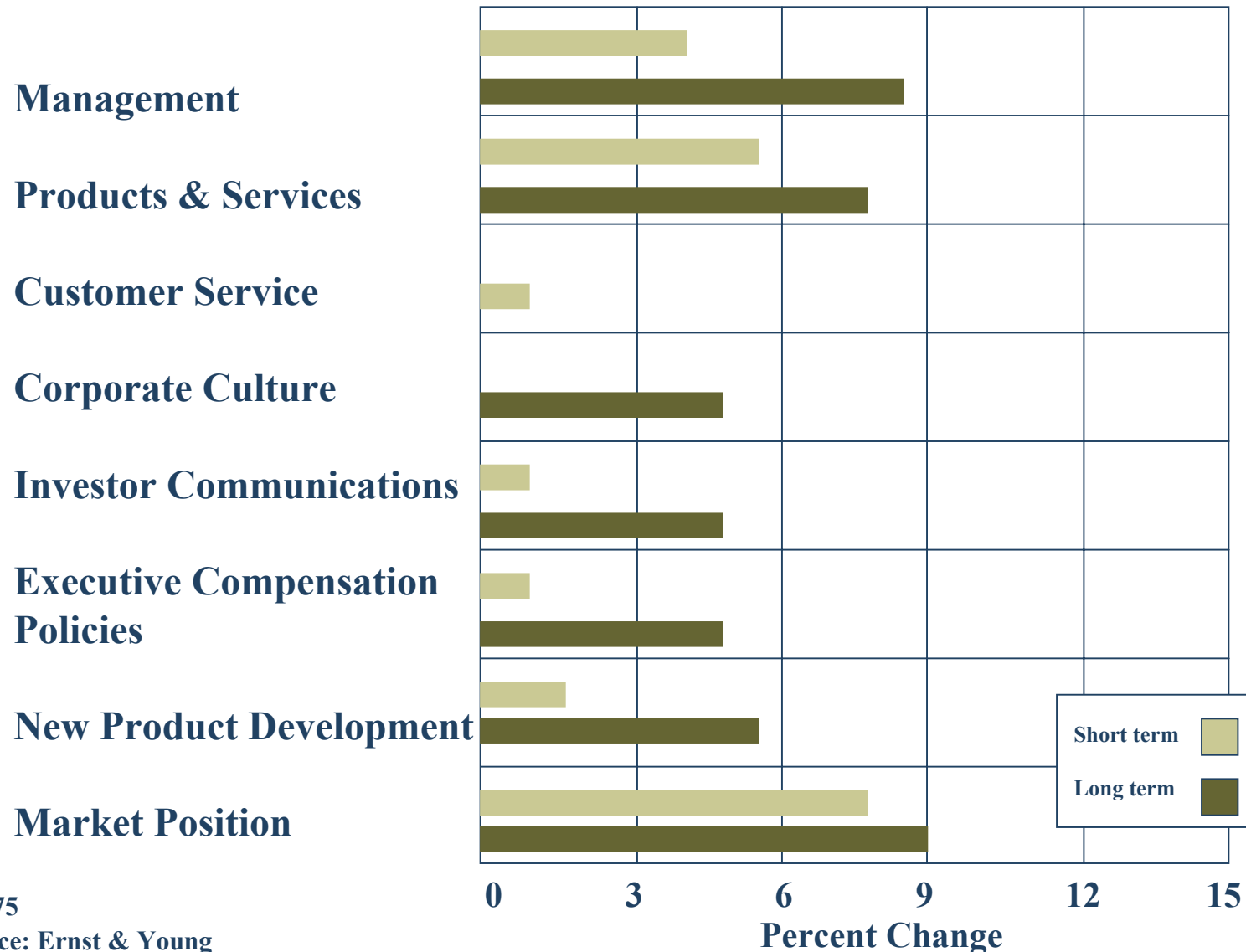
OLD: Competitive advantage is in obtaining and allocating low cost financial capital and physical assets.

NEW: Competitive advantage is in obtaining, developing, and allocating human capital and knowledge assets

Share Value Determinants

- **Intangibles account for more of market value: From 20% in 1980 to 40% in 1998 of market value missing without them.**
- **Investors say non-financial measures important: 35% of investment decisions driven by them**
- **Management most important non-financial information**

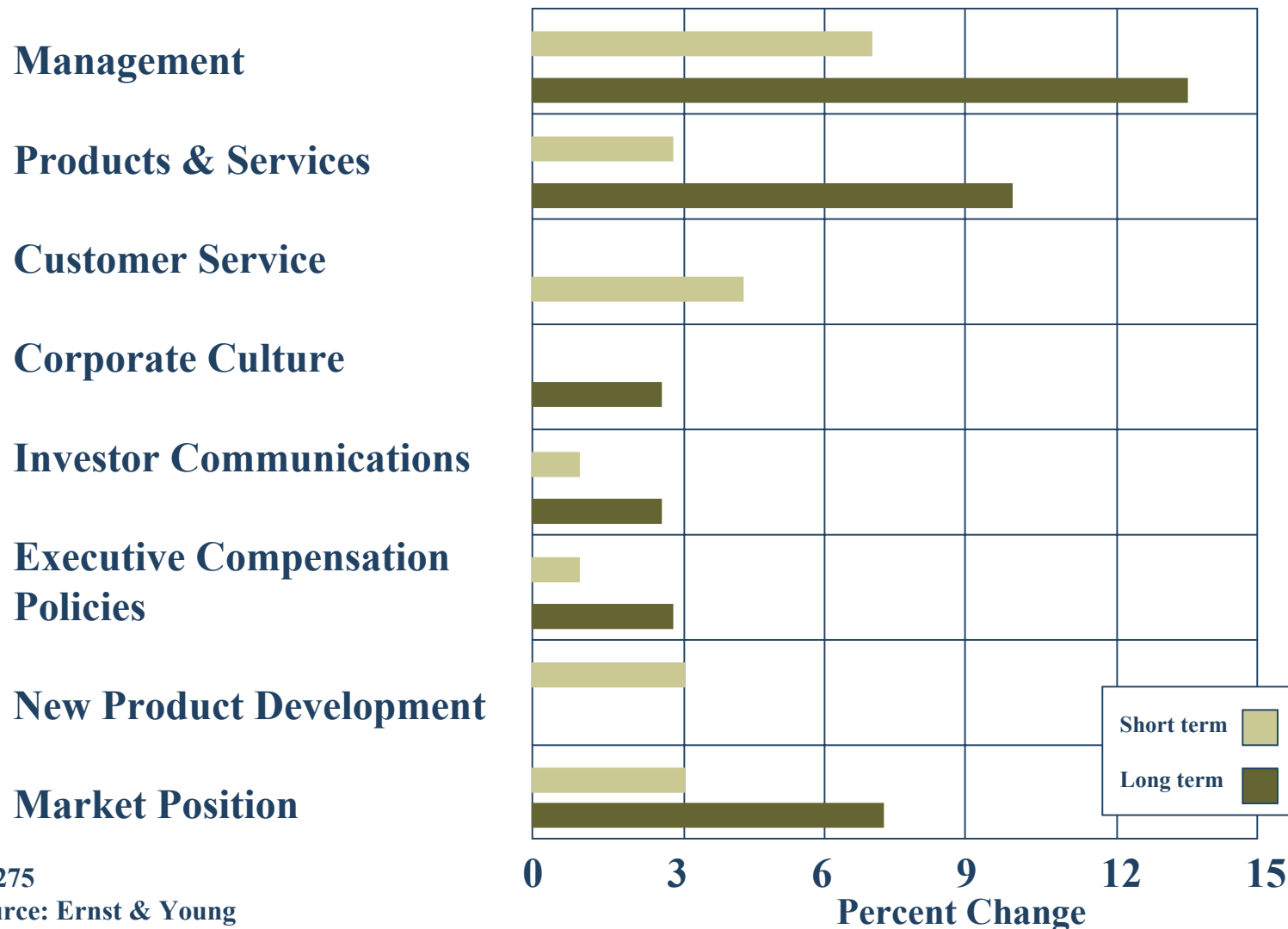
Importance of Non-Financial Factors to Investors- Oil and Gas



N=275

Source: Ernst & Young

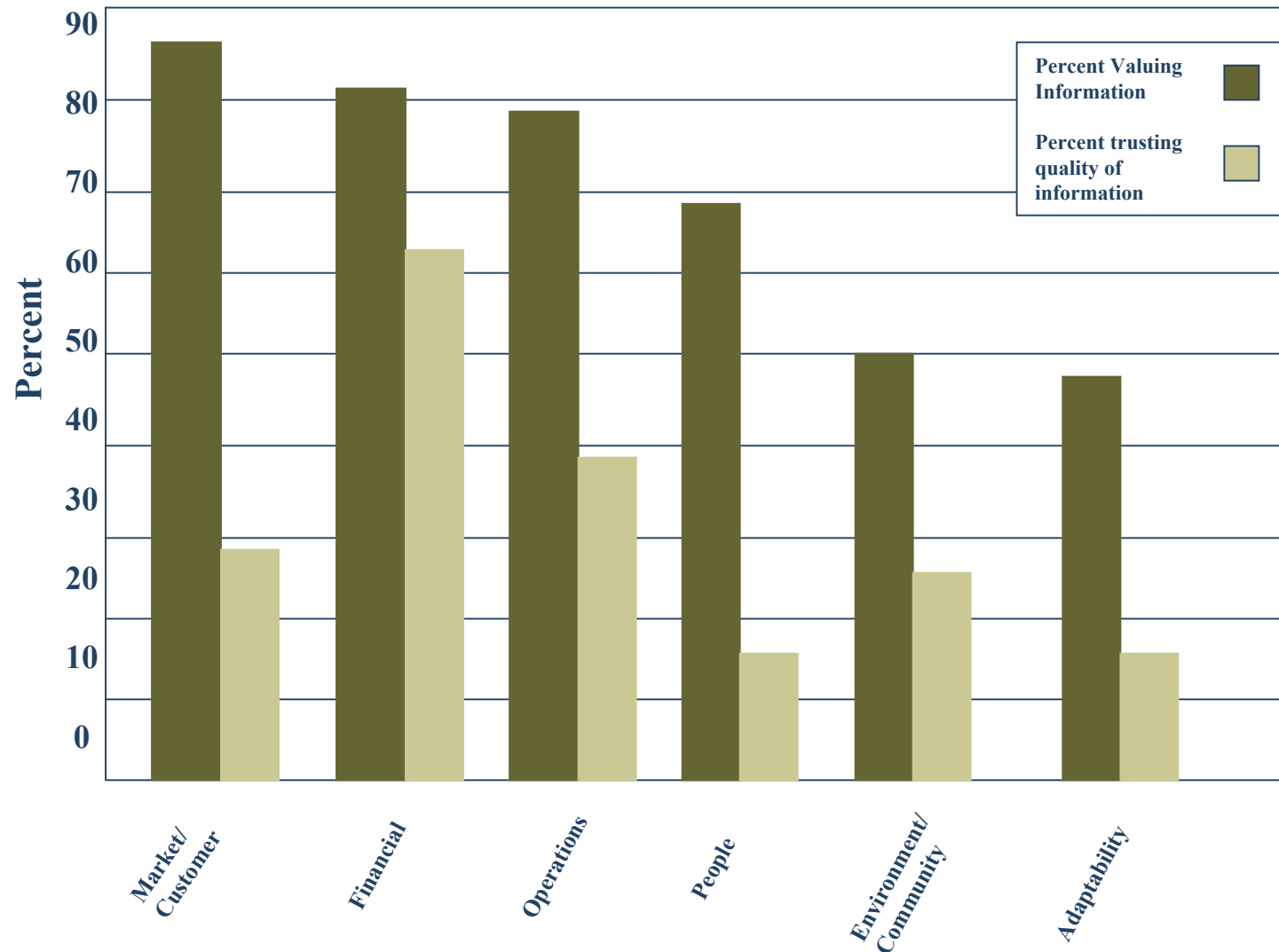
Importance of Non-Financial Factors to Investors - Computer Industry



N=275

Source: Ernst & Young

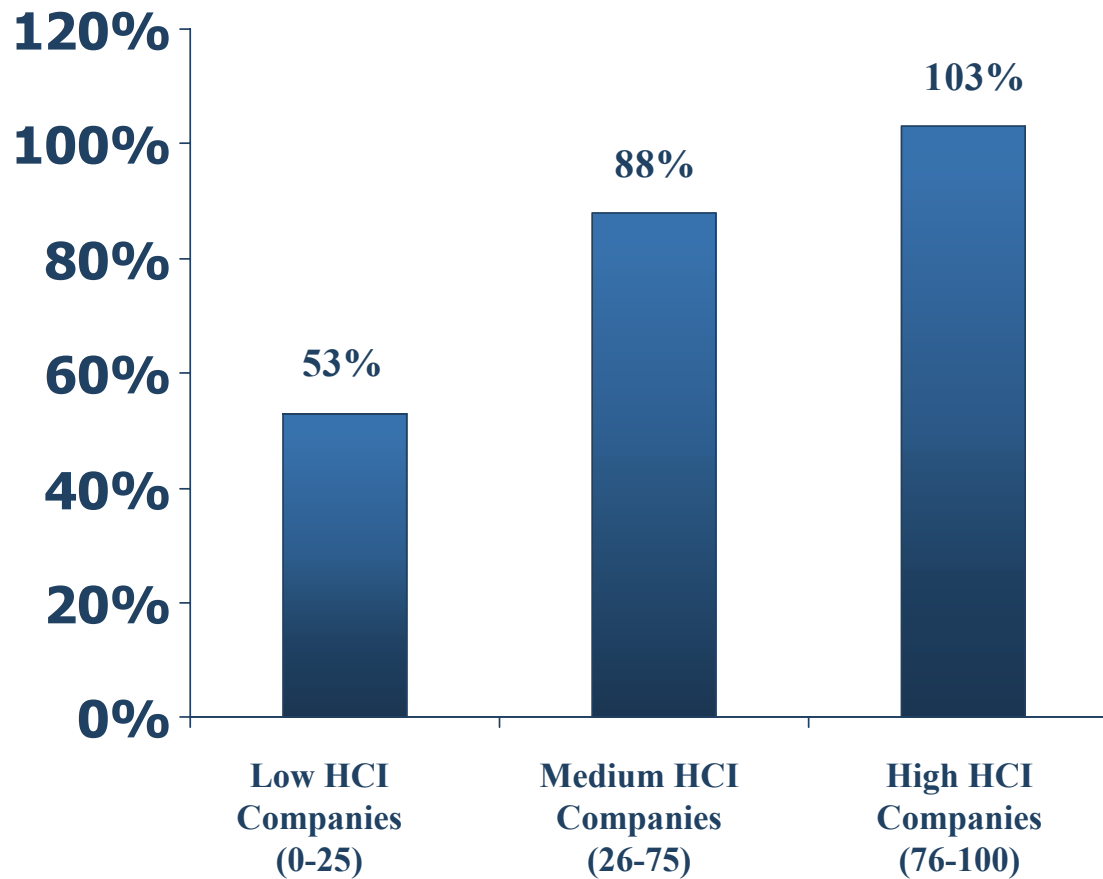
Executives' Views of Information



N= 205

Source: Schumann & Associates

Return to Shareholders (1994 - 1999)



From: Watson Wyatt, 2000.

Model 1 - Administrative

Aims: Free up the line to focus on the business
Reduces wasted internal energy

Process: Establish policies, rules and systems to create internal equity
Functional orientation - get the basics in place
Personnel administration
Government regulations
Labor relations

Planning: No formal consideration of HR (personnel) factors in the business planning process; post-hoc action planning by HR (personnel) function

**“We want to have more people selling
instead of watching people
sell and fewer human resources people
watching -- God only
knows what they watch...”**

**Bob Lipp
Citigroup
Cost Cutter**

Fortune Magazine, January 11, 1999

Two Highest Priorities For The Next 5 Years

	Cases	Percentage
Benefits Medical	131	32
Caliber Of Workforce	118	29
Staff Training	94	23
Management Development	75	19
Retention	59	15
Diversity Of Worker	59	15
Employee Motivation	34	8
Innovation/Relevant	34	8
Productivity	29	7

Model 2 - Human Resource Management

- Aims:**
- Business orientation
 - Services provided expressed as outputs or products
 - Voice of the Customer
- Process:**
- Build performance management capabilities
 - Development of managers - linking competencies to job requirements and career development
 - Succession Planning
 - Enhancing organization change capabilities
 - Building an HR network organization wide
- Planning:**
- Business plans “inspected” by HR (and all other functions); inputs from HR may be inserted in the planning process

Job Opening

Merrill Lynch has an opening for a Director, Executive Development. They would like someone to come in to assess their current executive development and revamp it as necessary in a way that aligns their people with their strategic goals. The job is worldwide and they would like a thought leader to move into the position, a “practical intellectual.” Compensation could go as high as \$1,000,000.

E-Mail from a Head Hunter

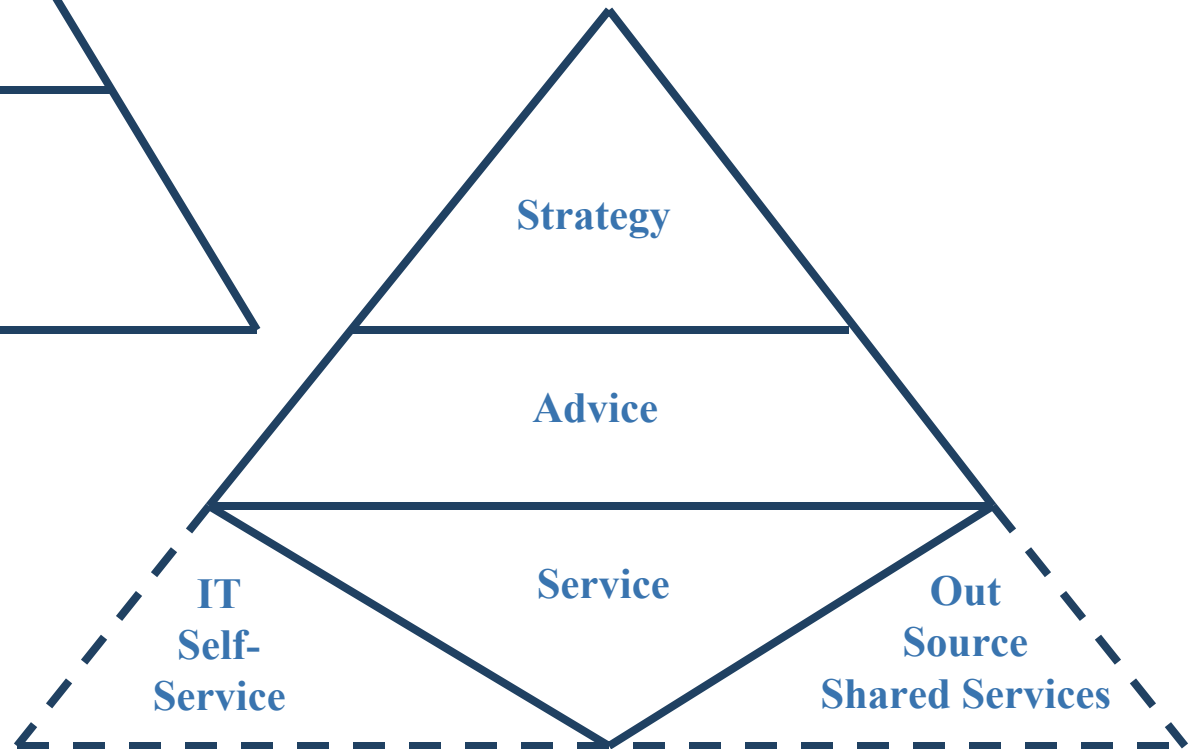
Human Resources Management Is Too Important To Be Left To:

- The Human Resources Department
- Line Management

Old



New



Model 3 - Business Partner

Aims:

Line management owns HR as a part of their role
HR is an integral member of management teams
Culture of the firms evolves to “fit” with strategy and vision

Process:

HR organized flexibly around the work to be done (programs and projects, outsourcing)
Focus on the development of people and organizations (road maps, teams, organization designs)
Leveraging competencies, managing learning linkages, building organization work redesign capabilities
Leadership development

Planning:

An integral component of strategic business planning by the management team

Business Strategy Is Too Important To Be Left To:

- **The Human Resources Department**
- **Line Management**

Model 4 - Strategic Partner

Aims: HR is major influence on business strategy
HR systems drive business performance

Process: Self-service for transactional work
Transactional work outsourced
Knowledge management
Focus on organization development
Change management
HR processes tied to business strategies

Planning: HR is key contributor to strategic planning
and change management

Ideal HR Function

	<i>N=232</i> <i>All</i>	<i>N=68</i> <i>USA</i>
Business Partner Skills	30%	44%
HR Practices Linked with Strategy	29%	40%
T&D Linked with Strategy	24%	28%
Provide “People” Consulting	22%	16%
Select Best Talent	13%	22%
High-Commitment Work Environment	11%	13%
Performance-Enhancing Reward Systems	9%	10%
Align Culture with Strategies	8%	7%
Provide Change Management Services	6%	12%

Based on 1999 HRPS SOTA/P Study

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EL11K

Human Resource Roles

	Current		5-7 Years Ago	
	1995	1998	1995	1998
Maintaining Records <i>Collect, track and maintain data on employees</i>	15.4	16.1	22.9	25.6
Auditing/Controlling <i>Insure compliance to internal operations, regulations, legal, and union requirements</i>	12.2	11.2	19.5	16.4
HR Service Provider <i>Assist with implementation and administration of HR practices</i>	31.3	35.0	34.3	36.3
Practice Development <i>Develop new HR systems and practices</i>	18.6	19.3	14.3	14.2
Strategic Business Partner <i>Member of the management team. Involved with strategic HR planning, organization design, and strategic change</i>	21.9	20.0	10.3	9.5

HR and Business Strategy

1998

- **No Role in Business Strategy** ----- 4.2%
- **Implemented Business Strategy** ----- 16.9%
- **Input and Helped Implement Business Strategy** ----- 50.0%
- **Full Partner in Development and Implementation** ----- 28.8%

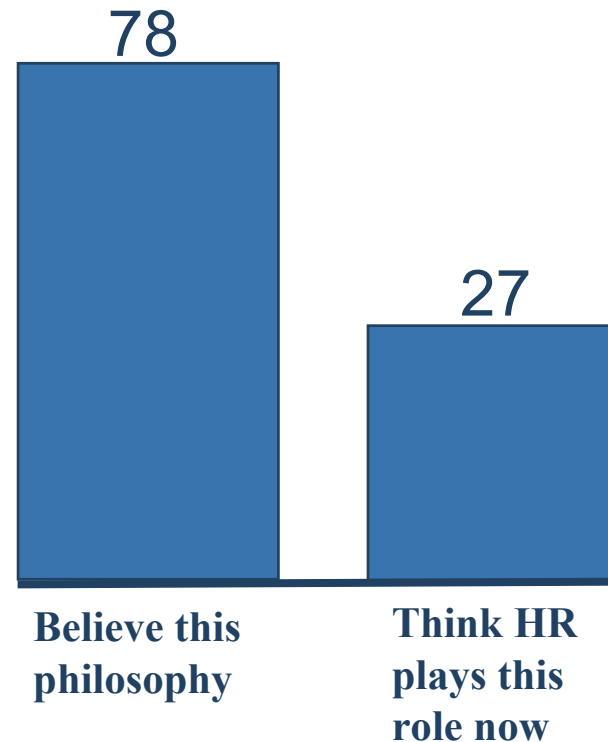
Percentage Reporting that HR is Business Partner

	HR Managers	Line Managers
All Industries	76	53
Manufacturing	76	61
Engineering/Design Services	55	52
Insurance/Finance/Real Estate	71	65
Health Services	85	56
Government	87	57

Based on SHRM/CCH Survey 1998

Percentage of Corporate Officers Who Strongly Agree

HR should be a partner to me
in my efforts to build a stronger
executive talent pool



Source: McKinsey War for Talent Corporate officers' survey

Extent of Contemporary Approaches

	<u>1995</u>	<u>1998</u>
❖ Shared Services -----	2.9	3.3
❖ Joint Line HR Development -----	3.3	3.3
❖ Decentralized Generalist -----	3.6	4.0
❖ Small Corporate Staff -----	2.9	2.8
❖ Some HR Activities by Line Managers -----	2.6	2.6
❖ Self-funding HR Services -----	1.7	1.9
❖ Rotate People into HR -----	1.8	1.9
❖ Rotate HR People out to Other Functions -----	1.8	2.0

Scale Response: 1 = Little or No Extent, 2 = Some Extent, 3 = Moderate Extent, 4 = Great Extent, 5 = Very Great Extent

Shared Services

	<u>Not At All</u>	<u>Some</u>	<u>All</u>
❖ Employee Record Keeping -----	17	48	35
❖ Recruitment and Selection -----	26	57	17
❖ Career Planning -----	63	32	6
❖ Organization Development/Design -----	41	42	16
❖ Legal Support -----	16	26	59
❖ Affirmative Action -----	21	42	37
❖ Union Relations -----	41	32	27
❖ Compensation -----	11	48	41
❖ Benefits -----	4	36	60
❖ Employee Training -----	22	66	12
❖ Management Development -----	24	61	15
❖ HR Information Systems -----	9	37	55

Effectiveness of Shared Services

	<u>Not Effective</u>	<u>Somewhat Effective</u>	<u>Very Effective</u>
❖ Employee Record Keeping -----	5	42	53
❖ Recruitment and Selection -----	5	51	44
❖ Career Planning -----	26	64	10
❖ Organization Development/Design -----	10	60	31
❖ Legal Support -----	3	20	77
❖ Affirmative Action -----	3	49	49
❖ Union Relations -----	2	26	72
❖ Compensation -----	0	43	57
❖ Benefits -----	0	33	67
❖ Employee Training -----	10	61	29
❖ Management Development -----	6	63	31
❖ HR Information Systems -----	10	61	30

Outsourcing of Human Resource Practices

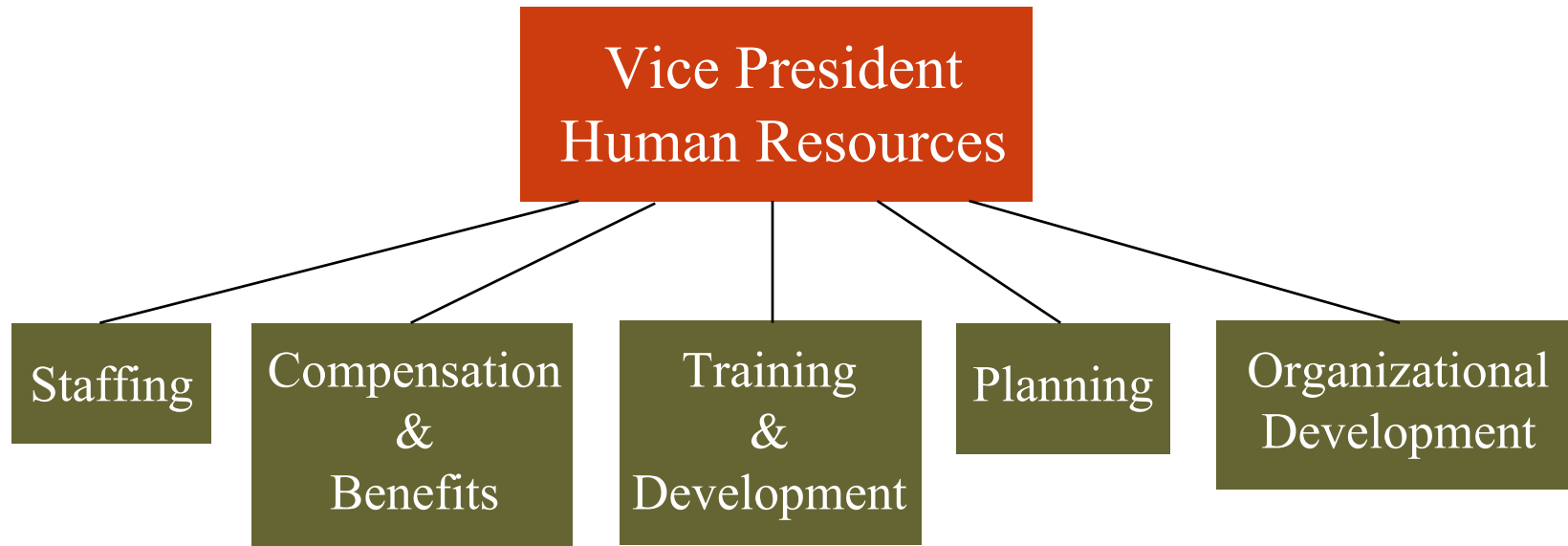
	<u>1995</u>	<u>1998</u>
❖ Benefits -----	71%	87%
❖ Employee Education and Training ----	63%	82%
❖ Employee Assistance -----	n/a	79%
❖ Legal Affairs -----	39%	60%
❖ Management Development -----	47%	60%
❖ Recruitment -----	38%	56%
❖ HR Information Systems -----	31%	55%
❖ Organization Development -----	34%	29%
❖ Strategic Planning -----	n/a	9%
❖ HR Planning -----	2%	7%

Outsourcing Problems

1998

- ❖ Services not as good as promised ----- 53%
- ❖ Resources to manage ----- 51%
- ❖ Cost higher than promised ----- 47%
- ❖ Managing contractors lack skills ----- 41%
- ❖ Contractors don't know company ----- 40%
- ❖ Switch to new outsources difficult ----- 37%
- ❖ Cannot have HR systems needed ----- 35%
- ❖ Negative reaction from HR employees ----- 32%
- ❖ Negative reaction from business units ----- 29%
- ❖ Negative reaction from employees ----- 29%
- ❖ Loss of competitive advantage ----- 15%

Traditional



Business Partner

Vice President Human Resources

Centers of Excellence

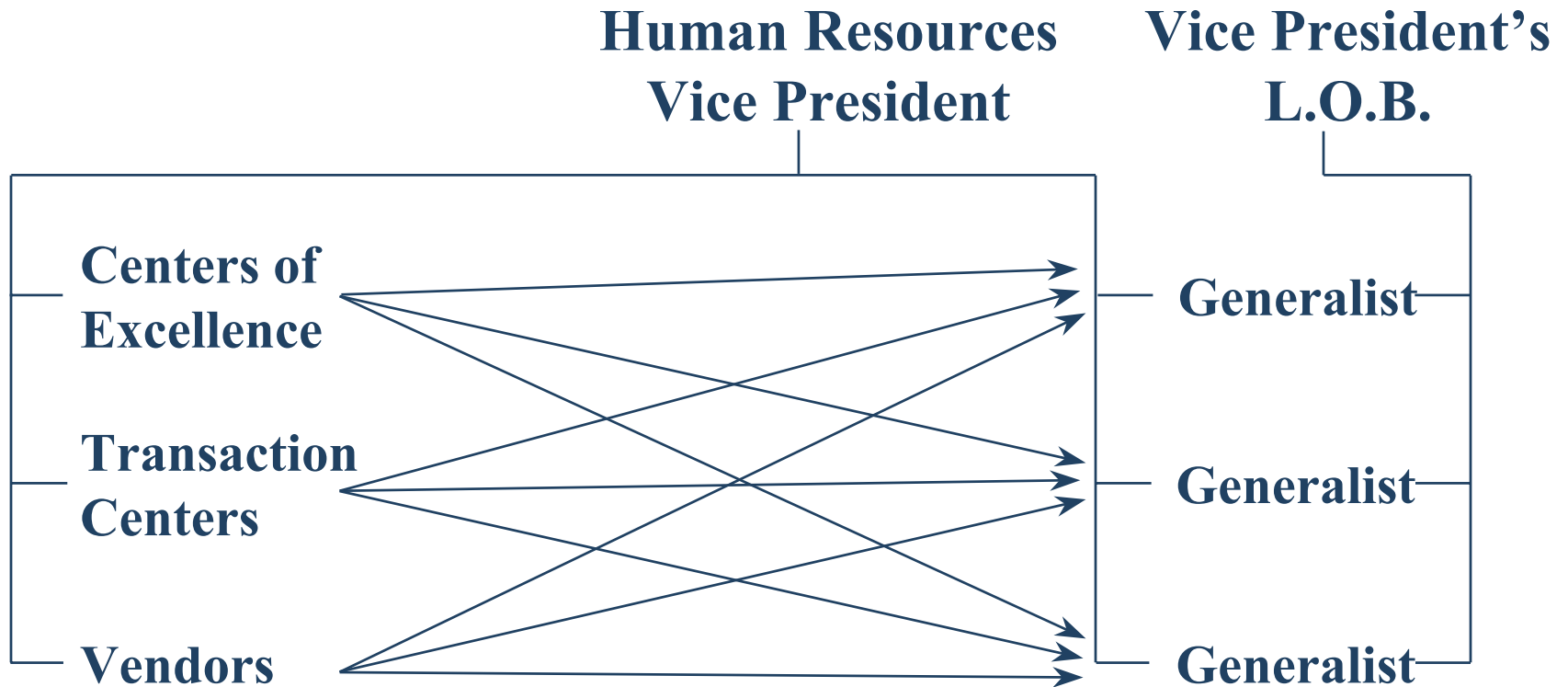
- Rewards
- Staffing
- Training & Development
- Communications

HR Generalists

Service Centers

- Information
Technology
- Claims
Processing
- Employee
Assistance

Front/Back Human Resources Structure



Front/Back HR Key Issues

- **HR Practices Fit/Integration**
- **Line ownership**
- **Corporate /Generalists Power Balance**
- **Generalists Going Native**
- **Specialists Going Corporate**
- **Purchase Outside**
- **Sell Outside**

Effectiveness and Time Spent

TIME

EFFECTIVENESS

Records	- .35
Audit/Controlling	- .20
Services	- .20
HR System Development	.15
Partnering	.44

Effectiveness and Activity Increase

Design & Organizational Development	.46
Employee “Care”	- .09
Employee & Management Development	.16
Recruitment & Selection	.17
Compensation	.07
HR Information Systems	.11
Performance Appraisal	.10
Career Planning	.07
Union Relations	- .14

Relationship of HR Process Automation to Effectiveness

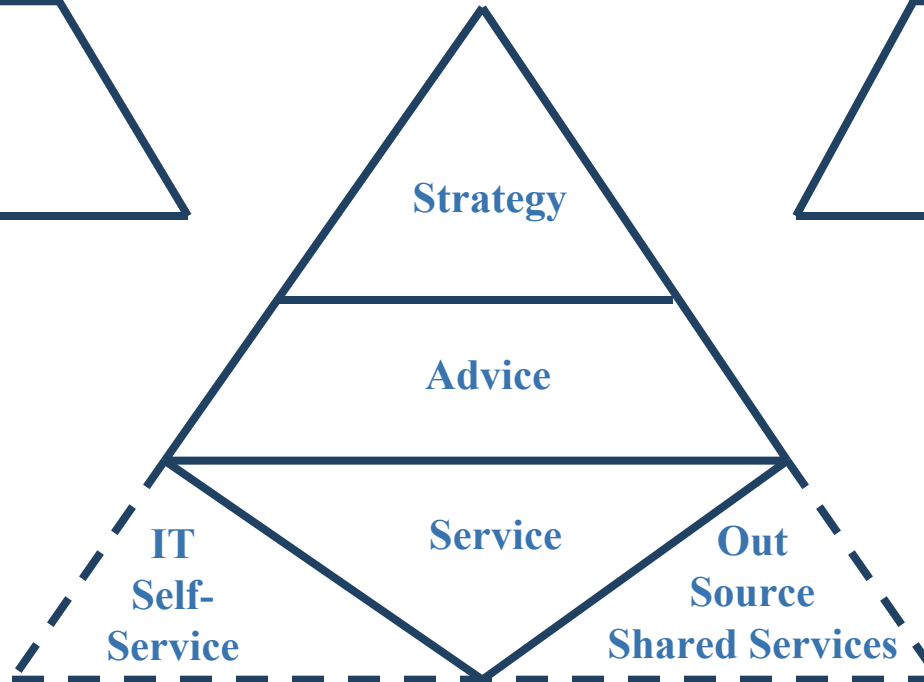
	MEAN EFFECTIVENESS RATING
Completely Integrated HR Information System	6.6
Most Processes are Automated but Not Fully Integrated	6.6
Some HR Processes are Automated	6.0
Little Automation Present in HR Function	6.4
No Automation Present	5.9
Response Scale: 1 = Not Meeting Needs, 10 = All Needs Met	

**eHR will free up HR to be
a strategic partner**

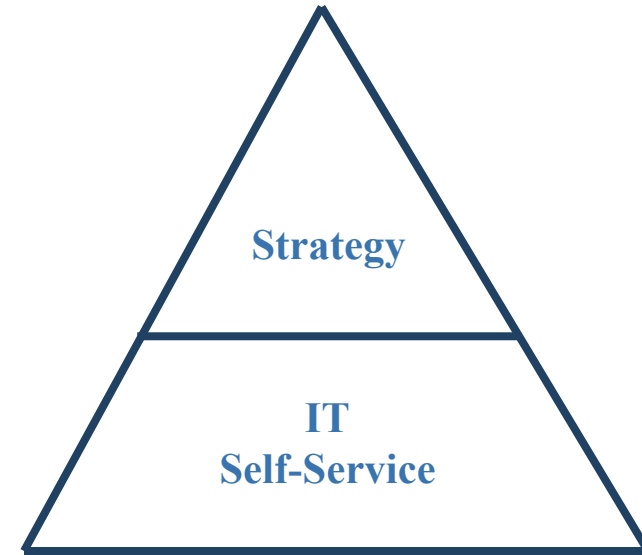
Old



New



Future



eHR will obliterate the HR function

**In five years HR will be part
of the IT Function**

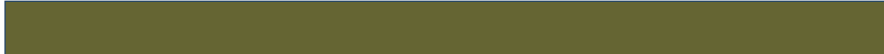





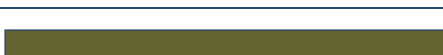


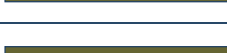
Computer Information Systems by Employees/Managers

	Computer Systems (Partial/Completely)	System Effectiveness ² (Very)
❖ Post Job Openings -----	86%	38%
❖ Salary Planning/Administration -----	72%	30%
❖ Change Benefit Coverage -----	76%	53%
❖ Change Address and/or Personal Information -----	61%	56%
❖ Apply for a Job -----	71%	24%
❖ Obtain Advice and Information on Handling Personnel Issues -----	46%	12%
❖ Performance Management -----	52%	21%
❖ Career Development Planning -----	41%	6%

¹ Scale Response: 1 = Not at All, 2 = Partially, 3 = Completely

² Scale Response: 1 = Not Effective, 2 = Somewhat Effective, 3 = Very Effective, 4 = Not Applicable

Percentage of Surveyed Employers Using Technologies for Various HR Applications

Corporate Communications	 78%
Benefits Information	 75%
Job Postings	 75%
Recruiting & Staffing	 69%
Retirement Planning	 57%
Benefits Enrollment	 56%
Performance Appraisal/ Management	 39%
Personal Data Changes	 38%
Total Compensation Statements	 25%
New Hire Orientation	 20%

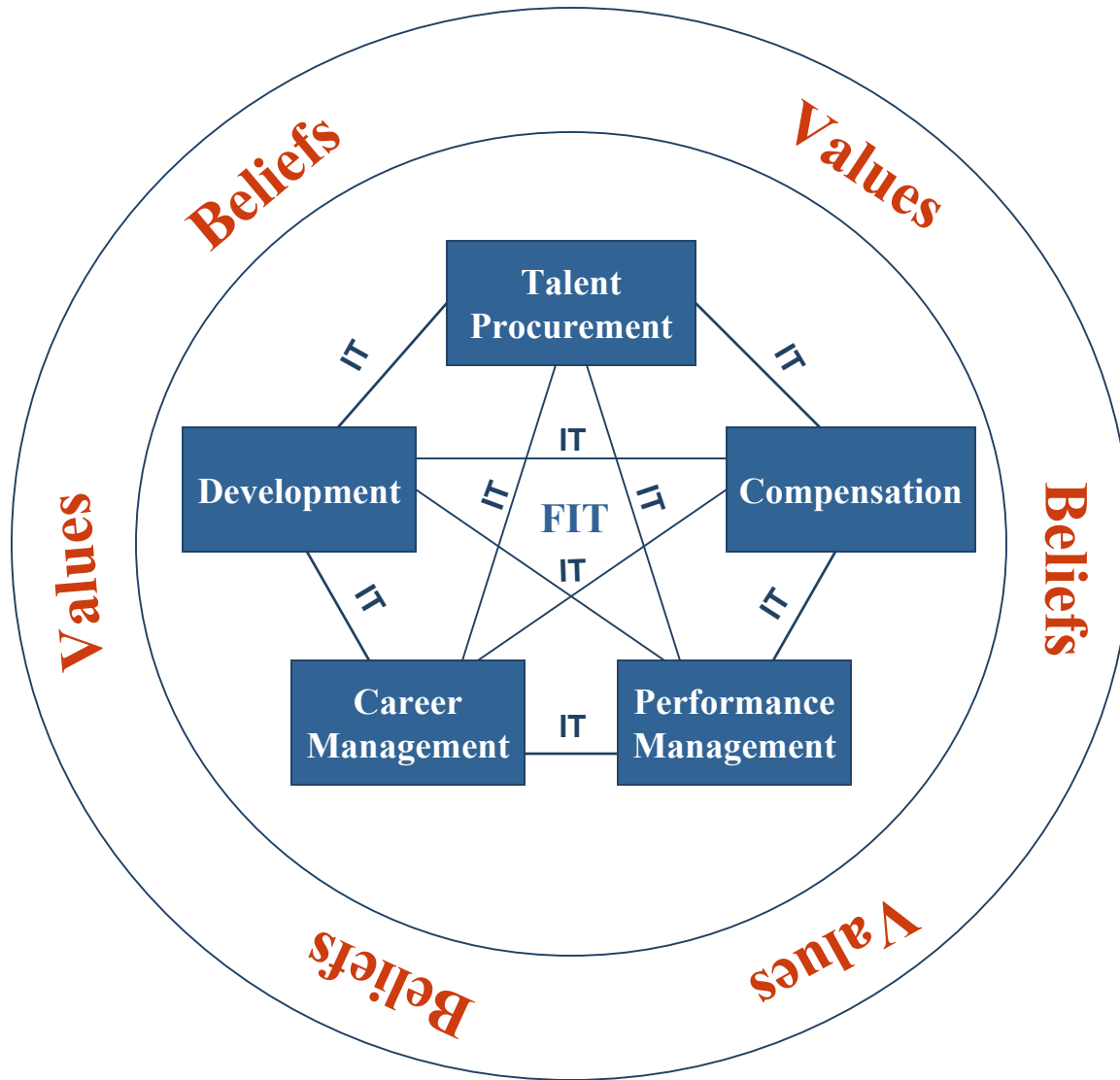
Source: Watson Wyatt 2000

Vision of Net-Enabled HR

- **Individual portals containing all of the key information needed to enhance productivity and satisfaction**
 - **Real-time business information**
 - **Knowledge management links to specialized expertise and communities of practice**
 - **Reinvented and personally tailored HR processes**
 - **Prompts triggered by life stage events**
 - **Cisco's travel reimbursement**
 - **Trilogy's reward choices**
 - **Real-time eLearning**
 - **Two-way employee communication**
 - **Productivity enhancing tools for managers and workers**

Vision of Net-Enabled HR

- **Intranet becomes the focus for strategically managing all aspects of the firm-employee relationship**
 - **HR links key processes**
 - **Linking competencies used for recruiting, skill development, promotions**
 - **Combines HR data with business data**
 - **e.g. relating employee commitment to customer satisfaction, productivity, turnover rates**



The Business Case for eHR- Short Term

- **Increase efficiency**
 - **Cut costs**
 - **Cut HR staff**
- **Enhance level of service**
 - **Better quality information**
 - **Flexibility of access**
- **Focus organization on core activities**

The Business Case for eHR- Longer Term

- **Foster organizational transformation**
 - Enhance employees' Net capability
 - Strengthen the B2E relationship
 - Save employees' and managers' time
 - Enable scalable growth
- **Enables managing people as a core competence**
- **Guides business strategy**

HR's New Capability Requirements

- **To deliver the strategic B2E vision HR will need to develop a new set of capabilities:**
 - **Enhanced understanding of the business strategy and processes**
 - **CRM and branding: internal and external**
 - **Data mining**
 - **Technology fluency**
 - **Building and managing effective strategic supplier relationships**
 - **Knowledge management**

Key Issues – eHR

- **Impact on Employees Commitment/Satisfaction**
- **Impact on Competitive Advantage**
- **Data Ownership**
- **Use of Push Technology**
- **Digital Divide**
- **Role of IT Function**
- **Development Approach**
- **Part of General Portal**
- **What is Done Best with Personal Contact**
- **How to Organize HR Function**

Approaches to eHR

- **Outsource**
- **Build Own**
- **Assemble / ASP Modules**
- **ERP Products**

Exult Model

- **Sell to Top**
- **Historical Cost**
- **Contract and Equity Position**
- **Process Analysis**
- **Process Changes**
- **Gainsharing**
- **eHR and Call Centers**
- **Transfer Employees**
- **Downsize HR**

Managing Dualities

Follower

—

Leader

Reactive

—

Proactive

Administrator

—

Strategist

Controller

—

Business Partner

Conscience

—

Business Person

Employee Advocate

—

Manager

Doer

—

Consultant