

# A new future for Human Resources

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## What is the problem?

Are you fed up with being told that HR needs to be more “influential” and to get a seat at the top table? It is now almost 15 years since Ulrich published *Human Resource Champions*<sup>1</sup> and it is my contention that, in large part, HR has failed to become a strategic business partner. To see this at its most vivid and obvious, look at the recent bailing out of the banks in the UK. The causes of the crisis are well documented, and most observers agree there was a systemic failure, but people operate systems, people run processes, people make decisions so to blame it on the “system” is an excuse and an abdication of responsibility. When asked what HR could have done to prevent what happened, Group HRDs at leading financial services businesses replied “would anyone have listened?” and “could we have done anything differently”?<sup>2</sup>

Of course things are always easier with the benefit of hindsight but there were some obvious and glaring failures from the HR community during this time. Reward systems were poorly designed and drove behaviour towards short-term outcomes; non-executive directors (NEDs) were clearly not up to the job, and most of those who were on bank boards leading up to and during the crisis have since been cleared out. Where was HR in all this? What role did it perform in the selection of NEDs and in the recruitment of “talent” among the Investment banks? What account was taken of competence as well as experience? Did HR assess leadership capability; the drive, influence and judgment of those sitting on boards? Crucially, was any consideration whatsoever given to the underlying personal characteristics and the danger signs that would point to possible excessive behaviour, greed and even a potential lack of integrity? It seems that HR simply lacked the ability to influence decision-making in the boardroom and was a mere recipient of senior management instruction.

There would appear to have been little real progress in the strategic contribution of HR in the past decade or so. In a recent survey of 135 HR professionals<sup>3</sup> asked to respond to the question “what are HR strengths and what does HR need to improve?” 66% of respondents considered HR’s strengths to be in the process areas and in keeping the company out of jail. In other words HR professionals themselves described HR as a compliance officer and protector of organisational interests. Fifty per cent of respondents stated that HR needed to improve its commercial understanding and 16% said that HR had to improve its strategic influence.

So have we failed to be strategic business partners? Yes — in a significant way. For while it is possible that we have tried to serve the interests of employees better, we have outsourced many of the services which employees value and, by so doing, have further disengaged them from the organisation. We have failed to grasp the opportunity to be the “partner for employees” in pursuit of business outcomes. Too often we have presented the employee “case” around engagement or employer branding as a “nice-to-have” rather than connecting this intimately with the strategic needs of the business and its owners.

## A new future

It is time for HR to create a new future for itself — a future that will work to create greater value for the owners of businesses, but in a way which puts the “human” back into Human Resources. This means that HR needs to proactively and fundamentally recreate itself to be in a leading position to balance the needs of business and the needs of employees. This is a dynamic role which will bear fruit when employees become true advocates for their organisation. Employee advocacy goes way beyond the superficial — using company coffee mugs, skip caps, polo shirts and the like. In practice, it is evident when, for example, employees actually buy the goods and services their employers provide.

This is where HR can create a new role, partnering on the people enablers of business strategy. This will be a more distinctive role for HR, one which will bring the human element to the processes and policies laid down by others. We all know about the failures of change programmes as a result of ignoring the human factor: the same may happen with the implementation of greater regulation in business. It is people who run processes. HR understands the ways in which people can work together to make processes and systems work. There is obvious business sense here. The route in is to identify and align individual and organisational needs. People want to be involved in and have direct control over decisions which affect them. At its most fundamental it is about people having choice over the decisions which affect them.

## How can we do this?

### *Set the standards*

#### **1 Every organisation must know its culture and values**

Define the culture and values of your organisation. How are these interpreted and given meaning to each and every employee? Our new “human” approach views employees as consumers in much the same way that a marketing approach would do. HR brings a method and structure to the system-

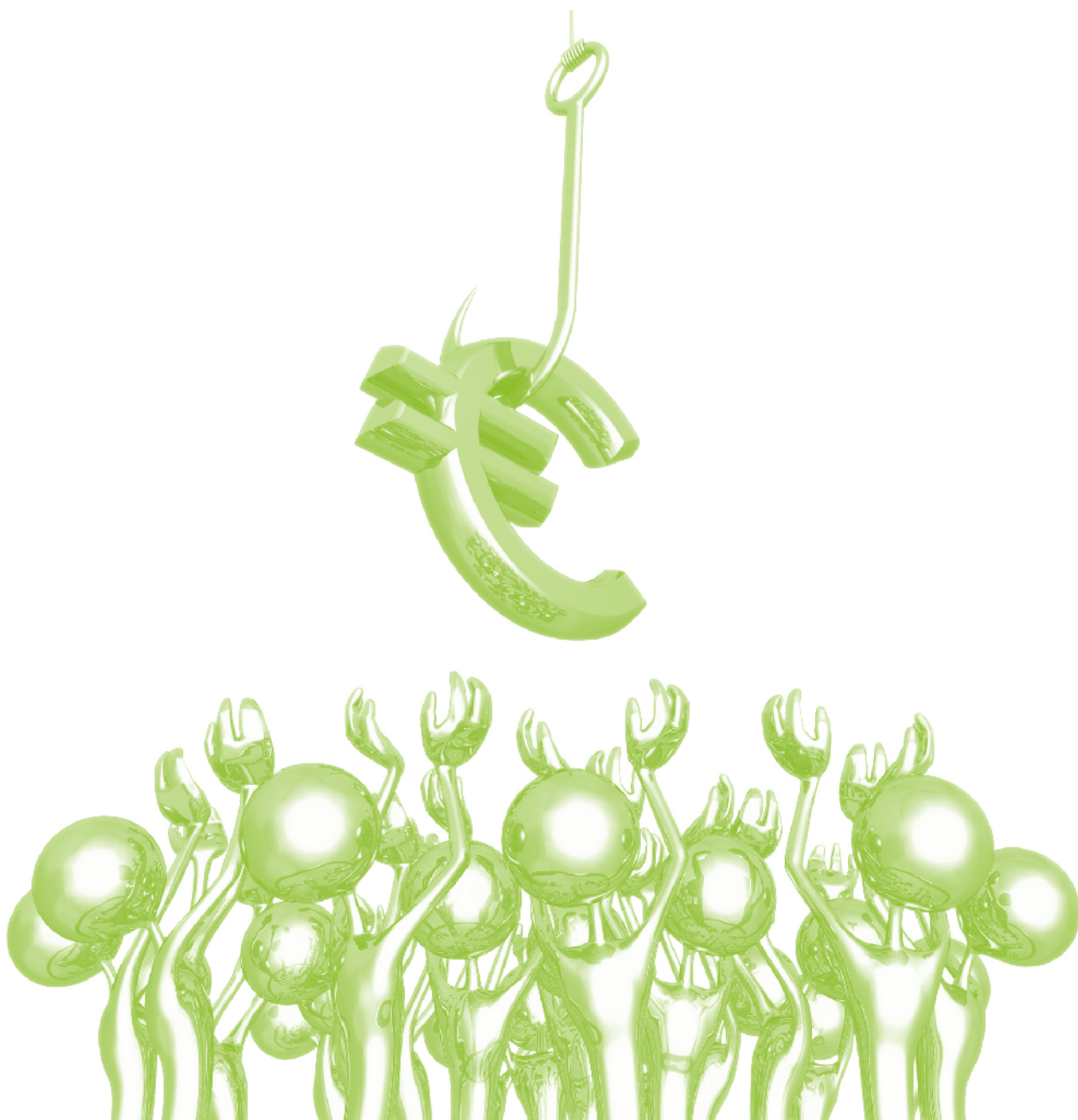
level data from engagement surveys and other sources such as exit interviews, but the challenge is to individualise this so as not to take a “one size fits all” approach. So, cut the data based on different groups who share the same (but different from others) values and needs.

**2 Identify and rigorously assess the strengths needed for organisational success**

Increasingly within organisations a “strengths based methodology” is being applied in companies such as retailers, banks and transport groups. Thanks to the work of Seligman<sup>4</sup> and the positive psychology movement, the business case for happiness and a positive focus on strengths has been established. People’s sense of themselves, ie who they are, can be a powerful motivator. Enabling all employees to become self-aware and to understand their

unique blend of talents provides a real point of connection between the individual and the organisation.

At the other end of the spectrum, HR needs to ensure that the company values are reflected in the standards set, and that these apply to everyone, including the executive team and the board. A clear factor in the run-up to the bailing out of the banks was the poor performance of non-executive directors. HR now needs to step into this space and set out the requirements for success. Define the capabilities required (linked to your organisational values) and rigorously assess these both prior to director appointments and also as part of your appraisal of board effectiveness. Insist on independent profiling of executives and NEDs as part of this process and do not leave it all to the headhunters (who recruited the ineffective boards in the first place!)



### 3 *Be the independent voice and hold up a mirror*

External regulation is increasingly seen as the answer to good governance in organisations, be they banks, oil companies or utilities. Governments are seeking to curb excess, protect the environment and consumer rights. Within our organisations HR can provide an independent voice by holding up a mirror to the CEO and executives. Before appointment HR must assess potential areas for concern which may lead to derailment. Once the CEO or executive is in post, use this data to further build the relationship and to develop and maintain the “right” behaviours. This is not about reckless challenge or falling on swords but it is about learning how to influence better, knowing which battles to fight and how to build alliances. Clearly, to influence effectively at this level, HR needs to be deeply commercially connected to the business, as well as having a real, deep appreciation of the drives and motives of the CEO (and negotiation skills training can be useful too!).

### 4 *Ensure simplicity in reward systems*

A great deal has been written recently about reward and bankers’ bonuses in particular, but as one CEO I interviewed put it, “quantum is not the issue”. The real issue now for reward systems is to make sure that they clearly show the connection between output (specific and measurable value-add to the owners of the business) and input (behaviour of the person). The performance management process must ensure that these links are transparent and obvious. Clearly articulating business outcomes, balancing these in a scorecard, and ensuring rigorous assessment and feedback are the core elements of any reward system. HR now needs to rediscover the simplicity of reward and make sure that unintended consequences are mitigated. After all, the recent practice of rewarding people for sales volume with little link to risk or profitability went a long way to help create the banking crisis in the first place.

## Looking to the future — the emotional connection

This is really about setting the record straight, or getting the HR house in order. The real opportunity for HR in future is to help employees engage emotionally with the organisation’s purpose *in a way that makes sense for the employee* not just for the organisation. All good HR gurus and business strategists will tell you to make sure that your HR policy and practice is aligned to the strategy of the business. HR now needs to take a whole systems view of all its areas of impact and connect that activity together in a way which is clearly seen to be pulling in the same direction to deliver organisational outcomes.

With respect to employee engagement current practice leaves a lot to be desired. Take employee engagement or

satisfaction surveys, for instance. Many surveys would appear to be badly designed and only answer the questions that are important to the organisation. These offer little real insight into the drives and motivations of employees. Others are better designed but still come at things from one view point only — that of the organisation. The best surveys are those that have a clear research base, with data showing the link between high scores for engagement and higher levels of productivity.

Taking the *emotional* aspect of employee engagement into account is key. Employees tend to stay with their organisations when they believe it is in their self-interest to do so, but they exert discretionary effort when they believe in the value of their job, in their team, or their organisation — and these beliefs are underpinned by strong emotions. In fact, emotional commitment is four times as valuable as rational commitment in increasing effort levels.<sup>5</sup> This is the area where HR can, in my view, make the biggest shift and add the greatest value to organisations going forward. Our ability to connect with the emotions of employees in a way which makes sense to them and which crucially answers the question “what’s in it for me?” is where HR should put much greater effort. As one leading HRD put it, the acid test is: “does the organisation feel like home?”

HR must seek to really understand where individuals experience meaning and not impose organisational assumptions. One example from a financial services business going through major transformation showed that engagement with the company fell to an all-time low, whereas engagement with the customer remained high. Clearly the company was getting a lot wrong and did not really understand what was motivating its employees.

## HR’s new role

Our new “human” role for HR is to ensure that all employees can experience meaning at work. Starting with a strengths-based approach enables people to understand what they bring and what is important to them. HR can equip business to draw on the individual needs and strengths of people and to integrate these into business agenda. This kind of approach will change the demands on line managers. Now line managers must support an individual’s belief in him or herself through praise and constructive feedback and connect this with a belief that what the organisation is doing is right. This will build pride for all employees. Ours is an enabling role; one which can be liberating for the HR function as we bring a fresh view. We need to work with all stakeholders in business to build a belief in creating a better future and making a difference through our work. We perform at our best when we have a strong belief in the people who lead us and those who are all around us.

## Can we accelerate progress? Do we have what it takes?

Looking at HR capability, it may seem that we were poorly prepared to deal with the seismic changes in the global economic landscape, but the same is also true of other functions. HR urgently needs to improve its commercial understanding of the economics of business and of the added value which a better understanding of individual motivation and engagement can bring. To make HR fit for the future we need to improve the quality and commercial relevance of programmes in HRM provided by the CIPD and universities.

So there is a broader role for HR within business. There will be greater regulation but HR must move beyond simply being a compliance function that makes people tick the box. We need to rediscover our knowledge of human relations and the processes of decision-making to enable business to do the right thing. We need to become designer and developer of organisational cultures where doing the right thing becomes second nature. And in the end that comes down to culture, values and the way people behave.

## How do we do this?

- Clarity on our role and our purpose is the start. Of course we need to know how our organisation makes and/or spends money, be commercially connected, use the numbers and so on, but so too must engineers and accountants and lawyers. A new form of HR needs to do all those things and more. HR brings a different perspective, one which understands the needs of people. What is different about the new HR is that we bring the human approach to life.
- To deliver our purpose HR can proactively and constructively challenge. We can intervene in the system most effectively when we are strengthened by a clear set of personal values and real courage.

HR may well be at a tipping point. We have the opportunity to create something new and different, or we could revert to licking our wounds and business-as-usual. Our focus must shift from simply trying to avoid and recover from the failures of the past to one which is about contributing in a different way. We must move on from our recent apologetic mindset to one which is stronger and more influential. What this new contribution may look like is up for grabs but there's no doubt that something different is needed.

My earnest hope is that in future HR will be the governance champion for employees, ensuring that organisations are always ethically managed for the benefit of all stakeholders. We will do this by bringing clarity on organisational and individual values and

ways to align them. This will involve taking a more individualised approach, identifying the strengths and motivation of people, connecting these with the organisation's requirements through line manager coaching and expectation setting and feeding back through a performance management system. In this way we might get closer to being able to enable meaning at work in ways which are important to individuals. This may well be a once-in-a-generation opportunity so join the debate!

## References

- <sup>1</sup> Ulrich, D (1997) *Human Resource Champions*, Harvard Business School Press.
- <sup>2</sup> McCafferty, S (May 2010) "HR Directors, could they have saved the banks?" *HRNetworkMagazine*.
- <sup>3</sup> McCafferty, S (May 2010) "What lessons can HR learn from the banking crisis? Implications for new models of practice", Presentation at Caledonian Business School conference.
- <sup>4</sup> Seligman, E (2003) *Authentic Happiness*, NB Publishing.
- <sup>5</sup> Corporate Leadership Council, (2004) *Driving Performance and Retention Through Employee Engagement*, Corporate Executive Board.

## Points to ponder

- How much do you think HR should be leading the debate about executive pay and bonuses? If you think HR should, how much is this happening in practice in your experience?
- To what extent do you agree that HR should be seeking to improve board governance by, for instance, improving non-executive selection processes?

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