



A New Approach to Global Human Resources Transformation

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Introduction

In response to changing business demands and the evolving role of HR, this article focuses on a new global Human Resources (HR) transformation approach along the following lines:

- Making the case for business-driven HR due to talent challenges on the business agenda and C-suite's demand for a strategic HR "partner,"
- Providing an overview of a business-driven HR transformation approach, which focuses on understanding the key business priorities and driving consensus with executive leadership,
- Aligning the key components that underpin a successful business-driven HR transformation:
 - The CHRO with the C-suite,
 - The CHRO mandate with the business strategy and plan,
 - HR services with what the business needs and wants, and
- Presenting a case study of business-driven HR transformation in action and the value added to the business.

The Case for Business-Driven HR

People issues are forefront on the business agenda

People and talent issues are widely recognized as critical to business success in both good and bad economic times. As the economy worsens, people issues such as workforce management, retention, organization restructuring, and employee engagement are often cited as the executive committee's top issues. As economies recover, business issues related to recovery such as building workforce strategies that are based on workforce trends and demographic shifts, entry into new and emerging markets, globally mobile workforces, and ever-changing risk and threats become top priorities. In either case, HR leaders are being asked to ensure that their priorities, organization, resources, and budgets are aligned with the business issues. In HR organizations today, there is no such thing as business as usual.

HR transformation as the tool for HR organization change

Most HR executives see HR transformation as the vehicle they can use to refocus their HR organizations on the right business issues and to deliver services in an efficient, effective, and compliant manner. Deloitte¹ recently conducted an HR Transformation survey of 150 global companies each with more than US\$2 billion in revenue. The results showed that more than 84 percent of respondents are either currently transforming HR or are planning to do so. For many years, companies have been striving to "transform HR" by improving the efficiency and effectiveness of HR operations. However, operational excellence is just a starting point for HR transformation — a part of an effective, holistic transformation.

The majority of survey respondents still hold a view that is based on the pyramid model in which most of the work that HR does is administrative in nature. This defined the traditional view of HR transformation, with significant focus placed on initiatives such as process standardization, implementation of standard HR systems and tools, and the formation of a shared services organization to deal with HR operations. As a result, most companies that adopt this strategy and approach are focused on cost savings in an area that accounts for less than one percent of corporate revenue. It is a long and indirect way for HR to help support their company's business strategy. What most companies really need is for HR to help tackle the business issues that they face today. By transforming HR administration and operations, HR resources can be freed up to deal with more strategic business issues.

Very few respondents to the Deloitte survey indicated they are transforming HR so that it can become a strategic business "partner." Only 35 percent cite building HR capability as a transformation driver, and even fewer (30 percent) said transformation is driven by the need to free HR to undertake a more strategic role.

People issues are clearly now dominant on the business agenda, but as these issues become more important to business leaders, there is increasing tension between the needs of the company and HR's ability to deliver.

The C-suite expects alignment from a strategic HR "partner"

At the same time, when they look to the future, C-suite executives in general, and HR leaders in particular, want the HR function to focus on business issues. When Deloitte Touché Tohmatsu and the Economist Intelligence Unit surveyed 531 HR and non-HR executives in 2007, the vast majority of them (82 percent) reported they expect HR to be perceived as a strategic, value-adding function within the next three to five years — not just as a cost center. Yet only 23 percent believed HR currently played a crucial role in strategy formulation and operational results.

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We see this as a call to action to align HR with the business.

An Overview of Business-Driven HR: A New Approach to HR Transformation

Strategically thinking with the business end in mind

Companies need to take a new, meaningful look at HR transformation. The term "HR transformation" has too often become synonymous with implementing new technology, centralizing administration, or transitioning to business process outsourcing. However, these efforts alone will likely fail to produce the desired results for the business.

As we establish the importance of HR's strategic role in supporting the business, the approach towards HR transformation must be redefined. A transformation begins with understanding both the execution expectations and the strategic requirements of the business. This is the main differentiator of the new approach — strategically thinking with the end in mind, engaging the business up-front to identify the main business drivers behind the transformation, and ensuring business leadership commitment and support for the transformation.

Focusing on the right business priorities

To transform, the first thing HR must do is confirm that it is focusing on the right priorities and building programs that are meaningful to the business. If the HR function at large is not focused on the right business needs and delivering meaningful services, then changing HR service delivery models will not lead to the desired outcomes. This new business-driven HR approach reduces the risk to HR of proceeding toward a transformation without a plan that focuses on the services that the business needs and wants.

Building consensus with business leadership

Achieving success also requires building consensus — consensus with business leadership that the HR vision, services, and delivery model are aligned to their needs, and consensus within the global HR organization about the plan forward. To create a successful transformation, consensus must be obtained at a high level within the company — at the C-suite.

By focusing on business needs and developing a clear set of priorities, the proposed approach should set the stage for success. This up-front effort to create business alignment, consensus, and a solid implementation roadmap should yield better long-term results for the transformation. It is critical to conduct this strategic HR service prioritization in the beginning to identify the key HR services to provide to the business.

Done right, business-driven HR transformation delivers an HR function that is both operationally sound, and even more importantly, completely aligned with a company's strategic objectives — whatever they may be. At the same time, HR services are delivered at lower cost and in a more compliant manner. HR is also better positioned to meet the changing business demands in this volatile economy.

Aligning HR with the Business

Are the right types of conversations taking place between HR leaders and business executives? Is HR strategically aligned with the business objectives? What is HR's role in adding value to the business?

The biggest risks boards face are in managing unprecedented challenges in strategy, execution and regulatory adherence.

Business-driven HR transformation strives to answer the preceding questions and to align the following key components of HR with the business:

1. The chief human resources officer (CHRO) with the CEO and other members of the C-suite,
2. The CHRO mandate with the company's business strategy and plan, and
3. Ensuring that HR provides the services that the business needs and wants.

These are the basic guiding principles that underpin business-driven HR.

1. CHRO, a trusted advisor in the C-suite

The biggest risks boards face are in managing unprecedented challenges in strategy, execution and regulatory adherence. At the base of these opportunities and challenges: talent. There is a growing need to recruit high-value talent, develop leaders, deploy these leaders effectively, and retain talent as one would protect any large, strategic investment. These issues are relevant in both good and bad times.

This set of challenges creates an opening for the CHRO to step up as a strategic leader, advising directors and the chief executive officer (CEO), and collaborating with members of the executive team. Hence, the critical drivers of HR transformation should stem from a keen understanding of these business challenges that are on the top of mind of C-level executives.

Can the role of the HR leader be re-aligned with the needs of the organization? Yes, if the CHRO becomes a strategic advisor with strong knowledge of the business strategy first and an overseer of administrative processes second. To enable effective relationships with the C-suite, CHROs must ask themselves these key questions:

- What do C-suites do and what challenges do they face?
- Why should I, as a CHRO, establish relationships with the C-suite? Why do I need or want to?
- What would a relationship with the C-suite give me as a CHRO? What would it give the C-suite?
- Why should the C-suite want to establish a relationship with me, as CHRO?
- What key strategic issues do I believe the C-suite needs to be aware of?
- How can I distill key messages in a way that engages the C-suite most effectively?

With the right knowledge and by focusing on the critical business priorities, the CHRO will be ideally positioned to stay current on board governance trends and to guide C-level executives through the critical HR transformation journey. CHROs should be confident that they have know-how that is rare and valued by others. If the CHRO can master human resources while also understanding the business strategy, the industry, the market, the competition, and the regulatory environment, then he or she is ideally poised to be a trusted advisor in the C-suite to present people strategies and decisions around HR transformation.

2. CHRO mandate aligned with the business strategy

To better position themselves in the C-suite, CHROs have been creating or re-shaping their HR mandates to align with key business value drivers. They are striving to speak HR with the right business language.

To enhance a strategic HR function, CHROs need to show how HR creates business value by directly linking the HR strategy to the company's business strategy and plan. Most HR strategies should focus on three key areas (see Figure 1):

- Supporting the company's strategy and plan to grow revenue,
- Ensuring that there is a supply of people with the right skills, competencies and experience, and
- Delivering HR services in an efficient, effective and compliant manner.

The strategic CHRO should shape the HR mandate according to the business plan, address talent-related challenges facing the business, and lead HR transformation efforts in accordance to key business value drivers.

In our survey, business and HR executives cited the need for the HR function to address emerging strategic business issues.

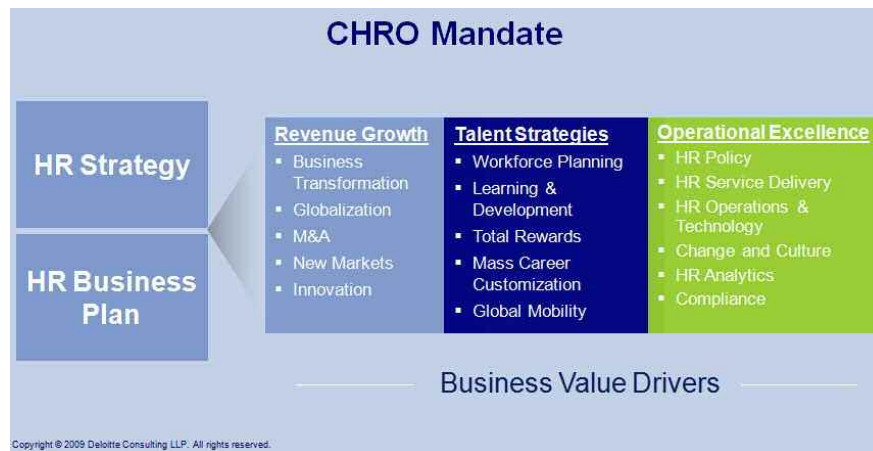


Figure 1. CHRO Mandate.

3. HR services delivered according to business needs

After aligning the CHRO with the C-suite and the CHRO mandate with the business strategy, the next step to truly transform HR into a strategic function is developing the people-related capabilities that the company needs to compete and grow.

In our survey, business and HR executives cited the need for the HR function to address emerging strategic business issues. These days, HR must do more than process paperwork and administer benefits. It must identify the strategic people challenges that are most likely to undermine a company's business strategy, and then develop solutions to overcome them.

This new role requires HR to take on a variety of new responsibilities: anticipating critical workforce trends, helping to shape and execute business strategy, identifying and mitigating people-related risks and regulations, enhancing workforce performance and productivity, and offering new HR solutions and services to help the company grow. These business value drivers are what spark meaningful HR transformation.

HR plays a key role in supporting the business to tackle today's top business challenges and we have identified some challenges that businesses are facing and examples of how HR can help (see Sidebar on page 27). By effectively aligning HR initiatives to support these target areas, HR should be able to add significant value to the business.

Business Driven HR Transformation: A Case Study

Recently, Deloitte assisted a global company with their business-driven HR transformation initiative. The company had been traditionally run as a diversified holding company with HR focused on the business needs of each business unit. Many of the business units were country-based. The company's new business strategy was to increase revenue by focusing on the company's biggest and best customers and developing new products and services to meet the needs of those customers. The company needed the flexibility to change, reorganize and reconfigure itself much like someone moving the squares of a Rubik's cube. And it could not do so without the flexibility around people issues such as policies, processes and operations. HR's goals were to provide a measurable contribution to the company's growth and profitability and to provide greater access to HR services, resources, and information to focus on the more effective deployment of talent for business growth.

The business-driven HR transformation approach was used, which focused on:

- Engaging the business leaders up-front to understand the key business challenges and developing a prioritized list of HR services to transform to make sure that HR is delivering the services that the business needs and wants,
- Building consensus among the C-suite and obtaining executive buy-in for the transformation roadmap,
- Incorporating effective practices in HR, HR transformation, HR service delivery and business transformation in general,

The company's new business strategy was to increase revenue by focusing on the company's biggest and best customers and developing new products and services to meet the needs of those customers.

- Building from existing knowledge and lessons learned from past and present HR and non-HR initiatives,
- Integrating critical principles of change management, cultural change and communications that are often central to the success of a transformation, and
- Focusing on delivering high value and high impact as quickly as possible.

Business challenges	How HR can help
Sustained revenue growth	<ul style="list-style-type: none"> • Help business achieve growth strategies and targets through organic growth, mergers and acquisitions, etc. • Identify talent strategies for entering new markets and predict talent requirements • Identify new talent sources to support growth, and quickly source the most effective talent anywhere in the world and deploy it wherever it happens to be needed • Refocus the HR function on supporting high-growth business units
Profit growth (& cost reduction)	<ul style="list-style-type: none"> • Manage the change process associated with cost reduction initiatives to minimize productivity impacts • Help business evaluate and implement outsourcing and off-shoring strategies • Protect the organization's ability to attract and retain top talent • Provide cost effective and efficient HR services and continue to focus on reducing HR's own operating costs
Strategy execution capability	<ul style="list-style-type: none"> • Anticipate potential leadership gaps and develop a pipeline of top talent • Build "execution capability" into leadership development programs • Develop effective processes and tools for moving leaders between countries and across functions • Serve as a strategic partner to the business
Speed, flexibility, adaptability	<ul style="list-style-type: none"> • Align performance and rewards with speed, flexibility, and adaptability • Create tools, approaches, methodologies, and communications to reinforce a culture of speed • Continually optimize HR processes and service delivery
Customer loyalty/retention	<ul style="list-style-type: none"> • Assess employee loyalty/retention and its potential impact on customer loyalty/retention • Understand customer acquisition and retention strategies and ensure HR programs (e.g. incentives, performance, learning) are aligned

Business-driven HR transformation approach

Figure 2 is the high-level business-driven HR transformation approach that led to the definition of the HR transformation roadmap.

Throughout the process, the business leaders were continually engaged to ensure they were onboard with the transformation. Their input was actively solicited in shaping the direction in which HR was heading — ultimately as a strategic partner to the business that is proactively driving business value.

Talk

With a focus on business – HR alignment, key business leaders were interviewed to understand the business strategy and plan and prioritized HR services and resource priorities. A comprehensive list of prioritized HR services was created, which forms the basis for the HR strategy.

Listen

Regional workshops with field HR managers and key business stakeholders

The implementation roadmap and budget, future state HR operations budget, and business case were developed and a socialized plan with key stakeholders, including business leaders and steering committee, was presented to the executive committee for approval.

were held to obtain current state data on current services, head count, technology, vendors and budget to identify areas of opportunity.

Define

A global workshop was conducted to validate the list of prioritized HR services and to envision the future state. Future state HR service delivery model, HR organization model, and HR technology roadmap were created and socialized with business executives, field HR, key business stakeholders and steering committee.

Plan

The implementation roadmap and budget, future state HR operations budget, and business case were developed and a socialized plan with key stakeholders, including business leaders and steering committee, was presented to the executive committee for approval.



Figure 2. Business-Driven HR Transformation Approach.

Adding Value to the Business

The results from the business-driven HR approach are meaningful to the business as the HR and business objectives and expectations have been aligned from the start. The outcomes also reflect a strategic view of the long-term business plan; hence the results are long-lasting.

The business and HR are aligned

The HR strategy facilitates business and HR alignment, such as building the capability to perform effective global workforce planning and linking the planning efforts to talent management plans and requirements.

The new model supports cultural change

The new model provides prioritized HR services that drive business value, helping HR to build credibility and trust throughout the business.

The new services model enables revenue growth, talent and operational effectiveness

The HR strategy explicitly states what services HR will provide to support revenue growth. This includes support for new markets, mergers and acquisitions, new product development and innovation. By building HR capabilities to focus on high-growth markets, talent can be quickly and effectively sourced as needed. HR can also partner with the business to evaluate various outsourcing or off-shoring strategies to reduce cost.

Effective cost and value drives are understood

The new HR organization and service delivery model is in line with the business revenue and operating models. HR's cost reduction efforts are coordinated with tax, finance, and other enterprise cost reduction efforts to help maximize effectiveness.

New business challenges are forcing CHROs to re-evaluate their role and how they can best position the HR function to make sure that HR has an active role in implementing business strategy.

Global design supports local compliance

The new model supports development of capabilities to ensure local compliance of workforce regulations in all geographies.

Embarking on a New Business-Driven HR Transformation Approach

New business challenges are forcing CHROs to re-evaluate their role and how they can best position the HR function to make sure that HR has an active role in implementing business strategy. Business leaders are increasingly expecting HR leaders to be strategic, executive-level advisors, mobilizing HR to support key business drivers.

HR transformation must begin with understanding business priorities and initiatives, then aligning the HR organization and its services, programs, resources and policies toward those objectives. Instead of focusing primarily on HR operations and administration, it focuses on creating business value by aligning HR's services and capabilities with a company's strategic needs and priorities. As such, it affects nearly all aspects of the business, from human resources and technology to real estate, risk, compliance and tax.

HR must deliver the HR services needed to support the organization's business strategy, which most often focuses on revenue growth, talent and operational effectiveness. The HR organization needs to make sure that they are doing the right work and that the work is done at the right level within the organization — by the right HR role, at the right location, through the right delivery method, which should lead to improved alignment with business goals.

Today's CHROs are positioned to lead as never before. Now is the time to act on this extraordinary opportunity with vision and courage.

Endnotes

1 As used in this document, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

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