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How strategic are you? The six "killer" questions

Are you really operating at a strategic level? Put yourself to the test

HR has evolved considerably in recent years. But are you rising to the new challenges of strategic HR and human capital management? Paul Kearns examines the six critical questions that separate the pretenders from the genuine strategic article.

HOW MUCH HAS HR CHANGED over the years? The labor and welfare officers of the early 20th century became, through several transformations, the personnel managers of the 1960's and 1970's. These personnel professionals then became the HR professionals of the 80's and 90's. Now a further transformation is supposed to be underway, from HRM to strategic HRM and even towards HCM (Human Capital Management). Any independent observer could be forgiven for asking whether all the name changes have just been cosmetic or if they signify any real, substantive differences?

The UK's Accounting for People Taskforce[1] described HCM in their long-awaited report as "an approach to people management that treats it as a high level *strategic* (my emphasis) issue and seeks systematically to analyze, measure and evaluate how people policies and practices create value." This may still not look as though it heralds any significant new departure but there is one key difference: when they refer to "value," they mean value with £/$ signs. So, those wanting to become the first generation of HCM professionals have to be strategic and need to be able to demonstrate their real value in tangible form.

This article examines how strategic *you* are and whether you're positioned to take up the challenges that HCM now represents. You'll be asked to gauge your own progress through a series of questions. Questions that sort the real, strategic McCoy from the pretenders. These searching questions are taken from a list of over 60 that I've developed over the last 12 years as a strategic HR measurement specialist. However, the following six can be regarded as the critical "killer" questions.

Q1. Do you treat your people as a source of strategic, competitive advantage?

This first question is absolutely fundamental to HR strategy. Do your chief executive and the board view your people as a source of strategic, competitive advantage? What chief executive would dare to say no; whether they truly believe it or not? But how can we gauge whether their answer is genuine or just rhetoric?

How about a bank, for example? Does it see the way it manages its people as having a significant influence on its long-term, cost/income ratio? Obviously, if it views its people as just a cost or overhead, then it will only look for ways to reduce the cost part of the equation by keeping a close eye on headcount. But if it views its people as a source of competitive advantage, it will be seeking to ensure each and every employee is thinking about how they can continuously influence cost/income ratio; by increasing revenue as well as reducing costs. Moreover, if it's really serious about getting the best out its people it will be putting systems in place to do exactly that, from initial recruitment systems right through to improvement systems, problem solving systems and idea generating systems. Perhaps we can now start to discern the world of difference between what organizations say and what they do when it comes to HR strategy.

For example, in 2001 the chief executive officer of one of the largest banks in the world asked his global head of learning what the bank was getting for the UK£100 million they spent each year on training and development. Is this the question of someone who is seeking a competitive advantage from people? Or someone who sees training and development as a "necessary evil" but is losing confidence in what it has to offer? Whatever their view, it's a signal that such business leaders are now starting to demand clearer answers on the return on their investment in people.

This CEO was obviously not convinced the company was doing all it could to get the best value from its people. An HR strategist might suggest that while his concerns were valid, he might only get the better answers he deserved if he was prepared to completely review his own thoughts, preconceived notions and position on the most effective way to manage human resources.

Q2. Are you above the line?

Either you consciously try to gain a competitive advantage from your people or you don't. My experience as an HR measurement specialist has taught me that most organizations tend to fall into one of two camps. The two camps in question are shown in Figure 1 (above right), but divided by a dotted line. This is a crucial demarcation line; organizations above the line are consciously seeking a competitive advantage through the way they manage their people, while those below the line seek only to administer and manage their human resource in a very limited way. The line delineates two fundamentally different perceptions of the value of people. Those HR functions operating in organizations above the line can start to design effective HR strategies to fully develop human performance potential. Those below the line will always be restricted to reactive, transactional and primarily low value, administrative, HR activity.

In order to help you answer the question of whether you're operating above or below the line here are some additional indicators:

Above the line	Below the line
People provide a competitive edge because the organization manages them better than their competitors	**The principal perception is people are a cost or limited resource**
HR is strategic, innovative and well respected for helping the organization move forward	**HR is a maintenance and support function with a limited remit**
HR uses direct business measures (cost, revenue) to gauge its effectiveness	**HR measures HR activity – training days, recruitment costs etc.**
HR consciously and explicitly adds value	**HR manages cost**

Figure 1. Are you above the line?

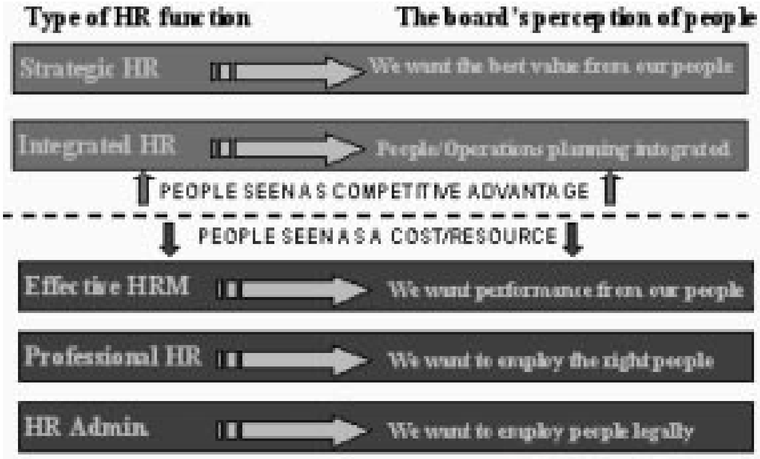

Figure 1 also identifies five different stages of HR function development, which inevitably reflect the organization's perception of what it expects from its people. In ascending order, the stages are:–

1. *HR administration.* A very limited, minimal role where everything is done, administratively, to make sure people are employed legally and safely.
2. *Professional HR.* The accountability of the HR team (and their impact) starts and ends with giving good, professional advice.
3. *Effective HRM.* A more proactive HR role where the HR team accepts shared responsibility for getting the right person for the right job at a reasonable performance level.
4. *Integrated HR.* Line managers and HR work together as business partners, HR is involved in all business planning discussions.
5. *Strategic HR.* The role of HR is to do everything they can to get the maximum value from their people (this is where strategic HR takes over the HCM mantle).

An HR team can only fulfil the role that the organization wants them to provide unless, of course, they set out to convince the board that they need a different role. The best HR strategist in the world would be completely wasted in an "HR administration" function unless they started to have board level input into the design of the organization.

Q3. Do you design your organization?

When you stop and think about it, any building will only ever be as good as its design. Even if the site manager, surveyors and all of the building trades do their best, it will be worth nothing if the structural design is flawed or built on shaky foundations.

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The most admired architecture in the world is generally attributed to the architects and designers, not the managers or craftsmen. So it is with organizational structures. HR people have to decide whether they want to be architects or jobbing builders. To train as organizational architects they need to learn the key elements of a well-designed organization.

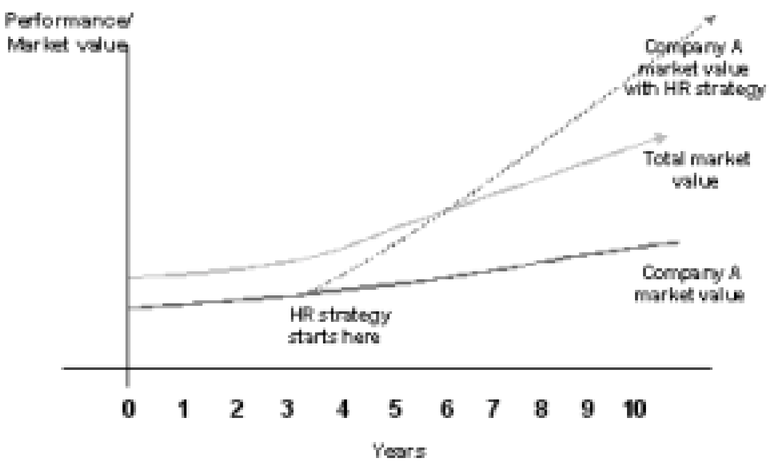
Basically there are three components: structure (the organization chart), systems and processes. In theory, the structure itself should be moulded around core systems and processes. Unfortunately, structure normally comes first in practice, simply because the CEO has already decided who they want to have working for them. The best HR strategists, therefore, have to be in a position to influence the CEO. If you don't have the ear of the CEO on such matters you'll be struggling to get above the line unless you can influence other executives about how they run their functions.

A system or a process?

Regardless of your ability to alter the structure you can still take a strategic perspective on systems and processes, but do you know what the crucial difference is? An organizational *system* is a means for making sure that what you plan to happen actually happens. Think of what a traffic light system is meant to achieve: it ensures that cars don't run into each other at intersections. An HR strategist, though, would want to ensure that an "organizational learning system" is in place. This means that when the organization makes a mistake, a learning system ensures that this never happens again. But, all systems require processes.

A *process* is a series of steps that turns inputs into outputs. Take a police organization where a criminal's record fails to be updated correctly. The learning system would involve a check to make sure all court case files are transferred onto the police computer. The process used to achieve this would be a clearly identifiable series of steps that makes this happen. A process map should show each step and who is responsible, from how the files are delivered from the court, which department they have to be received by and each activity involved in physically transferring the data.

Figure 2. Company performance with and without HR strategy



It's easy to see how important systems and processes are to HR strategists. Poorly designed systems and processes result in poor performance from people. (For example, the criminal's inaccurate records exclude them from the investigation). If HR strategy is meant to be about getting the best value out of people, you have to make sure they have the best systems and processes at their disposal. However, HR will only rise above the line and be allowed to get involved in organization design if it can indicate how much value it can add.

Q4. What is the potential value of your HR strategy in hard cash?

Before we explore question four, have you noticed how all the questions naturally follow on from each other? They are all inextricably linked. Seeing people as important leads to the need for a strategic HR function, which in turn leads to different organizational configurations. However, question four is the quintessential killer question because it demands a clear, distinct and unequivocal answer. Failing to provide an answer leaves strategic HR dead in the water.

Most HR directors will profess to having an HR strategy, but very few of them will ever answer this question using a £/$ sign. This omission immediately relegates them to below the line. Question four is not a hypothetical or rhetorical question (none of the killer questions are). So what is your HR strategy going to be worth in £/$s? Have you ever even considered putting a nominal value on it? If not, why not?

Real HR strategists wont be reluctant to talk about the value of their strategy any more than the sales director about sales strategy, or the marketing director about increased market share or even the R&D director talking about what their new product pipeline is worth. None of these people can guarantee their plans will come to fruition but it doesn't stop them articulating their strategies in hard cash terms. HR strategists have to adopt the same approach otherwise their strategies will never be taken as seriously as those of their more commercially-focused colleagues. In Figure 2 (left) an HR director makes a very simple but highly graphic case for what their strategy could be worth (but note the number of years on the x-axis). Of course, anyone thinking of producing such a graph would have to have some convincing data to support it.

Case study: Integrated HR strategy at Toyota

Eight years ago Toyota predicted that it was going to reduce its cost base by 50 percent over three years, and it succeeded. Ford would love to be able to make the same prediction but would really struggle. The key difference between the two companies? Toyota is the best example I've ever come across of an organization that has totally integrated its business and HR strategies. Toyota knew 50 percent was achievable because it had already spent the previous 40 years ensuring that all of its people were doing their best to reduce costs. It's a behavioral obsession that has become intertwined with its long-term business strategy to produce vehicles at a lower cost than its rivals. Toyota now has a market capitalization of US$110 billion (October 2003) which is nearly four times that of General Motors ($24 billion) and more than the total for GM, Ford and Daimler Chrysler combined.[2]

Articulating how HR strategy can add value is a new language for most HR professionals and the only way to build your confidence in this critical skill is to start looking at how you measure HR's effectiveness.

Q5. How do you measure HR effectiveness?

Whenever I work with an HR function for the first time I ask them how they measure their effectiveness, but I don't highlight the fact that it's a killer question. The answers I receive are invariably the same – input and activity measures: staff turnover, absenteeism, employee attitude surveys, to name but a few. These, hopefully, will lead to improvements in the organization but none of them, on their own, are added value, direct, business output measures (e.g. cost of production, revenue, quality of service). But why is this distinction so important?

Consider how two different HR directors could answer this question. One HR director says one of their strategic (sic) measures is to reduce staff turnover by 10 percent. The other says reducing business operating costs by 10 percent is a strategic goal. From this it's clear that the latter is more directly focused on business objectives. However, if the first HR director said something along the lines of "reducing the turnover of our top performers should boost sales revenue by 10 percent," then that would give a much better indication of HR being more integrated with business planning. If they had introduced a performance measurement and management system to ensure better, measurable results from everyone in the sales team, then it would be a much more convincing indicator of strategic intent.

The measures you choose are the eyes to the soul of your HR strategy and give a very clear impression of the role that the HR team plays. Administrative and activity measures (i.e. numbers employed, cost of recruitment) reveal an HR function at stage 1. Added value measures (i.e. profit, margins, return on investment or capital) signify a truly strategic HR function. All of these questions should help to give you some understanding of the scale of the challenges facing those who want to make strategic HR a reality. However, if this doesn't encourage you to want to become more strategic then, at the very least, you may want to avoid some of the contraindicators.

THE SIX "KILLER" QUESTIONS

1. **Do you treat your people as a source of strategic, competitive advantage?**
2. **Are you above the line? What stage of functional development is your HR department at?**
3. **Do you design your organization? Are you involved in organizational structure, systems and processes?**
4. **What is the potential value of your HR strategy in hard cash?**
5. **How do you measure HR effectiveness? Are you measuring input or output?**
6. **Do you exhibit any contraindicators? Are you showing that your HR function isn't integrated with the business strategy?**

Q6. Do you exhibit any contraindicators?

What is a strategic HR contraindicator? It's a sign of HR activity that's not directly integrated with the business strategy. Some of the easiest to spot – and often the most telling – are in the training and development area. Measurements of the number of training days or target hours/days of training per employee clearly indicate an organization that's more concerned with training cost than learning; input rather than output. Similarly, having a fixed percentage of salary bill for training spend or, worse still, a fixed monetary amount each year are contraindicators.

Equally, rigid pay and reward policies indicate an organization that doesn't want to encourage maximum value or contribution from its employees. Silo organization design suggests in-built organizational rigidities and barriers to human capital realization. Probably the worst contraindicators of all though are generic HR activities such as putting everyone through 360° feedback or trying to develop a generic set of competencies. These are signs that the organization treats its human capital as a homogeneous group, not a pool of individual talents just waiting to be harnessed, fully developed and turned into real value on the bottom line.

So, how do you measure up against the killer questions? Are you really strategic or do you have some serious thinking to do?

Further information

1. See www.accountingforpeople.gov.uk for more information

2.

Further exploration of the role of HR are the subject of two books by Paul Kearns: "HR Strategy: Business Focused, Individually Centred" (www.bh.com) and "The Bottom Line HR Function." (www.spiropress.com)

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