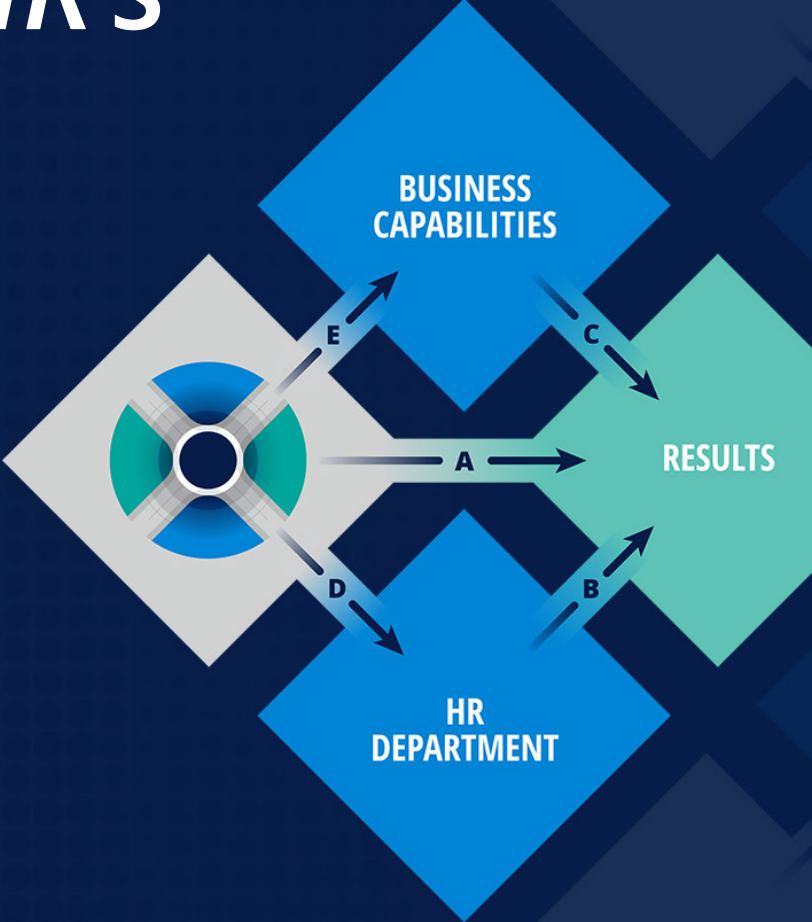


# Navigating HR's Impact

By Patrick M. Wright, Mike Ulrich, Erin Wilson Burns, and Dave Ulrich



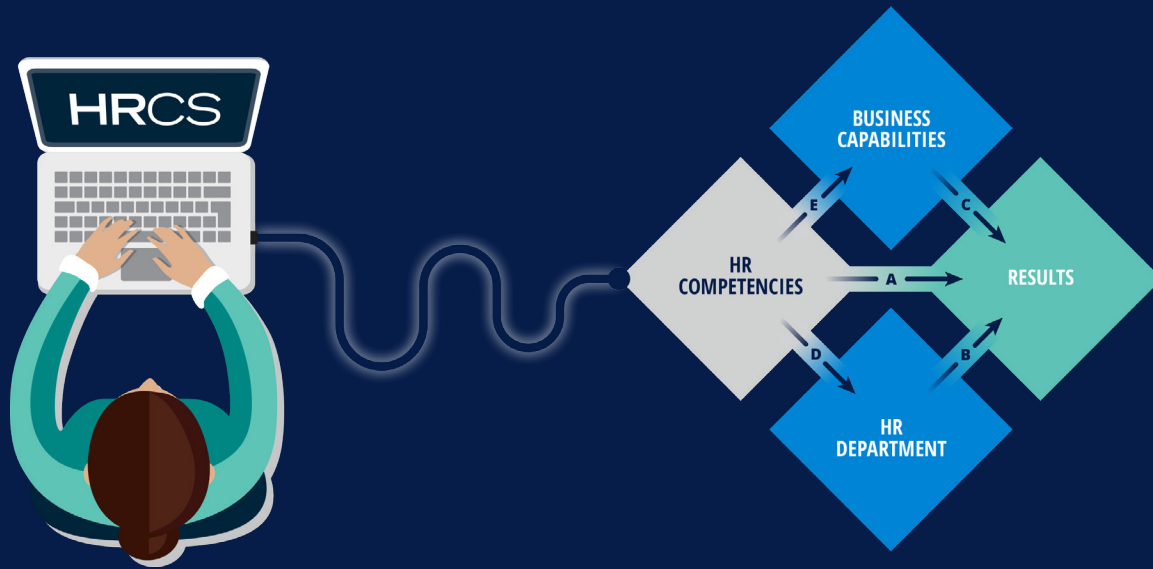
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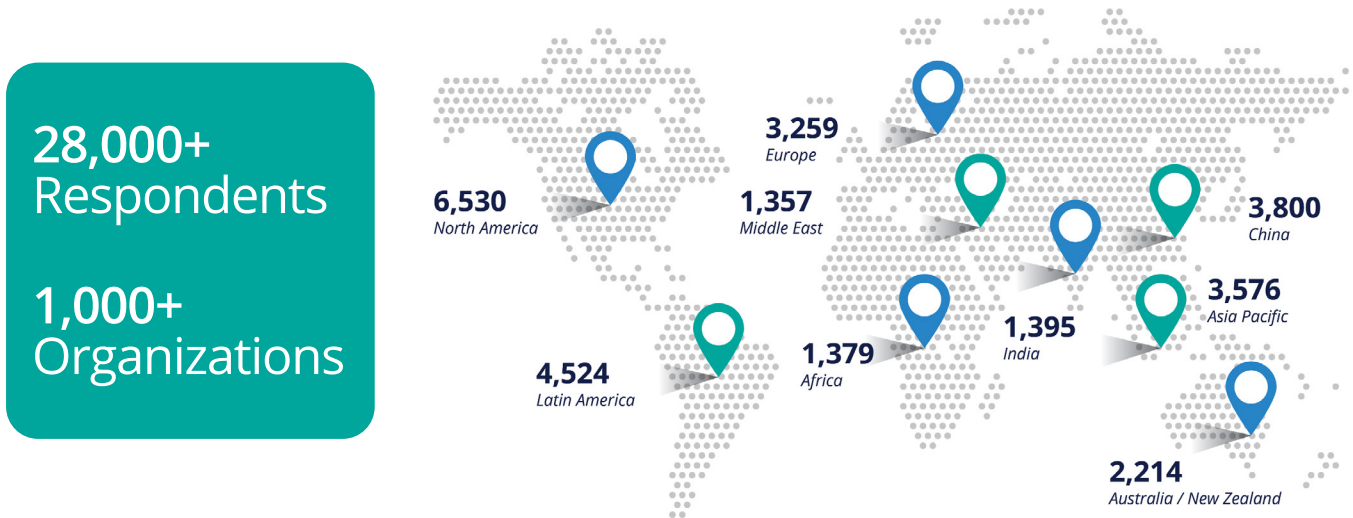
# *Research Methodology*

*Navigating HR's Impact*

# Research Methodology

Since 1987 the Human Resource Competency Study (HRCS) has gathered data on HR professional competencies every 4 to 5 years. Co-Sponsored by Ross Executive Education at the University of Michigan and The RBL Group, the 8th round of the HRCS was conducted from mid-September 2020 through February 2021. With partnership from 19 global HR associations, we gathered data through 360 ratings on 3,594 HR professionals with assessments from a total of 28,640 colleagues from within HR and from the business.

Figure 1-2: Information on participating individuals

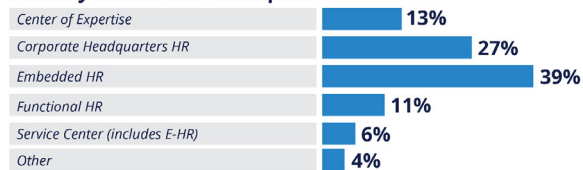


## Study Participants

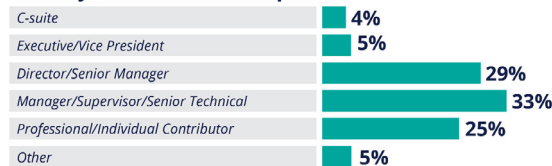
Global norms are based on the overall mean from the following respondents:



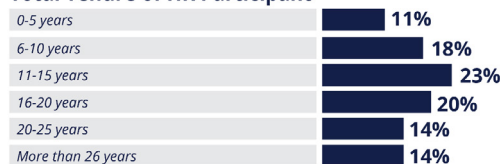
## Primary Role of HR Participant



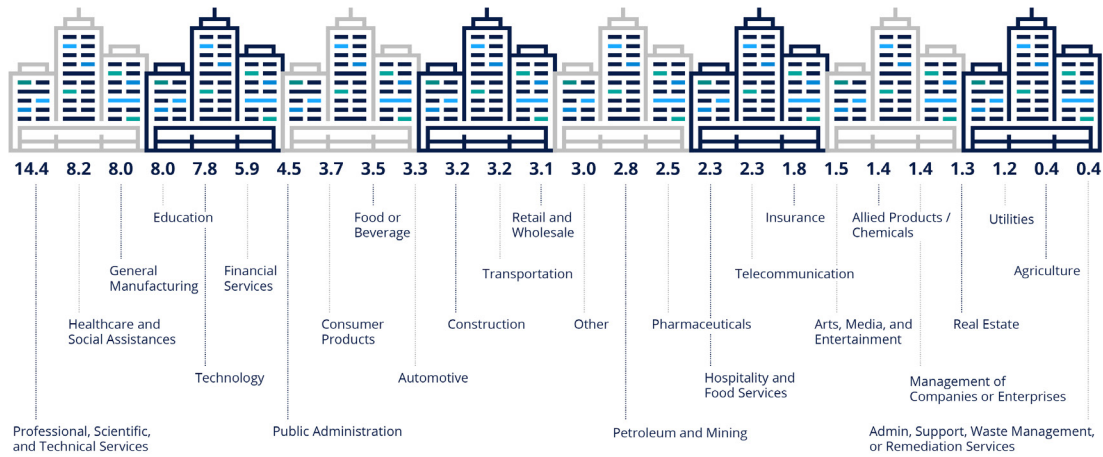
## Primary Level of HR Participant



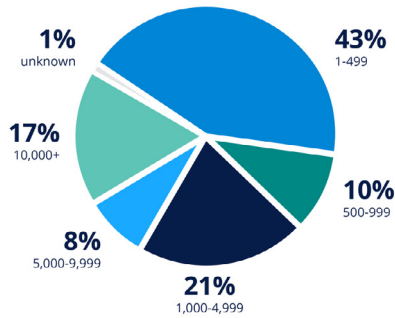
## Total Tenure of HR Participant



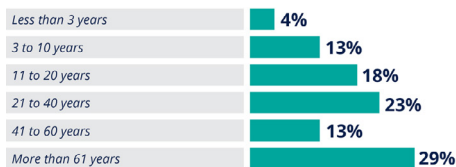
**Figure 3 :** Information on participating organizations



**Size of Organization**



**Age of Business**



**Type of Organization**



During this time period of data collection, many external events (e.g., global COVID pandemic, racial and social strife, political toxicity, economic turmoil, and technological advances) shaped the world of work. We are labeling this 8th round of the study “Navigating HR’s Impact” since HR professionals have had to respond to highly uncertain business conditions that have raised expectations on HR professionals.

We performed a variety of statistical analyses to help answer the following questions:

- 1 What competencies do HR professionals need to deliver results?
- 2 What should be the characteristics of an effective HR department, and what individual HR competencies shape HR department effectiveness?
- 3 What business capabilities should HR help create to deliver business results, and what individual HR competencies help embed business capabilities?



# *Synopsis of HR Logic and Model*

*Navigating HR's Impact*

# Synopsis of HR Logic and Model

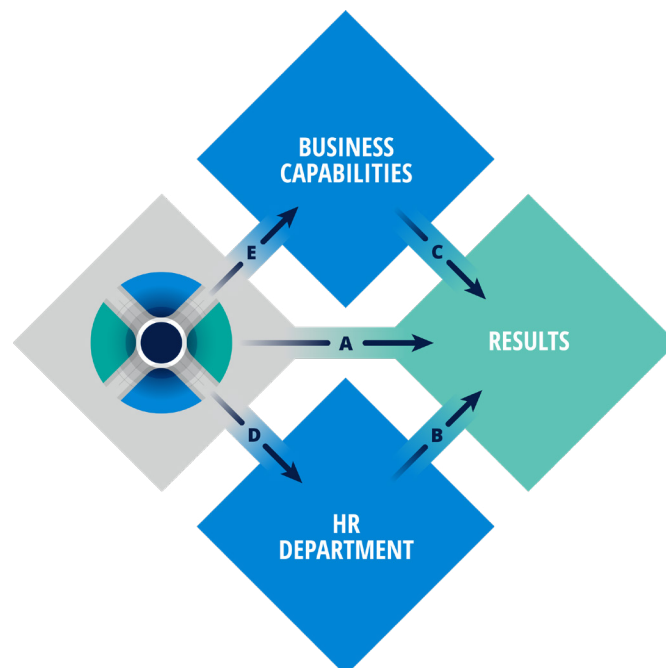
The past 18 months has seen a confluence of health, economic, and social phenomenon has generated a storm through with the HR profession has navigated. The COVID pandemic brought about a sudden increase in anxiety, sickness and death as well as fundamental changes in where and how work was done. The economic shutdown to slow the spread created an economic crisis in many industries never before seen. The protests over police brutality sparked social unrest globally as many sought to build a more just society. Refugee and immigration issues around the world amplified this social unrest. In addition, in many countries political toxicity prevailed as political debate became increasing divisive. This perfect storm formed the backdrop for Round 8 of the HRCS in which we sought to explore how HR professionals and departments have sought to navigate the impact of HR on personal, stakeholder, and business results. We

were poised to begin the study when the storm hit and so we delayed its implementation until stability was beginning to re-emerge. This has allowed us to explore the how HR has navigated these crises to deliver results.

We were thrilled with the partnership of 19 global HR associations who helped collect data. With their partnership, we created survey questions to capture the competencies of HR professionals (character, knowledge, and actions (be, know, and do)), the characteristics of an effective HR department, and the ways in which HR can help create business capabilities. Even in these tumultuous times, we were amazed at the incredible response rate.

When we analyzed the data, we organized it into four dimensions for the overall "Navigating HR's Impact" HRCS model.

**Figure 4:** HRCS Round 8 Model for Navigating HR's Impact





In all of our work, we begin with results. Since its inception in 1987 and over the course of all 8 rounds of the study, one primary focus has been not just to be descriptive about what HR competencies exist, but to be prescriptive about how those competencies deliver results. We have consistently identified three results of possessing HR competencies or having a more effective HR department?

- 1 Personal Effectiveness (e.g., overall, how does this HR professional compare to other HR professionals you have known?)
- 2 Stakeholder Value (how does this HR professional/department help deliver internal (employee, business strategy) and external (customer, investor, community) stakeholder results?) and
- 3 Business Performance (how does this HR professional/department help deliver business performance?)

We are committed to not just identifying the competencies of HR professionals, the characteristics of an HR department, or the business capabilities, but to identifying how these HR characteristics impact the three results. The results act as the lighthouse in the storm that enable HR to navigate in the storm. This focus on results amplifies our assumption about HR: HR is less about HR, and more about how to deliver results that matter. So, the overall HRCS logic and model focuses on results.

We were able to identify three HR agendas that help deliver the results consistent the three questions we seek to answer in this study. What competencies do HR professionals need to deliver results?

Based on the data and analyses, we identified five competencies: Accelerates Business, Advances Human Capability, Mobilizes Information, Fosters Collaboration, and Simplifies Complexity. It is worth noting that in our previous 7 rounds of research we focused more on HR “roles” with an adjective and noun (trusted advisor, paradox navigator, strategic contributor, etc.). In this round because of the heightened expectations, we focused on HR actions exemplified by verbs and nouns (accelerates business, advances human capability, etc.).

## 1. What should be the characteristics of an effective HR department, and what individual HR competencies shape HR department effectiveness?

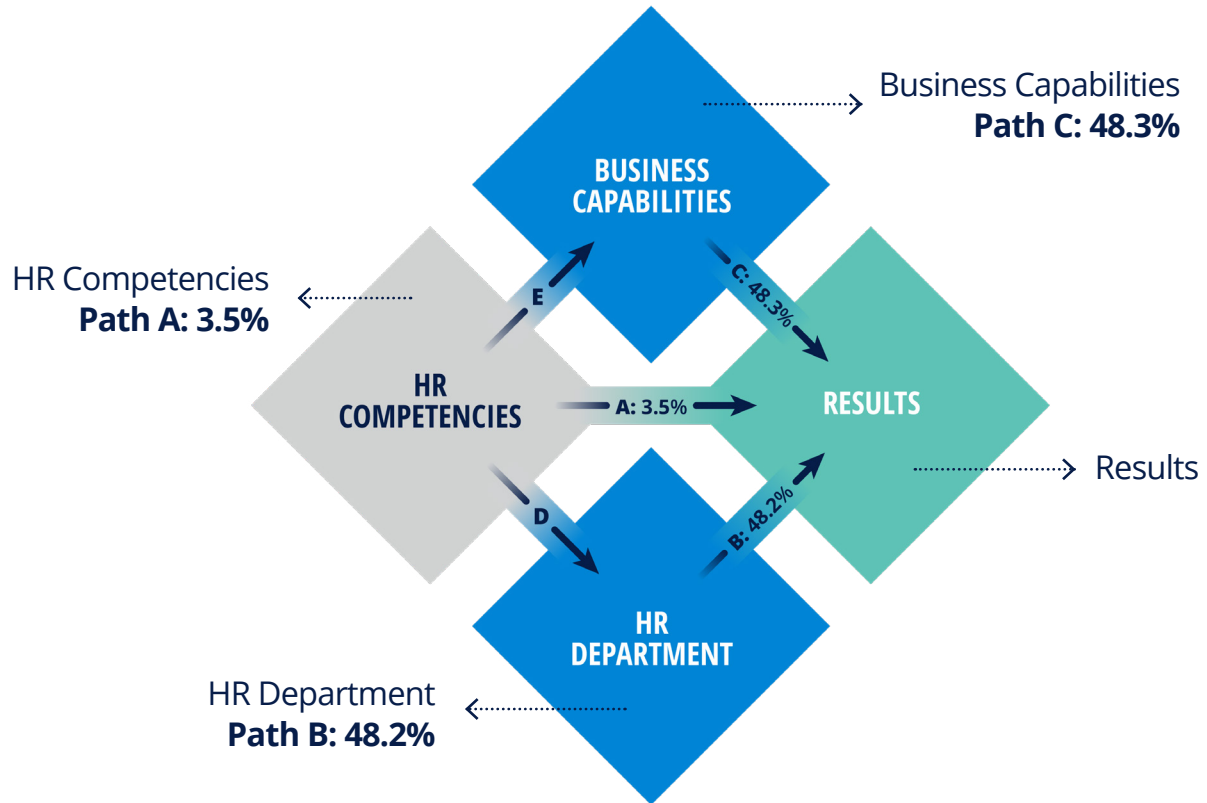
We explored the characteristics of HR departments that previous theory and research suggest would be positively related to business results. Again, we will explore these characteristics in greater detail below, but the seven characteristics we measured were: Employee Practices, Practice Alignment, Capability Support, Stakeholder Value, HR Department Credibility, Information and Analytics, and HR Reliance. In essence these comprise the processes delivered by HR departments, the perspective they take in delivering them, and the position they have achieved in the minds of others in the organization.

## 2. What business capabilities should HR help create to deliver business results, and what individual HR competencies help embed business capabilities?

We also examined the key business capabilities enabling organizational success that HR most strongly influences. The concept of capabilities has been used in various ways (dynamic capabilities, organization capabilities, strategic capabilities) to capture what the organization is known for and good at doing. Capabilities occur based on the combination of HR systems (around talent, performance, information, and work) that enable a firm to do something better than their competitors. In this study, we examined the extent to which 10 capabilities aligned to create strategic differentiation, the capability of workforce agility, and delivering diversity, equity, and inclusion (DEI).

In brief, the overall logic and model for round 8 (Navigating HR's Impact) focuses on results that are created by HR competencies, HR departments, and business conversations about capabilities.

**Figure 5:** Relative impact of HR Competencies, HR Department, and Business Capabilities on Results





# *Overview of Overall HRCS & Findings*

*Navigating HR's Impact*

# Overview of Overall HRCS 8 Findings

Our first general analysis consisted of using multiple regression to examine how the three major components of our study impact business results and this analysis revealed two important results. First, we would note that the three components together explained over 25% of the variation in business results. One way to think about this is to consider all of the variables (business strategy, economic conditions, direct competitors, products, customer preferences, etc.) that could cause the variation in business results (i.e., why one organization performed better than another). Our findings suggest that one-quarter of the variation in the 1,013 organizational units in our study is accounted for by the three components we examined.

Second, the numbers in figure 6 provide a measure of the relative impact of the three components in explaining that 25% of variation. Our data suggest that the competencies of individual HR professionals have a very minor impact on business results (3.5%) relative to the impact of the HR department (48.2%) and the business capabilities (48.3%). While at first glance this may seem disappointing, it is not at all surprising. These findings confirm the results of the HRCS Round 7 that found the impact of organizational characteristics far outweighed the impact of the HR competencies. The higher impact of organization over talent on business results has been found by others (see work by Luigi Guiso, Kai Li, Benjamin Schneider, Charles A. O'Reilly and [Victory Through Organization](#)). In addition, the individual HR competencies, while not having a strong direct impact on business results, have a strong indirect impact through how they help create the HR department characteristics and business capabilities that do have strong direct effects on results. We have characterized this consistent finding as “individuals can be champions; but teams win championships”. While an individual HR professional may be highly competent, the team of HR professionals in a department focused on building the right business capabilities will likely have greater impact on business results.

**Figure 6: Round 8 HR Competency Model**

HR Impact on Business Results	Business Results* (N=1013)
HR Competencies	3.5%
HR Department	48.2%
Business Capabilities	48.3
<b>Overall Variance Explained</b>	<b>25%</b>

\*This columns sum to 100%, representing the percentage of explained variance in the model that can be explained by each variable category.

**Table 1: Competency Averages by Rater Type**

	1 ALL RATERS	2 SELF-RATINGS	3 HR ASSOCIATE RATINGS	4 NON-HR ASSOCIATE RATINGS	5 SUPERVISORS
Accelerates Business	3.84	3.57	3.53	3.84	3.96
Advances Human Capability	3.84	3.54	3.58	3.82	3.97
Simplifies Complexity	3.83	3.58	3.58	3.82	3.97
Mobilizes Information	3.67	3.24	3.28	3.7	3.8
Fosters Collaboration	4.14	4.06	3.99	4.09	4.26



# *HR Competency Findings*

*Navigating HR's Impact*

# HR Competency Findings

Our 35-year study has been called the HR “competency” study as we have worked to identify the competencies that help HR professionals be seen as effective.

As noted above a competency represents a pattern of related behaviors that provide evidence of some underlying character (be), knowledge (know) or, skill/ability (do). We use a 360 methodology to assess the extent to which an individual demonstrates a competency which provides a more accurate report of the competence than just self-report. This entailed having each focal HR participant evaluated by his/her HR peers, non-HR peers, and supervisor.

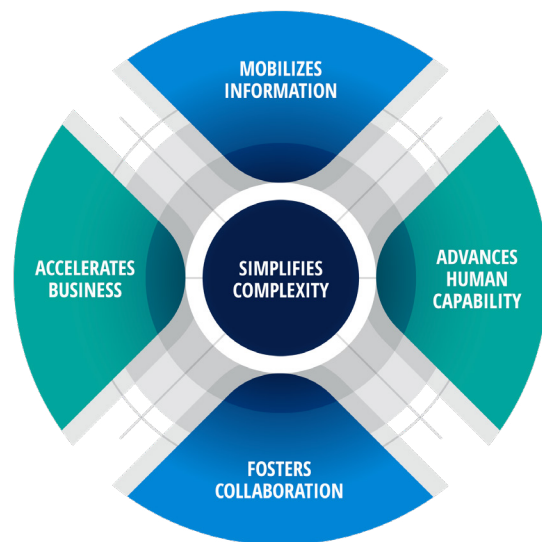
Below, we explore which competencies matter for today’s HR professionals and then examine how these competencies influence results at the individual and business level.

## 4.1: Round 8 HR Competency Model

As noted above, we gathered ratings on the extent to which the focal HR professionals displayed 80+ attributes (be, know, do). We then subjected those ratings to a statistical tool called “factor analysis.” This technique examines how each behavior correlates with all the other behaviors, trying to identify clusters of behaviors that seem to fit with one another and do not fit as well with others. We then look at the behaviors in each cluster and come up with names that describe the common theme. One of the key considerations with this round of the study was to name the factors based on the “actions” represented rather than the “roles” that they might describe. We wanted to have each competency clearly describe what actions HR professionals need to take. Based on our factor analysis, we identified five competence domains out of the 80+ items we tested.

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Figure 7: Round 8 HR Competency Model



**4.1.1 Accelerates Business** refers to a number of aspects of an HR professional that focus on ensuring the success of the business. It requires that individuals understand the external environment of their organization, how their organization competes in the marketplace, and how their organization creates value for customers. Accelerating business also entails using that knowledge to help influence decisions and decision makers in ways that help create effective strategies. Armed with knowledge and influence, HR professionals with this competency know how to prioritize demands in order to deliver results. This competency entails knowing when and how to drive the types of change that the organization needs to succeed. Accelerates business is the latest evolution of how HR fully engages in the business (building upon earlier roles like business partner, player, ally or strategic contributor, architect, positioner).

**4.1.2 Advances Human Capability** Capability focuses on knowing the human capability necessary for the firm to effectively meet the demands of its competitive environment. We have defined human capability as three elements (talent, organization, and leadership). Talent (often called employees, workforce, people) refers to the individuals who work in an organization. Organization (components such as culture, workplace, systems) refers to the capabilities that an organization may possess. Leadership represents individual leaders who combine talent and organization elements into choices that help deliver business results. The overall competence logic is that in today's world, HR professionals need to "accelerate business" by "advancing human capability." The next three competence domains represent the "pathways" through which HR professionals are able to accelerate business through advancing human capability.

**4.1.3 Mobilizes Information** describes the extent to which someone is able to manage today's massive onslaught of information based on technological and social change. This competency first describes how an individual is able to anticipate technological innovations that access digital information, then acquire, analyze, and apply information to help make better decisions. Second, with all the recent societal challenges such as pollution, racial strife, political conflicts, and health crises, this competency entails anticipating these changes and providing guidance about human capability interventions for how to most effectively respond.

**4.1.4. Fosters Collaboration** describes the ways in which an individual can build trusting relationships with others in order to effectively navigate getting things done. First, relationship with others starts with an individual's ability to manage their own self by being open to feedback and displaying confidence, humility, integrity, and ethics. Second, fostering collaboration entails building trust, working effectively with, and valuing people from different organization levels, skill levels, functions, backgrounds, and cultures. It is interesting that in previous rounds of research personal credibility, trusted advisor, credible activity (all self-management characteristics) were a separate competence domain. In this round self-management factored (correlated) with other-service which we called fostering collaboration. Self-management and other service seemed to go together as a competence suggesting that building trusting relationships requires HR professionals with humility, integrity and ethics.

**4.1.5. Simplifies Complexity** is at the center of the model and refers to the ability to sift through the voluminous amounts of information and change and to focus on issues of greatest importance. Part of this competency focuses on thinking critically rather than simply responding to the newest shiny object or rushing after the latest HR fad. The other part ties directly to the events of 2020-21, and describes how, under times of either great uncertainty or dangerous crises, an individual can harness the challenges to drive positive change in the organization.

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As we compare these competencies to previous research, we want to highlight a few insights. As noted, we focus the labels on the competence domains on verbs (actions) more than nouns (roles). Regardless of an HR role (e.g., specialist vs. generalist), these action-oriented competencies could apply. What is also interesting is that in previous research some of the distinct competence domains (e.g., dealing with change or paradox) are no longer distinct competence domains, but show up in each of these five defined domains. Accelerating business, advancing human capability, mobilizing information, fostering collaboration, and simplifying complexity EACH require an ability to manage change and to navigate paradox.

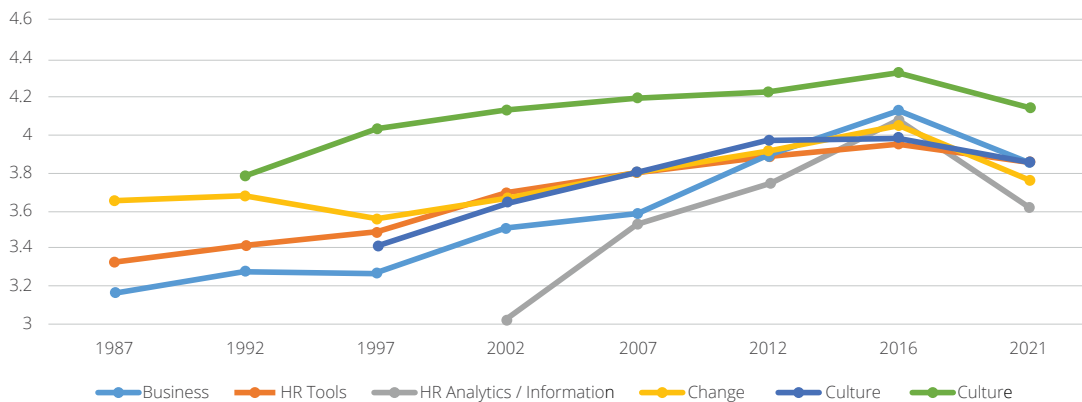
## 4.2 Findings about HR Competencies

This round of research has continued to find that HR professionals tend to rate themselves lower than other observers do. Our (the researchers') cynical explanation is that HR professionals know how bad they really are at these five competence domains, but our positive (and more likely) interpretation is that raters of the 3600 HR professionals have high expectations of them. This higher HR expectation due to today's people and organization related business challenges may help explain the first time in 8 rounds

of research that HR competencies are somewhat lower. See figure.

The health, social, and emotional context of 2020–21 have raised the bar on HR professionals. So, when more is expected, perceptions of personal competence may go down (e.g., a very fancy restaurant gets more patron complaints than a cheap diner because of expectations). Or, it could be that during the 2020/21 crises, HR had to focus even more on operational issues (e.g., working remotely health and safety) which may take away from these more business-related HR competencies.

**Figure 8:** Evolution of HR Competencies Over 35 Years



*The competency Accelerates Business Results plays a key role in all the results measured -being seen as personally credible, delivering value to internal and external stakeholders, and impacting business results.*



### 4.2.1 Connecting HR Competencies to Results

The competency factors that emerged from the data describe “what is” true of HR professionals. However, a more important question is “what should be” true, (i.e., do these competencies actually relate to some measures of performance?)

As noted above, we measured 3 performance dimensions. Personal effectiveness assessed by how effective raters rated the HR professional in their role. They also reported how effective the HR professional was in meeting the needs of both Internal Stakeholders (e.g., employees and line managers) and External Stakeholders (e.g., customers, Investors, and communities). Finally, they provided an assessment of the business’s results in terms of its performance relative to competitors regarding a number of specific metrics in the areas of Financial, Strategic, Customer, and Employee performance.

The table below provides an overview of the results regarding the relationships between each of the competencies and the various measures of performance. The bottom row reports how much of the variation in the performance measure was accounted for by the competencies. One way to think about this is to consider all of the variables (business strategy, economic conditions, direct competitors, products, customer preferences, etc.) that could cause the variation (i.e., why one person or organization performed better than another). The results suggest that the competencies

account for roughly 45% of the variance in the personal effectiveness and both stakeholder variables. However, they only explain 3.5% of the variance in business results. These results may indicate that perceived personal effectiveness often comes from the competencies one demonstrates, but business results come from a host of factors beyond the individual.

The columns for each of the performance measures describe the relative impact of each competency relative to the others (out of 100%) on that performance measure. This shows that Accelerates Business was one of the most important drivers across all 4 performance measures. Advances Human Capability had the strongest impact on Business Results, Simplifies Complexity had a strong effect on personal effectiveness, Mobilizes Information was strongly related to External Stakeholders, and Fosters Collaboration had a strong effect on Internal Stakeholders. In addition, all of the competencies were positively related to all of the performance measures, meaning that all are ones that can help HR professionals more effectively perform in their roles. (For interactive data that includes different industry or regional means, visit: [www.rbl.net/hrcs-round-8/premium](http://www.rbl.net/hrcs-round-8/premium).)

We are excited about how this round of the HRCS helps focus HR professionals less on traits they need to develop or roles they need to play, but rather on actions they need to take that will drive both their personal and their organizations’ effectiveness.

**Table 2:** HR Competencies to Results

	1 Mean	2 Personal Effectiveness (N=3594)	3 Stakeholders: Value created by the individual (N=3594)		4 Business Results (N=1013)
			Internal	External	
Accelerates Business	3.84	23%	23%	24%	23%
Advances Human Capability	3.84	19%	20%	19%	35%
Simplifies Complexity	3.83	21%	19%	19%	13%
Mobilizes Information	3.67	17%	17%	23%	16%
Fosters Collaboration	4.14	19%	21%	15%	14%
<b>Overall Regression</b>	—	<b>47.2%</b>	<b>45.5%</b>	<b>44%</b>	<b>3.5%</b>

### 4.3 Implications

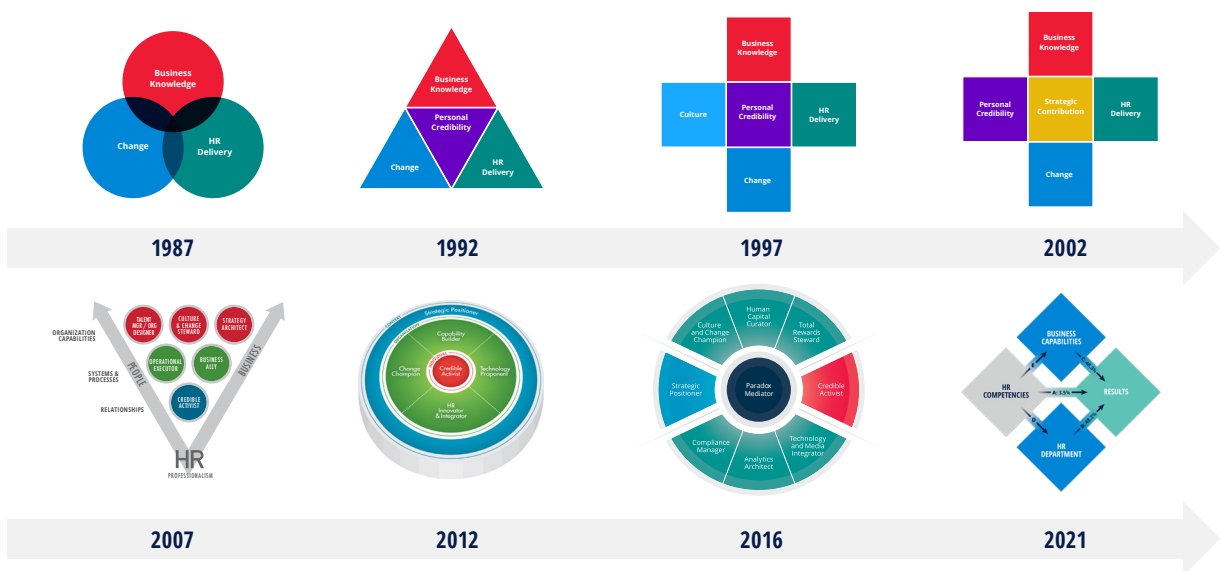
Individual competencies matter. A great professor, Dr. Bonner Ritchie, passionately taught that “organizations don’t think, people do.” How people think, act, and feel within organizations shapes their personal lives and the organizational setting where they work. We have evolved his assertion to also include, “organizations shape how people think, act, and feel,” people and their individual competencies are the fundamental ingredients of any organization. If one wants to improve as an employee (a business leader or HR professional), one must master and demonstrate the right competencies.

Second, requisite competencies change over time. To be effective, individual competencies need to match contextual settings. This contingency logic applies to HR professionals. Over the eight rounds of our research on HR competencies, we have seen about 30 to 40 percent of required competencies change each round (every four to five years) (see figure 9 to show how the HR competencies have morphed to navigating HR’s impact). This half-life of competencies requires professionals to continually learn and adapt.

Third, the competencies interconnect in powerful ways. Your contribution to navigating HR’s impact comes as you “accelerate business through advancing human capability.” This meta-message reinforces that HR is not about the latest HR tools but about using those tools to build human capability that accelerates business results. No matter how a business is trying to win in the marketplace (e.g., low cost, product innovation, geographic expansion, customer share), you can talk about the ways to enable these goals through enhancing human capability by building talent and offering HR solutions in terms of organization capabilities). There are three pathways to accelerate business through advancing human capability: mobilizing information, fostering collaboration, and simplifying complexity.

Understanding and mastering these five competencies will help your personal effectiveness as an HR professional. Your competencies will impact internal (e.g., employee, business strategy) and external (e.g., customer, investor, community) stakeholders, but even more, you will have an ability to upgrade your HR department and embed business capabilities.

**Figure 9:** Evolution of HR Competencies to Navigation HR’s Impact (2021)



## 4.4 Build HR Competence

Invest in yourself (or the HR professionals in your organization) to improve. This could include attending The RBL Group's HR Academy (a virtual learning experience) or Advanced HR Executive Program ([AHREP](#)) at the University of Michigan (a two-week in-person experience). In addition, expand your horizon by taking on new assignments, joining project teams, and experimenting with new behaviors.

In addition, work with your regional HR association to become certified. Competence builds on certification. Being certified, or licensed, is part of many professions. Certification comes from passing knowledge tests and attaining a license to practice. Competence is how well you practice.

*Let us know if we can help you upgrade your HR competencies.*

[Learn More](#)



# *HR Department Findings*

*Navigating HR's Impact*

# HR Department Findings

For over 30 years HR departments (or functions) have pursued some form of transformation. One could find this frustrating, thinking it means that they just do not possess the capability to transform. A more reasonable explanation is that HR departments constantly transform because the changes in their organizations require new characteristics in the department. In this research, we wanted to answer the question:

What should be the characteristics of an effective HR department, and what individual HR competencies shape HR department effectiveness?

## 5.1 HR Department Characteristics

In this round of the HRCS we identified and assessed 7 characteristics that have been studied that would drive business results and thus comprise the transformational target of current HR departments. These 7 characteristics are:

- 1 Employee Practices** – This component of the HR department focuses on the extent to which the organization uses the right set of HR practices to manage employees. Consistent with recent research, we asked about practices that elicit high performance and commitment such as performance-based pay, comprehensive training, selecting the best, performance feedback, paying above competitors, employee participation in decisions. But we also asked about the kinds of practices that discourage employee free-riding and suboptimal performance such as having work rules, supervision, and discipline.
- 2 Practice Alignment** – We know that HR departments develop and deliver a number of HR practices such as Staffing/Recruiting, Compensation and Benefits, Employee Engagement, Learning & Development, Diversity, Equity, & Inclusion, and Performance Management. This characteristic illustrates the extent to which these practices are aimed at supporting and developing key strategic capabilities.
- 3 Information and Analytics** – We all know that the amount of information is increasing at an exponential rate and firms must find ways to analyze the information to make effective decisions. Thus, this characteristic describes the extent to which the HR department is building databases, applying analytics, seeing patterns in data, and measuring the impact of HR.
- 4 Capability Support** – As mentioned, we view an organization's capabilities as the combination of people, systems, and processes that enable a firm to do something better than their competitors. This characteristic of the HR department refers to how well does the HR department support building the capabilities the organization needs.
- 5 Stakeholder Value** – We know that organizations today must meet the needs and demands of a variety of internal and external stakeholders. This dimension defines the extent to which the department designs and delivers practices that add value to customers, investors, communities, line managers, and employees.
- 6 HR Department Credibility** – In past HRCS efforts, the credibility of the HR function had emerged as one critical driver of business results. This characterizes the extent to which the function earns line management trust, gains employee trust, advocates for employees, and holds line managers accountable.
- 7 Reliance on HR** – A final characteristic consists of the extent to which those in the firm rely on HR to play a critical role in strategic activities such as the creation of business strategy, strategy implementation, restructuring, and culture change.

## 5.2 Connecting HR Department Characteristics to Results

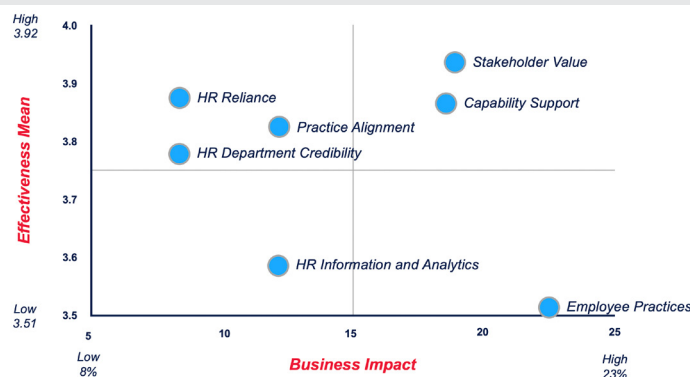
We ran the analyses examining how these characteristics were related to business results in terms of the performance of the unit compared to competitors in the areas of financial (profits, revenues), strategic (new products, quality of products) customer (satisfaction, market share), employee (productivity, attraction/retention) and social (environment, community) outcomes. In Table 3, the bottom number provides an estimate of how much of the variation across units was explained by the variables, and the other numbers describe the relative importance (out of 100%) of each of the characteristics of the department. As you can see in Table 3, two findings emerge. First, all the characteristics are positively related to business results. Second, the most impactful characteristics of the departments were, in order, employee practices, supporting capabilities, and stakeholder value creation.

Another way to look at these results is to plot the relative effectiveness and impact of these characteristics. On the one hand, these seven characteristics may be done from a lower to high effectiveness (vertical axis). On the other hand, they have differing impact on business results (horizontal axis). As evident in Figure 10, HR Information and Analytics falls in the “Low Impact/Low Effectiveness” quadrant, suggesting a need to better manage this component. Interestingly, HR Reliance, HR Credibility, and Practice Alignment fall in the “Low Impact/High Effectiveness” quadrant, indicating that HR departments have gotten good at these, but they do not have a strong impact on business results. These have been supplanted by the “Outside-In” characteristics of Stakeholder Value and Capability Support that fall in the “High Impact/High Effectiveness” quadrant. Finally, the biggest area of opportunity for HR departments to prioritize is to design and implement the right employee practices to drive performance as this characteristic has the highest impact yet the lowest effectiveness.

**Table 3:** HR Department and Impact on Business Results

HR Department	Mean	Business Results (100)
<b>Employee Practices:</b> HR policy/practices used for employees (10 items)	3.51	23%
<b>Practice Alignment:</b> HR practices aligned to support development of key strategic capabilities (12 items)	3.84	12%
<b>Capability Support:</b> HR effectiveness at supporting capabilities (4 items)	3.86	19%
<b>Stakeholder Value:</b> HR designs/delivers practices to add value to stakeholders (5 items)	3.92	19%
<b>HR Department Credibility:</b> HR department is seen as credible (11 items)	3.79	8%
<b>HR Information and Analytics:</b> HR accesses, acquires, and acts on information/analytics (7 items)	3.59	12%
<b>HR Reliance:</b> Organization relies on HR to provide insights (9 items)	3.89	8%
<b>Overall regression</b>	—	48.2%

**Figure 10:** Prioritizing HR Department Actions



We also looked at was the link between HR's individual competencies and the characteristics of HR departments that most drive the business. Table 4 below shows how the five individual HR competencies relate to employee practices, capability support, and stakeholder value. As you can see here, the ability to accelerate business through advances in human capability dominates the impact on the key characteristics/activities of the HR department. This highlights the critical evolution of HR departments from siloed and internally-focused to externally-focused such that those in the department understand the competitive environment, how the firm is differentiating itself, the capabilities necessary to do so, and are able to leverage HR practices and processes to

create a competitive advantage. Also, the ability to simplify complexity enables HR professionals to balance the needs of different stakeholders.

You can begin transforming the department by focusing on three high-impact areas. First, ensure that your employee practices BOTH drive commitment and performance of valuable employees and discourage poor performance to the point of exiting poor performers. Second, in order to support the capabilities, those in the department must identify the critical business capabilities that enable your firm to differentiate itself in the marketplace. Finally, the department must take a multiple stakeholder approach (investors, customers, employees, communities, etc.) to all they do.

**Table 4:** *Prioritizing HR Department Actions*

*These are the **three department activities** that have the most impact on business results. We are showing how the 5 HR competencies affect these three HR department activities.*

	1	2	3
	Employee practices	Capability Support	Stakeholder Value
Accelerates Business	24%	23%	22%
Advances Human Capability	34%	29%	22%
Simplifies Complexity	14%	15%	22%
Mobilizes Information	16%	15%	19%
Fosters Collaboration	12%	19%	15%

**Three keys to transforming your HR department:**

1. Ensure employee practices BOTH drive commitment and performance and discourage poor performance.
2. Identify the business capabilities that differentiate your organization.
3. Build in a multiple stakeholder approach (investors, customers, employees, communities, etc.) to all HR activities.

## 5.3 Implications for HR Departments

Consistent with past HRCS studies, the organization matters more than the individual in terms of delivering business results. The book “Victory through Organization” highlighted this finding which continues to show up in the data. HR transformation, while requiring that individual HR professionals get better, is much more than that. It points to the need to transform the HR department to having the right processes, perspective, and position in the organization. We will share two key implications from the data that HR leaders must focus on in order to deliver value.

First, focus the HR department on the right priorities. Our results show the tremendous value that effective HR departments can bring to their businesses. But they also show that not all departments have yet achieved that contribution. The question for you is not “Are you in a process of transformation?” We are sure you are. The more important question to ask is “Is our HR department’s transformation focused on areas that will drive business impact?” When HR professionals come together, what should they talk about, work to improve, and make happen as a collective HR department?

Over the years, we have been privileged to participate in

many HR department planning initiatives. For many years, and too often today, these HR planning sessions are about HR, often with an agenda to set priorities about which HR practices to improve. Hopefully, these conversations are pivoting to focusing on the business. Instead of asking “What are our HR priorities?” the first question should be, “What are the business priorities?” Then comes the question, “How can our HR work support those priorities?” By focusing on business more than HR priorities, HR contributes to business performance.

Second, ensure that HR transformation is more than structure. In our work on transforming (or reinventing, reimagining, or upgrading) the HR department, our research finds that an effective HR department is not just tweaking the HR operating model, or structure. In this round of the HRCS, seven dimensions of an HR department deliver business value (see Table 4. Prioritizing HR Department Actions). In complementary research called the Organization Guidance System, we assessed nine dimensions of an HR department and how each of these nine dimensions create value for employees, business, customers, investors, and communities (see Table 5. Impact of Nine Dimensions of HR Department on Five Stakeholder Groups). The results of these two independent studies are very similar. HR departments have a major impact on business result beyond improving individual talent.

**Table 5:** Impact of Nine Dimensions of HR Department on Five Stakeholder Groups

HR Pathway HR department characteristics	A Global Mean (n=482)	B Std Dev.	What guidance can we offer? (relative impact on ... divide 100 points)				
			C Employee	D Strategy/ Business	E Customer	F Financial	G Social Citizenship
1. Reputation	2.99	0.86	17.8	8.9	13.9	14	14.3
2. Customers	3.39	0.68	16	11	12.4	6	15.5
3. Purpose	3.44	0.74	14.3	15.9	16.3	9.3	13.7
4. Organization	3.17	0.79	6	13.7	7.9	13.6	7.6
5. Capability	3.15	0.83	5.5	6.3	6.4	8.7	8.3
6. Metrics	2.89	0.9	5	10.2	7.1	14	15.6
7. Practices	3	0.87	6.1	6.4	7.9	10.5	8.3
8. Professionals Skills	3.23	0.74	15.8	11.5	8.6	7.5	6.2
9. Relationships	3.28	0.74	13.4	16	19.5	16.5	10.6
	<b>R<sup>2</sup></b>		14.6	20.9	18.5	22.5	14.2

\*Columns C, D, E, F, and G show the relative impact of the nine HR department characteristics. Each column adds to 100. Green has the highest impact, then yellow, then red.



## 5.4 Build better (or transform) HR Departments

While these seven dimensions in this study and nine dimensions of Organization Guidance System overlap, the fact that we don't have a definitive set of dimensions of an HR department may indicate that HR department effectiveness continues to be a work in progress. However, we found some common messages that should inform your HR department's transformation efforts,

Build a business case for HR transformation. Begin the transformation with "outside-in" thinking. As noted above, don't start with HR goals but business results. Explore trends in the marketplace to be aware of (e.g., technological innovations, competitor moves, customer expectations, etc.). Define stakeholder value (especially customer value) as the ultimate purpose of an effective HR department. Be clear about business strategies for growth and how HR helps make those strategies happen. By doing these things, there is a clear business case for why HR work matters.

Create a desired reputation for your HR department. Explore and declare what HR should be known for by both HR professionals and users of HR services. This reputation may evolve from doing the foundational (basics) well to delivering functional excellence (best practice) to aligning with strategy and eventually succeeding in the marketplace through human capability by delivering great talent (employees), organizations (capabilities), and leadership.

Audit and measure the HR department. Collect data through the Organization Guidance System's HR pathway ([www.rbl.ai](http://www.rbl.ai)) or another tool to set both a baseline and desired state for HR transformation. Track the progress of how the HR transformation delivers outcomes that matter and keep the transformation on course.

Focus on relationships more than roles. Many in HR seem to have have an ongoing agenda (or even obsession in some

cases) to improve the HR operating model, or how the HR department operates, that is focused on role clarity through the structure or design of the HR department. Generally, this design work is how to connect HR specialists (in people, performance, information, and work) with generalists who work in organization units (businesses, geographies, or functions). Effective HR work requires deep functional expertise (specialists) but also the ability to make that knowledge productive by offering human capability solutions to organization units (generalists). In our research and experience, roles (HR design) matter less in achieving business results than relationships. Relationships come when HR professionals (in specialist or generalist roles) work together with a shared purpose, respect for differences, caring for each other, willingness to disagree, and commitment to growing and learning together. When these relationship enablers exist within the HR department, they may extend to relationships with peers, business leaders, and all employees outside the HR department.

Form and rely on an HR transformation team to set an agenda and monitor progress. The HR transformation team will likely include representatives from all parts of HR, business leaders, employees at large, and external stakeholders. By having broad representation on this HR transformation team, the agenda aligns with business, offers systems solutions, enacts changes, and monitors progress in business terms.

## 5.5 Building better HR departments

In brief, who you are as an HR professional helps deliver outcomes that matter. But how you work together with other HR professionals in your HR department matters more for business results. There is an old (and continuing) maxim: I like "my" HR person, but I don't like HR! This maxim needs to change as the HR department becomes seen as a valued contributor to make an individual HR professional even more effective and to adapt characteristics in this research that make the department even more effective.

***Let us help you transform your HR Department.***

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# *Business Capability Findings*

*Navigating HR's Impact*

# Business Capability Findings

Over the last 30 years, HR professionals have been ‘invited to the table’ a metaphor for being engaged in business dialogues. Getting invited into business conversations is commonplace, especially with the contextual challenges of today’s world. The question we wanted to answer in this research is:

What business capabilities should HR help create to deliver business results, and what individual HR competencies help embed business capabilities?

When HR professionals engage with other business leaders, what should be the nature and topics of those conversations? Navigating HR’s impact requires that HR professionals learn how to better engage with other business leaders to deliver business performance.

In our human capability logic, HR contributes to any business discussion by talking about the implications for talent, leadership, and organization. Given, a strategic direction (product innovation, customer intimacy, geographic expansion, digital 4.0), HR professionals can ensure the right human capability (talent, leadership, and organization) to make the strategy happen.

As noted in our research, organization capabilities have far more impact on business results than individual competence. So, when HR is engaged in business dialogues, they should be facilitating the creation of business capabilities.

In the HRCS we examined three aspects of business capabilities that represent the intersection between HR and the business.

- 1 Aligning Capability consists of the extent to which the company seeks to differentiate itself with regard to a number of capabilities such as Leadership, Learning, Strategic Alignment, Accountability, Collaboration, Human Capital, Culture, and Social Responsibility. In essence this component describes how much a firm emphasizes creating competitive advantage through organization capabilities.
- 2 Creating Workforce Agility describes how flexible and adaptable the people and HR systems are. Companies high in this agility have people with broad skills that can be applied to a variety of jobs, a capacity to quickly reconfigure work groups and project teams in response to strategic change, and an ability to quickly changing HR systems and practices to support a changed strategy.
- 3 Delivering Diversity, Equity, and Inclusion represents how well the organization has created a culture that values people regardless of demographic differences. Note that DE&I was a factor within the individual HR competency model, but this capability refers more to an organization’s culture and systems that make every individual feel they are treated fairly and respectfully regardless of their personal characteristics and background.

As you can see in Table 6. Business Capabilities and Impact on Results below, all three of these business capabilities positively predict business results. As we noted before, these capabilities account for 48.3% of the variance explained in business performance, pretty much equal to the 48.2% explained by the HR department, again highlighting the fact that organization far outweighs individuals in impact. Of the three capabilities Aligning Capability had the greatest impact followed by Workforce Agility, and Delivering DE&I.

A second area we investigated was to look at how the HR competencies affect these business capabilities. As you can see in Table 7. (HR Competencies to Business Capabilities below). Advances Human Capability had the greatest impact

on all three capabilities. This illustrates the fact that HR professionals bring their expertise regarding HR systems and process to discuss and deliver business capabilities. Also, Mobilizes Information was strongly predictive of both Aligning Capabilities and Creating Workforce Agility. This suggests the importance of having data and analysis in conversations with line leaders, i.e., to speak their language.

HR leaders who wish to have impact need to talk with line leaders in their own language. That language has “capabilities” and “data” as a few of the keywords. When HR leaders focus on building business capabilities through effective HR departments with highly skilled HR professionals, they will be traveling the road that leads to HR impact.

**Table 6:** Business Capabilities and Impact on Results

Business Capabilities	Mean	Business Results (100)
Aligning Capability (10 items)	3.96	44%
Creating Workforce Agility (6 items)	3.36	33%
Delivering DE&I (9 items)	4.16	23%
Overall regression	—	48.3%

**Table 7:** HR Competencies to Business Capabilities

HR competencies (5 domains)	1	2	3
	Aligning Capabilities	Creating Workforce Agility	Delivering DE&I
Accelerates Business	21%	20%	20%
Advances Human Capability	29%	31%	27%
Simplifies Complexity	12%	13%	20%
Mobilizes Information	27%	23%	15%
Fosters Collaboration	10%	13%	19%

*Business leaders need HR professionals and departments focused on helping them identify, prioritize, and build the capabilities that make the business distinct in the eyes of customers and investors.*

## 6.1 Implications for Business Capabilities

Based on our research, we suggest that HR professionals are the architect of how to create a more agile workforce, align and embed the right organization capabilities, and make progress on DEI efforts. By working on these issues, you build unique capabilities in your organization that enable distinction in the eyes of key stakeholders and facilitate the process of delivering outstanding business results.

**First, create workforce agility.** People are the core ingredients to any organization, and HR should be the thought leaders with ideas, tools, and experiences to upgrade talent. In today's changing world, employees have to act with increasing agility, being able to create a future, anticipate opportunity, adapt quickly, re-skill continually, and learn always. HR owns the systems and processes that ensure organizations have the talent required to deliver on changing customer, investor, and strategic goals.

**Second, align and embed organization capability.** Since Dave Ulrich and Dale Lake's 1990 book, *Organization Capability*, we (and many others) have consistently shown that "organization capability" matters more than "individual competence" in delivering business results. In a business conversation, you ask, "Do we have the right organization to deliver our desired results?" Historically, the right organization focused on clarifying roles and reporting relationships (structure or design) then on aligning systems (e.g., seven Ss or STAR model of systems). More recently, "organization" is not about the structure or systems but the capabilities of the organization.

Organization capabilities represent what the organization is known for, what it is good at doing, and how it allocates resources to win in its market. Organizations should be defined less by their structure and systems and more by their ability to establish the capabilities required to win—that is, to serve customers in ways that competitors can not readily copy. Table 7. Twelve Critical Capabilities suggests twelve possible capabilities.

**Table 7:** *Twelve Critical Capabilities*

<b>Talent</b>	<i>We attract, motivate, develop, and retain talented and committed people at all levels of the organization (workforce, competence, people).</i>
<b>Agility</b>	<i>We make change happen fast (change, speed, adaptability, flexibility).</i>
<b>Strategic Clarity</b>	<i>We create a shared agenda, broad commitment, and engagement around our strategy (strategic unity, purpose, mission, vision).</i>
<b>Customer Centricity</b>	<i>We foster strong and enduring relationship of trust with target customers (net promoter score, market share, customer share).</i>
<b>Right Culture</b>	<i>We create and embed the right culture throughout the organization (shared mindset, firm identity, values).</i>
<b>Collaboration</b>	<i>We work together to make the sum more than the parts (teamwork, cross functional, alliances, coordination).</i>
<b>Social Responsibility</b>	<i>We establish a strong reputation for managing planet philanthropy, people, and political agendas (e.g., corporate social responsibility; environmental, social, and corporate governance; social citizenship; triple bottom line).</i>
<b>Innovation</b>	<i>We create and deliver new products, services, business models, and ways of working that are commercially successful (product creation, curiosity, knowledge management).</i>
<b>Efficiency</b>	<i>We reduce the costs of our business activities (standardization, reengineering process, streamlining).</i>
<b>Accountability</b>	<i>We set and meet commitments on time and within budget (execution, discipline, high-performance orientation).</i>
<b>Information/Analytics</b>	<i>We acquire, analyze, and apply information to improve decision making (predictive analytics, dashboards, scorecards).</i>
<b>Leverage technology</b>	<i>We exploit and apply latest technology trends (digital age, AI, machine learning, Internet of Things).</i>

**Table 8:** *Impact of Twelve Capabilities on Five Outcomes*

Organization Capabilities	A Global Mean (n= 367)	B Std Dev	What guidance can we offer? (relative impact on ... divide 100 points)				
			C Employee	D Strategy/ Business	E Customer	F Financial	G Social citizenship
1. Talent	3.37	0.76	16	7	4.5	10.8	12.5
2. Agility	3.36	0.86	11.7	16.4	10.5	8.4	3.4
3. Strategic Clarity	3.43	0.77	17.1	20.2	18.4	19.5	4.6
4. Customer Centricity	3.61	0.78	9.2	7.9	19.3	10	1.9
5. Right Culture	3.35	0.84	12.6	11.2	10.4	9.6	4.9
6. Collaboration	3.39	0.79	5.6	3.9	5.8	4.3	2.5
7. Social Responsibility	3.39	0.82	3.3	2.9	3.8	4.9	49.4
8. Innovation	3.13	0.78	4.5	6.2	7	9.6	5.9
9. Efficiency	3.26	0.78	6.6	8.7	7.3	8.5	3.5
10. Accountability	3.17	0.77	3.6	4	4.2	5.1	1.8
11. Information/analytics	3.24	0.94	5	6.8	6.1	3.7	2.9
12. Leverage Technology	2.99	0.94	4.9	4.7	2.7	5.6	6.6
		R <sup>2</sup>	32.1	45.9	37.8	22	58.7

**Third, deliver a diversity, equity, and inclusion agenda.** Recently, issues around social justice—as evidenced in diversity, equity, and inclusion (DEI)—have become ever more prevalent and globally relevant. The emerging DEI agenda needs to move beyond calls for action to sustainable results in finding ways to manage diverse candidates into leadership positions, to have honest and sensitive conversations on social justice issues, and to turn social consciousness desires into productive conversations and sustainable actions.

DEI progress can be put into four phases (Figure 11. Evolution of DEI Agenda). DEI efforts need to evolve beyond phase 1 (affirmative action scorecards that track numbers), phase 2 DEI activities, policies, and programs) and even phase 3 (the strategic relevance of DEI efforts).

Moving to phase 4, to be sustainable, DEI efforts need to address fundamental and often unexplored assumptions then embed new behaviors supporting these DEI assumptions. These assumptions are about how leaders use their power to empower others and how to ensure that every employee has something of value to offer the organization.

HR professionals build systems, processes, and cultures that support DEI as a core strategy to deliver human capability. In business discussions, HR professionals influence others to move DEI efforts through these four waves. As they do so, they ensure a responsible organization that allows every employee to bring their best self and offer their best contribution.

**Figure 11:** *Evolution of DEI Agenda*



## **6.2 Build Business Capabilities**

Business leaders need HR professionals and departments focused on helping them identify, prioritize, and build the capabilities that make the business distinct in the eyes of customers and investors. As HR comes to the table with a point of view about where the business is headed and what it needs to succeed and with a plan for how to build the capabilities needed to get there and succeed, HR creates impact for employees, the organization and external stakeholders.

*Let us know if we can help you identify and build critical business capabilities*

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# *Navigating HR's Impact*

*Navigating HR's Impact*



# Navigating HR's Impact

While Round 8 of the HRCS includes many subtle and significant findings and implications, one meta-message stands out: **HR's greatest impact on business comes from making the whole more than the parts.** The HR department and business capabilities that HR helps create have six to eight times more impact on business results than individual HR competencies. This finding is consistent with previous research in the book *Victory Through Organization*.

## ***For HR, the whole being more than the parts has many implications:***

- HR cannot simply focus only on individuals (e.g., people, talent, competencies, employees, or workforce) but must attend to the collection of how those individual people join together into organization (e.g., process, culture, capabilities, systems, or workplace) by using what we call a human capability blueprint.
- HR cannot isolate and improve a single HR practice area (e.g., hiring people, orienting new employees, training employees, or paying employees) but should emphasize the integration or bundling of these separate HR practices into integrated solutions and patterns, often called high-performance work systems.
- HR cannot just focus on HR time-based events (e.g., annual succession planning, payroll increase, quarterly reviews, or new orientation) but must see to how HR events meld into and create patterns of activities over time.
- HR cannot only focus on a single stakeholder (e.g., the employee or line manager) but should work on a broader stakeholder map of employees, line managers, customers, investors, and communities.

## ***Making the whole more than the parts will require that HR professionals broaden their expectations, horizons, and experiences by adapting some of the following tips.***

- ① **Look for patterns.** When doing or observing HR work and events, look for the more general patterns of that work. What are the principles or themes governing this HR work? What has happened before? Why does this happen? What are causes and effects that might be replicated in the future? Events are often parts; patterns represent the whole. When engaging with others, identify and share the patterns of work more than the specific HR activities the work. For example, ask, "How do we make sure to continue our pattern to pay for performance?" more than probe the details of a specific appraisal or reward activity.
- ② **Incorporate divergent and convergent views into new ways of thinking.** Divergence comes by accessing different opinions and exploring options; convergence comes by seeking common ground and agreeing on actions to move forward. Divergence highlights the parts and innovation; convergence encourages the whole and focused action. Help leaders to continually navigate the divergence/convergence process.
- ③ **Focus impact less on "me" and more on "we."** When considering the impact of HR work, explore how all stakeholders are affected by that work, including employees in general, business leaders, business strategy, customers, investors, and communities. By seeing the impact of HR work on all stakeholders, the HR department and business capabilities have more lasting impact. At a personal level, use your strengths and insights (me) to strengthen and empower others (we). For example, ask, "How can our work attend to the needs of all our stakeholders?"
- ④ **Attend to capability creation.** In dialogues within the HR department and with business leaders, constantly raise "organization capability" issues about having the right culture, identity, processes, and systems. Become an advocate for and architect of the right organization.

The research that the whole (HR department and business capabilities) deliver business results more than the parts (individual competencies) is compelling, and as it shapes thinking and actions, it will help navigate HR's impact.



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