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A STRATEGICALLY ALIGNED HR OPERATING MODEL

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Introduction

The role of HR has undergone significant transformation over the years. Traditionally viewed as a support function focused on administrative tasks, HR now sees itself as a strategic partner in driving business outcomes. However, despite this shift in perception, many HR departments still need help to deliver measurable business value.

Under Ulrich's human resource business partner (HRBP) design, most or all work delivering measurable business value is supposed to result directly from the efforts of HRBPs, or the HRBPs working closely with subject matter experts in the centers of expertise (COEs). Yet most HRBPs struggle to deliver desired business outcomes. One problem is that too few people in HR focus primarily on business outcomes. The HRBPs alone cannot get it all done, and they get pulled too often into firefighting and away from strategic work (Khan and Millner, 2023). The related problem is that too much work in HR focuses on inward-looking HR processes carried out as "HR for the sake of HR processes rather than desired organizational outcomes."

In response to this challenge, we propose a pivot in how HR is structured and works to focus more directly on the capabilities required for successful strategy execution. The pivot relies on a combination of two things: (a) a new set of design criteria (objectives) for HR and the HRBPs – delivering the required workforce and strategic capabilities that enable the business outcomes, and (b) new processes for identifying, measuring, and improving the needed workforce and strategic capabilities. Effective implementation of the new processes may require role redesign, competency upgrading, headcount reallocation, and redesigning the whole HR function if needed. This article explores this approach and highlights the key components HR functions must adopt for the new operating model to succeed.

The Problem

Historically, HR has focused primarily on inward-looking processes, such as learning and development, compensation, and talent management. While these processes are critical to ensuring an organization's workforce's health and well-being, they do not consistently deliver measurable business outcomes. As a result, HR functions often are viewed as cost centers rather than strategic partners.

HR functions must therefore shift their focus from inward-looking processes to a more outward-looking approach that connects workforce capabilities with an organization's business strategy if they wish to overcome this perception and deliver value to the business. However, this is easier said than done. Many HR functions lack the orientation, processes and resources needed to connect workforce capabilities with business outcomes, making it challenging to deliver measurable value.

Strategic alignment via the business-driven HR operating model

Based on our years of research and partnering with leading companies around the globe, we have identified two central design elements that are essential for this new HR operating model: a stronger focus on the most pressing strategic business objectives and business processes and a more central role for measurement and analytics throughout all of HR decision making. The first is a new principle for the organizational design of the HR function. The second is a new orientation for delivering people processes, giving rise to the workforce capabilities required to deliver the corporate strategy.

HR's key deliverable should be the workforce and strategic capabilities required to implement the business strategy. HR accomplishes those objectives through people processes which enable the capabilities. Figure 1 shows the steps HR should follow when designing and implementing its people processes, ensuring they lead to the requisite workforce and strategic capabilities to create the requisite business outcomes. In principle that is what should happen; in practice, it does not (Boudreau and Ramstad, 2007; Levenson, 2015).

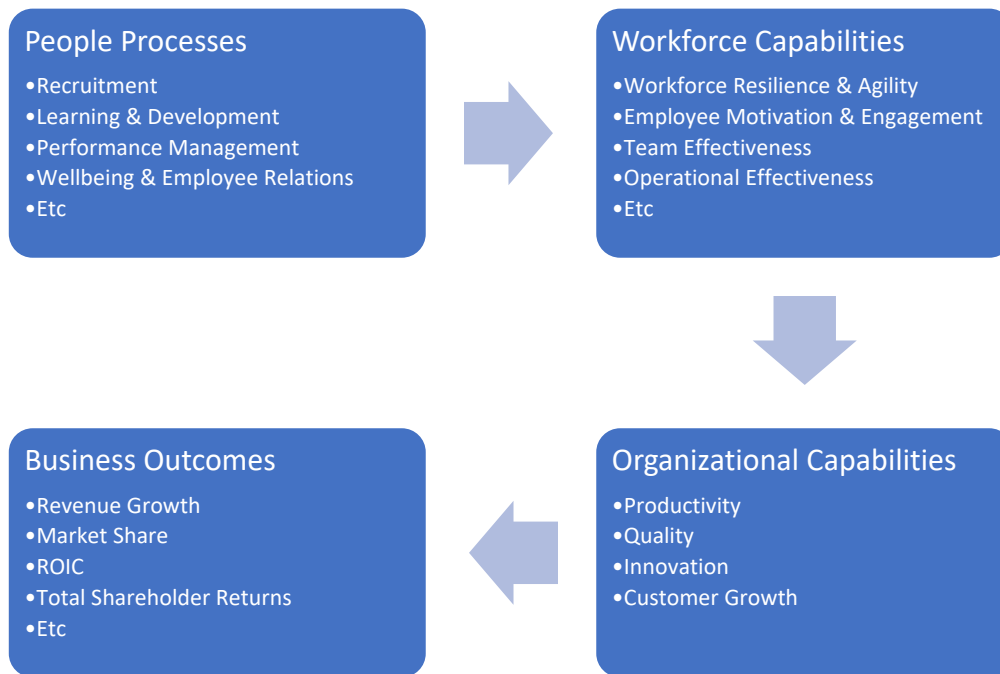


Figure 1: Aligning people processes with business outcomes

Figure 1 is based on the Human Capital Value Profiler (HCVP) (Blumberg, 2018) and is a robust framework for ensuring alignment from people processes to workforce capabilities, and from workforce capabilities to organizational capabilities and business outcomes. In our collective decades of researching and consulting with companies globally, we have found that an explicit framework such as the HCVP must ensure proper alignment from talent and HR process to the capabilities and outcomes the business needs for effective strategy execution.

The HCVP is quite flexible and can be used for whatever range of HR and business processes are needed to achieve the desired business outcomes. For example, job and team design fall under the first category of people processes because they are actionable steps that leaders and staff can take to improve how people contribute to organizational success. The next stage, workforce capabilities, includes the (desired) outcomes of those people processes, such as job performance, team effectiveness, and more.

Boudreau and Ramstad (2007) called out the challenges of ensuring that the people processes run by HR ultimately need to have a business impact. They note the three objectives of efficiency, effectiveness, and business impact and that HR always focuses on the first (efficiency), sometimes achieves the second (effectiveness), and struggles to accomplish the third (business impact). Their critique mirrors Ulrich's

challenge to HR to become a strategic business partner. Yet neither Boudreau and Ramstad, or Ulrich, provide a complete roadmap for achieving business impact and being a strategic business partner. Applying the HCVP can bridge that gap.

The first critical step is to be explicit about getting from people processes to business impact. The structure of the HCVP is uniquely suited for this because it makes explicit each of the steps that must be accomplished. Saying that HR or people processes *can* be effective or have a business impact (Boudreau and Ramstad, 2007) is quite different from explicitly showing the steps needed to get there. If we map the Boudreau and Ramstad (2007) classifications within the HCVP framework, we see that efficiency outcomes occur within the people processes first step (bucket). Effectiveness outcomes arise when the workforce capabilities are created (second step or bucket).

The reason why business outcomes are so hard to achieve the way people processes are created and applied by HR, and the business is because of the steps needed to get from workforce capabilities to organizational capabilities and ultimately to business outcomes. The HCVP makes those steps explicit, which is a significant contribution over previous approaches that treated that transition as a “black box” that wasn’t explained in detail. The HCVP itself is the foundational piece needed to make that transition explicit.

What matters is ensuring that the people processes lead to workforce capabilities and that the workforce capabilities are needed for the organizational capabilities. It is insufficient to say that the people processes *should* do so; we need actual evidence that they do (Levenson, 2009, 2015). So the work of HR, individual managers and leaders is to ensure a direct line of sight from the people processes to the workforce and organizational capabilities. Yet more work is needed today, even in leading organizations that demonstrate that direct link.

How to make those links come to life is what we next address.

Too many people processes, not enough workforce and organizational capability

The HR operating model design Ulrich pioneered over two decades ago (Ulrich, 1997), was meant to deliver talent processes aligning the workforce with the business objectives. The vanguard for this objective was the HRBPs, many of whom carry out that mission admirably. The best HRBPs work

seamlessly with their colleagues to create HR programs and people processes that provide the support the business needs to execute the strategy and grow the business.

Yet these world-class HRBPs too often are the exception that proves the rule: too many HRBPs and entire HR functions get bogged down in people processes and policies without adequately focusing on the workforce and organizational capabilities required to be delivered by the processes. The resulting people processes do little to improve strategy execution and organizational effectiveness. The most obvious examples are the employee relations and risk management people processes. Yet, in many companies, it applies equally to people processes such as recruitment and learning & development. At worst, they work at cross purposes with the business objectives, impeding business performance like sand injected into the workings of carefully-engineered machinery.

The problem is that there is a lack of consensus as to what constitutes an HR deliverable. For example, Becker, Huselid and Ulrich (2001) argue that “HR has focused on ‘do-ables’ rather than ‘deliverables’” (p. 6). They then argue that deliverables are skills, motivation and work environment. Yet it is the business operations which manage the workforce on a day-to-day basis rather than HR. Therefore HR cannot be responsible for their delivery. HR, however, can be responsible for the design and management of evidence-based people processes which deliver these workforce capabilities. Execution of these people processes, however, ultimately lies with the business rather than HR.

The problem in most organizations is that there are not enough resources dedicated to identifying, developing and supporting the most critical workforce capabilities. The responsibility for doing so often is part of the job description of the HRBPs, along with other functional experts (COEs) in HR. But there is a big gap between the stated responsibilities and how the work is carried out. This leads us to the next part of the new HR operating model.

To close this gap, HR needs to approach its work in a much more coordinated way, which starts with defining the proper operating steps to identify and build the requisite workforce and organizational capabilities. Figure 2 details one such approach, which we have found to be quite successful in the work that we do with organizations:

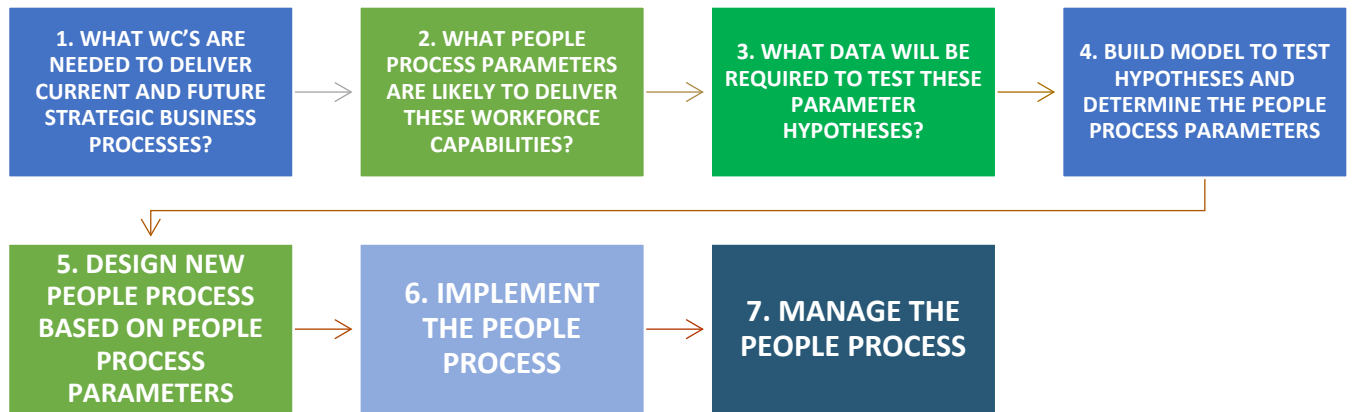


Figure 2: Operating steps to deliver the requisite workforce capabilities

The operating steps start with identifying the organizational capabilities required to execute the business strategy and the workforce capabilities needed to enable these organizational capabilities. The people process parameters necessary to deliver these capabilities are hypothesized, relevant data generated and quantitatively modelled to test the hypotheses. People processes are then created or modified based on successful hypotheses and implemented. Finally, HR manages the newly created people processes.

Over the years, we have encountered rare instances where strategic HR leaders follow these steps and significantly improve the value HR contributes to the business. Yet those examples overwhelmingly are the exception, rather than the rule, for how HR operates.

Orienting the HR operating model to deliver the requisite capabilities

Three options are available for HR functions to orient their operating models to deliver the requisite workforce and organizational capabilities (described in the previous section):

- (a) redirect people and roles you already have to deliver the workforce and strategic capabilities and close any competency gaps within HR that prevent them from developing the capabilities,
- (b) increase headcount, add people who have the time and expertise to deliver the capabilities, and
- (c) redesign the entire HR function around delivering the capabilities, and staff the roles accordingly.

Each option requires more work and effort than the previous option: (b) means more work and longer timelines than (a); same for (c) relative to (b). So the natural inclination will be to start small and only

expend more energy and resources if the more limited option falls short. However, the best results usually will require at least (b) and more likely (c) to be truly effective.

Here are the potential sources of the problem and questions to ask to determine which option you should pursue:

- Are our people focusing on doing the work to build the requisite workforce and strategic capabilities? And do they have the skills needed to do this work? Depending on the answers to these questions, the course of action may be to implement option (a) from above (redirect people and work you already have; close competency gaps).
- Do we have enough of them to do the work? Depending on the answer to this question, the course of action may be to implement option (b) from above (increase headcount).
- Is our structure designed to make the work happen the right way? Depending on the answer to this question, the course of action may be implementing option (c) from above (redesigning the entire HR function).

In each case, the criteria for success are: The HRBPs and organization development/organizational effectiveness experts will have the time and expertise to address all the pressing business issues, including developing and maintaining the critical workforce capabilities needed to execute the strategy.

Option #1: Redirect existing people and roles, and close competency gaps. This option is available to HR functions with strategically trained HRBPs and enterprise-wide organization development resources. In addition, the current headcount across all roles – HRBPs, COEs, and supporting roles – has to be sufficient to handle all the strategic work without the HRBPs and COE experts getting pulled into too much firefighting and away from the strategic, longer-term agenda. In these cases, no role changes are needed. The only changes required are to their objectives and processes.

In addition, many HR functions lack HRBPs with the competence to do the requisite capability-building work and sufficient expertise within the COEs. In these cases, there are enough people to do the strategic work, who are in the roles to do it. But they lack the skills – competencies – to do the work today. In these cases, in addition to reorienting their job duties, they must be trained to do the new work. Closing the competency gaps cannot happen instantaneously, so success means making clear progress towards closing the gaps in a reasonably short time.

Why option #1 alone often falls short: Roles and responsibilities are defined, and then (a) the HRBPs get sucked into too much tactical work and firefighting, and (b) the COE experts are stretched too thin, not having enough personnel to address all the critical strategic issues. In addition, challenges in closing the competency gaps show up as people fall back on what they traditionally have done and fail to up their game strategically. They justify their work by addressing and solving the more tactical problems their clients want help with rather than tackling the longer-term, more structural challenges needed to increase workforce capabilities that directly improve organizational capabilities and business outcomes.

Option #2: increase headcount doing the work of delivering the capabilities. The structures of most HR functions do not provide enough headcount to do all the needed strategic work. For these organizations, redefining, reorienting and upskilling the HRBP and supporting roles and processes is insufficient. In addition, more headcount is needed.

Why option #2 alone often falls short: The challenges from approach #1 above apply equally here. In addition, finance usually questions the ROI from adding headcount, and the business and HR leadership do not make a strong enough case for protecting or investing in the additional headcount.

The more general challenge with the first two options is that both are implemented within the existing HR operating model and organizational design. It is easy for people to maintain old habits of doing tactical work, because that's what they are used to doing, what they are good at, and what the system traditionally has rewarded them for doing. So they do not produce the requisite workforce capabilities that lead to organizational capabilities and business outcomes. The alternative is redesigning the entire HR operating model from the ground up.

Option #3: Redesign the entire HR organization and operating model from the ground up. The HR function's ability to be truly strategic is undermined by its traditional structure. For example, having centers of expertise (COEs) organized around tactical service delivery is a fundamental part of the problem. Each COE is like a highly-skilled, narrowly focused expert with only one way of diagnosing and solving problems unless that person has extensive experience working in other parts of HR. Like the proverbial person holding only a hammer as their tool, they search out only nails to deploy that hammer when not every problem looks like a nail. This results in functional silos throughout the HR operating

model that force all integration onto the HRBPs. This design, in turn, drags the HRBPs into the thankless and time-consuming role of being the referee and evaluator of the quality of alignment of each functional area against the business needs, which takes precious time away from aligning the workforce capabilities, organizational capabilities and business strategies and outcomes.

The most thorough, durable solution is restructuring the HR function and operating model to expand responsibility for directly addressing strategic objectives beyond the HRBPs. This means expanding the remit of people who today have much more narrow, siloed roles in the various HR sub-functions such as recruiting, compensation and benefits, learning and development, and more.

Rather than leave all cross-functional integration and coordination to the HRBPs, a more effective approach is designed around an operating model which proactively determines the workforce capabilities required to execute the business strategy and its attendant business processes. These workforce capabilities then drive the design of people processes required for delivery.

What would this look like in practice? To start, we need to approach the work of HR quite differently. Currently, the HR function is structured around running existing processes common across organizations and treated as standalone parts of the system. For example, recruiting operates processes to fill open roles, finding candidates from the best sources, and creating efficiencies to save money. Only on rare occasions is recruiting called upon to rethink the way it does its work and how it integrates into the rest of HR. The same applies to all the big functional groups in HR: compensation and benefits; learning and development; talent management; employee relations; and so on.

The problem with the status quo is that cross-functional work is viewed as the exception rather than the norm. That is a primary reason why HR fails to properly be focused on identifying and building the workforce capabilities the business needs to succeed: systems-level work like that is treated as the exception to the day-to-day work of HR, rather than the foundation on which all of HR should be built.

The solution is to introduce, alongside the new operational steps, a new HR structure that codifies the different roles and ways of working required to make the operational steps part of the fabric of the day-to-day HR operations. Figure 3 provides one such solution:

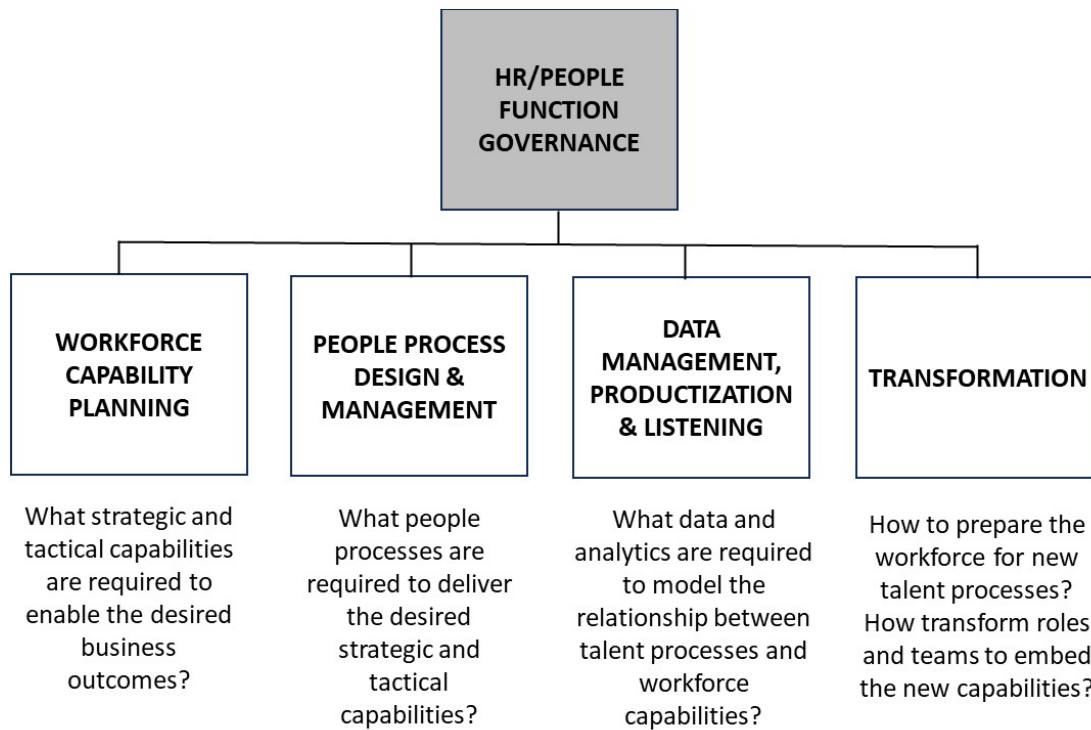


Figure 3: A new HR structure

Figure 3 shows the HR function organized around four design pillars. Each plays a critical role in identifying strategic people objectives, designing and testing solutions to achieve the objectives, and running consistent processes to ensure they are implemented efficiently and effectively:

- Workforce capability planning:** This team’s role is to establish the workforce capabilities required to deliver the strategic demands of the organization by eliciting workforce-based business challenges and problems that emerge both from the corporate strategy and on an ongoing basis from the business. As an integral part of that process, they build planning models through scenario, succession, and workforce planning processes that focus on several variables, including capability, location, cost, time, risk, etc. Predictive statistical models are developed based on those hypotheses with data scientists and people analytics experts.
- People process design & management:** This team reflects much of what HR traditionally does today. Firstly, this team works on the hypothesized parameters established as being business critical to the organization’s strategic needs by the Workforce Capability Planning team. They professionally design the talent process based on the stated strategic and tactical needs and emerging parameters. The standard approach in current HR practice is to take the existing people processes and try to reverse-fit them onto the business’ strategic priorities. In this new approach, the people process

team starts from first principles and the workforce capabilities that need to be built and then works backward from there to figure out what has to change or be designed from scratch at the individual and team levels to enable the required workforce capabilities. Team members also are responsible for the ongoing management of the people processes post-implementation, including ensuring they continue to be aligned with the needed workforce capabilities.

- **Data management, productization, and listening:** This team collects and maintains the quality of the people data, both quantitative and qualitative, available to all the teams across the function and is used to model the relationship between talent processes and workforce capabilities. They work hand-in-glove with the people process team in the design phase to model the potential effectiveness of new or revamped talent processes. They also work closely in the implementation and management stages, as the new workforce capabilities are built and maintained, to measure and help analyze any gaps between the principles and the new capabilities practice. This group helps show proof of concept, evidence of where things are working, and opportunities for improvement. They are responsible for implementing and maintaining the HRIS and the automation platforms and service requests so that the whole HR function is in control of its data, its applications and has clarity about what data it can expect to use. They provide productized repeatable talent-based calculations and solutions relating to core talent processes such as apps. Finally, the data team facilitates all people focused organizational surveys such as employee listening, onboarding, HR effectiveness etc.
- **Transformation:** This team is focused on developing and improving the capability of leaders and managers across the organization and ensuring that change is effectively driven forward. They lead designing and executing the change process – the path for building the new workforce capabilities. This includes ensuring that the end results are achieved, not just that a change process is followed. Close cooperation and integration with the other three main functions are needed to ensure that the interdependencies among roles and teams are addressed to ensure the actual workforce capabilities are delivered, not just a large number of the component parts of the new capabilities. For example, filling all new roles is a necessary but not sufficient part of the change; ensuring everyone in the new roles understands their objectives and how to work collectively and collaboratively to accomplish them are just as important, if not more so.

Different parts of the new structure are involved at each step:

- Workforce capability planning team: Takes the lead on steps 1 and 2. Helps consult on steps 3 and 4.

- People process design and management team: Takes the lead on steps 4, 5 and 7. Helps with the work on steps 3 and 6.
- Data management, productization and listening team: Takes the lead on step 3. Works closely with the People process design and management team on steps 3, 4 and 7.
- Transformation team: Takes the lead on step 6. Works closely with all the other teams on the other steps.

Summary and conclusion

We have presented a new HR operating model that focuses on the missing critical elements in HR's strategic work: building the strategic capabilities needed to execute the strategy, and deploying the right people processes to support the strategic capabilities. The two foundations for the new operating model are (a) a new set of design criteria for HR and the HRBPs (delivering the people processes and workforce capabilities that produce the requisite strategic capabilities and business outcomes), and (b) new processes for identifying, measuring, and improving the needed workforce and strategic capabilities.

The diagnostic steps needed to implement the new HR operating model are as follows:

1. Orientation of current personnel/job design: are they focused on the right things?
 - a. We may have the right structure, headcount, and capabilities in place, but people's roles and responsibilities are not focused sufficiently on building workforce capabilities that directly and sufficiently lead to the strategic capabilities needed to execute the strategy.
2. Capabilities of current personnel: do we have people who can do the work the way it needs to be done?
 - a. Even if we redesign roles and responsibilities, do the people currently working for us have the capabilities (competencies) to do the new work? If not, they have to be developed or replaced.
3. Headcount: do we have enough people with the right capabilities?
 - a. Even if we close any competency gaps for our current people, do we have enough of them to do the new work? If not, more have to be hired or transferred from other ,HR or business roles.
4. HR structure (org design): is the HR function structured correctly from the ground up to do the work efficiently and effectively?

- a. Even if we do all three of the previous steps, that might still be insufficient for the work to be done the right way. Legacy org structures often keep people aligned with and working towards the old ways of doing things. A complete redesign might be needed to ensure the new work is a primary focus of the entire HR function.

Shaping and transitioning to a new operating model represents an opportunity for transformation and growth. While HR functions across organizations are at diverse stages of maturity, each has its own set of strengths and capabilities. Some may have to do only the first one or two steps – addressing the orientation of existing people and roles, the work they focus on doing, and closing competency gaps among current personnel. Others will need to deploy additional personnel – increasing headcount – to ensure the strategic work is done well and in a timely fashion.

Our experience has shown that most organizations, representing the bulk of companies globally, will need to totally restructure their HR function around the new HR operating model to maximize the chances of delivering the workforce and strategic capabilities required to produce the needed business outcomes.

Transitioning from the conventional HR operating model to a more strategically aligned one is a path filled with potential. By leveraging systematic and structured approaches, organizations can simplify this transition. The commitment made in the initial stages and throughout the implementation will pave the way for long-term rewards, benefitting both HR and the business.

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