The Future of HR? It Isn't What You Think

Linda Brenner

A lot of talk in HR circles lately has centered on the idea that HR needs to find a way to transform itself in an effort to gain a "seat at the table." Pleas from both inside and outside the function have implored HR to step up its game and undergo a transformation in order to deliver more strategic outcomes and business-unit-aligned support.

In many organizations, HR transformation meant taking an elaborate path to drive down costs and streamline people-related administrative work. In these cases, a successful HR transformation simply resulted in cost reductions. Others have attempted to transform HR in different ways, including multiple forms of reorganization, introducing expensive HR technology solutions, and even outsourcing much of the HR function. At the most extreme end, some companies have eliminated the HR function altogether.

Since *Fast Company* magazine first published the article, "Why We Hate HR" in 2005,[1] HR has been faulted, blamed, and "transformed" in an effort to make the function more relevant. More recently, several *Harvard Business Review* (HBR) articles have attempted to define what HR needs to do to get back on track. Everything from splitting the strategic part of HR from the more administrative part to taking a more holistic approach to help the middle 60 percent of performers has been proposed as a means for fixing HR. As recently as last summer, an HBR article by Peter Cappelli, "Why We Love to Hate HR … and What HR Can Do About It," outlined steps for what HR should be doing now.[2] But these approaches still miss the mark.

The ultimate problem with these recommendations is that they are operating outside of the context of business value. The "transformed" HR function lacks a clear definition of and objective evidence to signify its success. That's why we consider the movement toward HR transformation merely iterative and do not believe that it will ultimately be transformational. Until HR can solve the missing connection between value creation and critical human capital, it will continue to fall short.

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WHO MOVED MY TABLE?

The issue is not a seat at the table. The table moved; that's the issue. After all, even in the most "transformed" HR environment, HR is fixated on the role of people in much the same way they were in the industrial age—when workers were needed to leverage manufacturing assets. In our new economy,

Published online in Wiley Online Library (wileyonlinelibrary.com). DOI 10.1002/ert.21545

intellectual capital (IC) is the new value driver and, as a result, the talent that produces it rules the roost.

Intellectual capital drives the market values of companies across all industries—one just needs to look to the value of intellectual capital at companies like Facebook, LinkedIn, or Google. IC makes up nearly their entire market values. Even for more traditional, nontech companies like Walmart and John Deere, IC makes up more than half their value. Knowledge workers have become the most valuable asset for today's organizations, and HR's challenge is a supply shortage and much higher portability than the manufacturing assets of old.

Yet in spite of the many attempts at structural transformation, HR has not been able to adjust to this new reality. *Our own experience and research has led us to assert three primary reasons as to why HR has been limited in its ability to achieve measurable progress toward its own "transformation."*

1. **HR is untethered from business value.** Unconnected to the consequences of the business's performance, either positive or negative, HR operates in the absence of the same accountability framework within which other business leaders operate. The model that HR operates in hasn't changed since the industrial era—there is virtually no differentiation of HR deliverables among all of an organization's roles. At its core, HR does essentially the same thing for all roles, whether it is filling requisitions, compensating employees, planning for succession, or managing performance. By failing to link HR strategies to business strategy and value creation for companies in a real, measurable way, HR is hindering its ability to play a genuine role in the success of the organization.

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2. **HR is operating under the misguided and dated idea that parity equals fairness.** Although this philosophy might have worked in a manufacturing-centric era, when talent was not the most important asset, this mind-set today can have devastating consequences for a company over time. For companies in high-intellectual-capital industries like pharmaceuticals or technology, spreading limited resources as evenly and thinly as possible is a poor substitute for investing wisely and judiciously. The fact is that some individuals are more critical to a business because of the roles they play and the value the company derives from those functions. Historically, HR has been unable or unwilling to shift its mind-set to make talent decisions based on this new context.
3. **HR is unable to help senior leaders identify where the most critical roles in the business are based on the company's vision for the future.** HR teams often lack the leadership and analytical skills to gain a clear understanding of value creation as it relates to hiring, talent development, and employee retention. Without a data-based mentality for decision making and forecasting, HR cannot facilitate the discussions that are necessary to drive significant changes or overinvest in areas that are critical to the company's

> talent strategy. Part of this challenge is that HR professionals themselves tend to be more humanistic than capitalistic. According to findings from the New Talent Management Network, most HR incumbents are in the function because they want to help people.[3] Quite simply, their love for and interest in people typically outweighs their love for and interest in the business.

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The administrative skills and humanistic attributes of the industrial age are now obsolete. Attention must be paid to learning how to define and lead change that is guided by a deep understanding of the value creation for an organization. If HR is unable to accomplish this, then it is destined to become obsolete as well.

A NEW HR MODEL

Our belief is that it's not actually a question of HR transforming itself so much as it is the emergence of a new function that will blend two critical business competencies—HR and finance. The fact is that many business leaders, especially entrepreneurs and start-up CEOs, have an almost visceral reaction to the notion of "human resources." They will do almost anything to avoid hiring HR people because they equate them with bureaucratic minutiae and administrivia. Netflix, which has been credited with "reinventing" HR by doing away with many traditional HR practices like paid time-off policies and formal performance reviews, is a prime example of a company that has taken this tack.[4]

Yet these same business leaders clearly recognize the importance of talent to their success. Their resistance to HR is due to the perceived administrative burden, rather than the ultimate value they place on taking care of their top talent. At some point in an organization's growth, however, it becomes necessary to assemble some type of HR team. It seems evident that a new breed of human capital professionals is required to ensure that a measurable talent strategy can be developed that truly reflects a deep understanding of the connection between talent and the company's value creation.

In a manufacturing-based economy where tangible capital was the primary means of value creation and the largest expenditure, a close connection between operations and finance was required in order to fund and execute economically sound business decisions. Today, finance and HR need to build an equivalent relationship because human capital is now the primary means of value creation as well as the largest expenditure in our new economy. This relationship will enable companies to maximize people-related financial outcomes and measure the results of these efforts.

The demand for human capital as a method for increasing the value of IC, along with a scarcity of talent, all underscore the need for a new model for talent management that will maximize a company's relevant IC.

In order to be successful, the roles of chief financial officer (CFO) and chief human resources officer (CHRO) must evolve. These two roles must champion a new way forward that is rooted in an understanding of the impact of IC on market valuations. The demand for human capital as a method for increasing the value of IC, along with a scarcity of talent, all underscore the need for a new model for talent management that will maximize a company's relevant IC.

Key Requirements: Strategy, Leadership, Process

As a first step in establishing this new model, companies should hone their focus on human capital by establishing a strategy that:

1. Facilitates agreement among senior leaders about how IC is produced and then designs a strategy that will maximize its production.
2. Determines where IC exists within the organization and estimates the relative value of each IC component.
3. Compares where the organization currently is to where it needs to be in order to understand the talent implications of the most valuable IC components.
4. Agrees to overinvest in talent for critical roles in an effort to avoid gaps.
5. Defines organizational goals that are related to the IC needs of the future.

More than a fine-tuning of the current HR or finance roles, this approach reflects a completely new model that can break through the outdated frameworks and perceptions of ineffective HR roles and functions. Although we refer to this new model as the "IC Strategy Team" in order to illustrate our point, it is less important to focus on having a different organizational structure or a new title and more critical to ensure that this function has an understanding of value creation and an ability to master it.

The new IC Strategy Team that we recommend is truly a hybrid of traditional HR and finance professionals and skills. In addition to focusing on analytics and measurement, this team also will have a deep understanding of the way in which assets are allocated in order to power the business, as well as expertise in how to attract, select, and retain a high-performing workforce. A melding of the capabilities of both HR and finance is necessary to produce the appropriate business solution.

After the strategy has been developed and agreed on by following the steps above, the process that will deliver the targeted results must be defined, and clarity about activities, technology, people, and measures must be achieved. As discussions around process design progress, organizations must ensure that the effort is focused on three guiding principles: increasing business value, overinvesting in critical roles, and measuring efforts and results.

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OVERINVESTING IN CRITICAL TALENT

Talent processes that are led by an IC Strategy Team will look vastly different from the ones managed by a traditional HR team. Under the new model, there is a laser-sharp

 DOI 10.1002/ert

focus on differentiating between critical and noncritical roles to guide talent investments.

For instance, under the IC Strategy Team approach, talent-acquisition processes would more look like this:

- For critical roles, a team of highly skilled and compensated researchers and recruiters would work closely with hiring managers to find, screen, and close the most qualified candidates. This team would rival the strongest search firms in its ability to surgically find and remove talent from other occupations or companies when business needs dictate.
- For harder-to-fill, noncritical roles, a team of highly skilled recruiters would leverage tools and technology to research, target, and sell passive candidates.
- The noncritical positions that are considered easy to fill would be supported by junior recruiters who use technology and assessment tools to screen candidates before passing along the most qualified to hiring managers.

To be successful, this differentiated approach must carry over into all talent processes to continuously ensure talent is available for critical roles. Every step that HR takes must support this new philosophy. As a result, a whole host of commonplace HR processes and practices must change because they make little sense in an intellectual-capital-driven world.

Take the typical onboarding approach at most organizations. Usually, the formal new hire orientation program is required for everyone and unvaried for anyone. Often led by junior HR or administrative team members, these programs typically focus on the completion of necessary paperwork and lectures related to complying with workplace rules. For a company that has just invested untold resources to entice a top performer to join its ranks, this can be a potentially disastrous first introduction to the organization.

From management training to succession planning and from compensation policies to standard employee engagement surveys, the typical HR approach of parity and equity is undoubtedly antiquated. Although it may be a bitter pill for HR to swallow, the overinvestment in critical talent is an essential strategy for sustaining the creation of business value. Surely the employees working in accounts payable or legal at organizations like Google or Facebook recognize that the product designers and software engineers are more critical to the success of the overall business. If a rising tide lifts all boats, then in fact the logic behind overinvesting in those key roles rather than the noncritical accounts-payable positions becomes crystal clear.

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HR's historical attempt to make things "fair" for employees and mitigate exposure to risk often comes at the expense of successful business outcomes and can have a detrimental impact on the business in the long term. By first charting a path that narrowly targets the best talent approaches for a defined group of critical employees, companies can eventually roll out those practices more broadly across the organization. But the first step must begin with overinvesting in the most critical parts of the business and then moving outward.

WHO WILL LEAD THE NEW MODEL?

We won't pretend that this change to a differentiated, IC-focused approach will be simple. In fact, it will be a huge challenge for businesses and especially difficult for the traditional HR function. But it is absolutely necessary in order to drive sustainable growth via IC for the future.

What remains to be seen is which organizational function will take charge of this opportunity. Will HR be able to truly transform itself and gain the skills and attributes needed to add real, measurable business value? Or will finance hijack HR's functions and continue to enjoy its comfortable seat at the executive table? If HR cannot find a way to chart its own course and deliver innovative approaches to business challenges, then it must come to terms with being overtaken by faster, better competition. So, the question is: is HR capable of leading a true "transformation"?

NOTES

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Linda Brenner *started Designs on Talent, an HR consultancy, in 2003 with the vision of helping organizations improve talent-acquisition and talent-management results. She started Skillsify, an HR technology firm, in 2011. Together, the firms' clients range from mid-cap companies to global consumer brands, such as Coca-Cola, Expedia, L'Oreal, and Ogilvy. Previously, Brenner spent her professional career leading talent-acquisition and talent-management teams for Gap, Pepsi/Pizza Hut, and Home Depot. She is coauthor of a new book,* Talent Valuation: Accelerate Market Capitalization through Your Most Important Asset *(Paul Boger, 2015). She may be reached at linda@designsontalent.com.*