

JUMP-SHIFTING HR'S IMPACT ON BUSINESS PERFORMANCE

By William C. Miller and Debra R. Miller
Directors, Values Centered Innovation





Part 1: HR's pivot-point opportunity to sharpen its focus

Chief Executive Officers, Innovation Officers, Human Resource Officers, and other senior leaders all know the increasing urgency of integrating HR strategies with business priorities and needs. J. Craig Mundy, VP of HR at Ingersoll Rand, highlights the challenge: “To truly be partners to the business, we must identify those critical points of the business where the strategy succeeds or fails, and provide relevant talent solutions.”

Indeed, Deloitte's 2016 *Global Human Capital Trends* report states that 51% of the 7,000 surveyed business and HR leaders actively strive to correlate business impact with HR programs. And that's up from 38% in 2015.

This alignment between HR and business priorities provides the highest impact on overall HR effectiveness. That's according to the *HR Trends and Priorities 2016* study by the highly-respected McLean Group (covering almost 600 executives in North America, 30% of whom are not in HR). But McLean also found that such alignment is achieved in only 35% of the surveyed organizations. More often than not, HR operates as a tactical group rather than a strategic function.

However, a perfect storm has arisen in business pressures, business priorities, and HR maturity that offers HR a pivot-point opportunity to transform – to jump-shift – its impact on overall business needs. *That opportunity is*

to concentrate its internal functions and priorities on the single most important, highest priority driver of business success today.

And just what is that driver? It's to be found at the intersection of current CEO priorities and HR priorities – revealed by an analysis of global executive reports from Deloitte, KPMG, the Conference Board, the McLean Group, BCG, and others.

For that analysis, let's enter the world of CEOs as they deal with the complexities and challenges of this era...

KPMG's *2016 Global CEO Outlook* study (surveying almost 1,300 CEOs in 10 of the world's largest economies) narrates that 88% of CEOs are concerned with customer loyalty, and 82% are concerned with whether their products/services will be relevant to customers in 3 years' time – given the relatively frequent and fundamental changes in the behavior of customers.

In addition, KPMG recounts other pressures that are on the minds of over 80% of the CEOs, including:

- The impact of the global economy on their company's growth, especially in slow economic regions
- The forces of disruption and innovation shaping their company's future
- How Millennials and their differing wants/needs will affect their business
- The potential of talent and skill shortages
- Competitors' ability to take business away from their company (especially new competitors with disruptive business models)
- Whether their enterprise is keeping up with new technologies (such as the "fourth industrial revolution" involving the integration of cognitive computing and artificial intelligence)

CEOs are also having to address greater expectations of their stakeholders. PWC's *2016 Annual Global CEO Survey* of over 1,400 CEOs globally cites that 69% of CEOs in their study link their organization's purpose to the interests of a broad set of constituents in society, not just to benefit their shareholders. For example, they are having to address the growing trend of the "good consumers" who make choices not only on the quality of the service provided, but on the causes that a company supports.

"CEOs acknowledge that their customers as well as other stakeholders increasingly want them to do more to tackle important problems. The response for many has been to focus even more strongly on customer needs as well as drawing on their companies' own sense of purpose – what they stand for – to define a more comprehensive view of how their businesses operate within society."

In response, these CEOs are largely aligned on the key strategies needed to deal with such business pressures. Reports from the Conference Board's *CEO Challenge 2015* (with data from over 900 executives) and KPMG both name the following as the top 4 CEO strategic priorities:

1. Accelerate/sustain business growth
2. Attract and develop human capital

3. Enable innovation throughout the entire organization
4. Focus relentlessly on customers

After that, for the 5th and 6th priorities, the Conference Board adds “Operational Excellence” and “Sustainability” while KPMG added “Implementing Disruptive Technologies” and “Stronger Marketing and Branding.” Significantly, the Conference Board report adds that CEOs are placing a strong emphasis on trust-building behavior, ethical accountability and transparency to meet an array of challenges. “Trust-building is viewed as fundamental to growing their businesses.”

So, those are the strategic priorities that are on the minds of CEOs globally in order to deal with the opportunities and challenges that lie ahead.

What’s going on in the world of HR at the same time?

Deloitte’s *2016 Global Human Capital Trends* study named key trends that have enormous implications (and stresses) for HR:

- Demographic upheavals have made the workforce both younger and older - Millennials make up more than half the workforce; Baby Boomers working past their 60s must adapt to new roles
- Digital technology is now everywhere, disrupting business models and the way work is done
- The pace of change has accelerated in business, requiring organizations to be more agile
- The challenges of an increasing use of freelancers as part of the workforce
- The use of analytics is becoming pervasive, even (especially) in HR
- Pressures growing from evidence that correlates HR capabilities and financial performance
- *“A new social contract is developing between companies and workers... leading to expectations of rapid career growth, a compelling and flexible workplace, and a sense of mission and purpose at work.”*

HR has its hands full addressing such challenges in a wide variety of its internal functions. In the McLean report, these functions are ranked by HR leaders according to their relative importance with respect to overall HR impact:

- HR Strategy (includes strategy, culture, organization design, change management, and analytics)
- Employee engagement
- Talent acquisition
- Talent management
- Performance management
- Learning and development
- Total compensation
- HR operations (including regulatory compliance)

It's the challenges involved with these functions that can at times be so time consuming that it relegates HR to more of a tactical unit than a strategic one. Yet, within the context of these pressures and the goal of aligning HR strategy with business needs, the top strategic priorities for HR have been consistent over the past few years. As reported by Deloitte, KPMG, and the McLean Group, the top 3 HR priorities are:

1. Develop leaders
2. Engage employees
3. Change the culture

And this year, according to Deloitte, a 4th high-priority need has also emerged from the multitude of business pressures: to redesign the organization itself to make it more agile and flexible through a "network of empowered teams." 92% of the executives they surveyed saw this as a critical priority.

So, there we have it. On the one hand, we have global CEOs largely aligned on 4 strategic business priorities to deal with the pressures and challenges of the next 3 years:

1. Accelerate/sustain business growth
2. Attract and develop human capital
3. Enable innovation throughout the entire organization
4. Focus relentlessly on customers

On the other hand, we have HR with 4 key strategies for getting its job done:

1. Develop leaders
2. Engage employees
3. Change the culture
4. Re-design the organization

Take a moment to examine the two lists together. Do you have any insights about...?

What could be HR's concentrated focal point to jump-shift how it impacts business success?

What do you think?

Here's a hint... In order to survive and thrive in the coming years, CEOs see the necessity for, and perhaps the inevitability of, large scale change in just about every facet of their companies. KPMG reports:

- 41% expect to be running significantly transformed companies in 3 years' time
- 50% are currently attempting to change their culture
- 72% say the next 3 years will be more critical for their industries than the last 50 years
- 80% are currently restructuring their organizations or have recently completed that restructuring

Continue to Part 2: *A laser-like focal point for transforming HR's value to the business.*

FOCUS



Part 2: A laser-like focal point for transforming HR's value to the business

As we've already seen, HR has a pivot-point opportunity to transform its contribution to meeting overall business needs. To make this happen two sets of priorities are on track to converge...

On the one hand, global CEOs are currently focusing on 4 top business priorities to deal with the business conditions and challenges over the next 3 years:

- 1. Accelerate/sustain business growth*
- 2. Attract and develop human capital*
- 3. Enable innovation throughout the entire organization*
- 4. Focus relentlessly on customers*

On the other hand, HR has 4 top strategic priorities for getting its job done:

- 1. Develop leaders*
- 2. Engage employees*
- 3. Change the culture*
- 4. Re-design the organization*

How these two sets of priorities converge and integrate will shape HR's opportunity to jump-shift its role and impact as a strategic business partner.

Context is all-important, and global CEOs are defining a specific context for this convergence: large scale, transformative change must take place in virtually every facet of their companies in the coming years. *The New CEOs Guide to Transformation*, from the Boston Consulting Group (BCG) in 2015, states:

“We define a transformation as a profound change in a company's strategy, business model, organization, culture, people, or processes... a fundamental reboot that enables a business to achieve a sustainable, quantum improvement in performance, altering the trajectory of its future.”

Taking all this into consideration, we ask: *What is the single, most important, highest-priority driver of business success that HR could concentrate all its internal functions and priorities on – and thereby maximize its impact on the enterprise?*

As a starting point, if large scale transformative change is the necessity of the day, then HR is pressed to transform how it approaches all its internal functions, including leadership development, employee engagement, culture change, and organization design. This will require a mixture of breakthrough and incremental innovations throughout HR – something that we've observed is currently going on with HR in many corporations. Deloitte reports that 79% of the HR functions are beginning to use innovative “design thinking” to craft the employee experience as they manage, support and train people.

But that's internal to HR: innovating how HR meets its functional priorities. The business mandate is much broader and bolder than that. *HR must focus its HR strategy to serve the top CEO priorities by enabling all kinds of business-related innovation throughout the entire organization.* That's what HR is for.

And this is where we begin to see the light! The *capacity for INNOVATION* is absolutely central to the transformation that CEOs are looking for. Put another way... *Being innovative* is the *fundamental competency* for responding to key business challenges and addressing top strategic priorities for the business.

The reports by BCG, the Conference Board, and KPMG, illuminate some of the specific targets for innovative solutions that can transform the top CEO priorities. For example...

To transform GROWTH, innovative solutions are needed for:

1. Generating disruptive business models – and responding to competitor disruptions
2. Collaborative growth through partnerships or other “open innovation” relationships
3. Better measures of the impact and value of innovation, and key risks for stakeholders
4. Trust-building, ethical accountability, and transparency as fundamental to growth

To transform HUMAN CAPITAL, innovative solutions are needed for:

1. Attracting and developing new talent who are “ready and agile” – including Millennials

2. Creating and managing new knowledge
3. Revitalizing the organization design in terms of teams, not silos

To transform CUSTOMER CENTRICITY, innovative solutions are needed for:

1. Co-innovating relevant, new products/services, with customer involvement
2. Using technology to drive change in the way organizations interact with customers
3. Meeting the ethical and “green” expectations of “good consumers”

Let's keep going with the other CEO priorities brought out in the Conference Board and KPMG reports...

To transform OPERATIONAL EXCELLENCE, innovative solutions are needed for:

1. Digitizing the entire value chain
2. Increasing quality, efficiency, and productivity at all levels

To transform SUSTAINABILITY, innovative solutions are needed for:

1. Developing new levels of relationship with all stakeholders, including activist shareholders
2. Enhancing the portfolio of sustainable products and services

To transform the generation of DISRUPTIVE TECHNOLOGIES, innovative solutions are needed for:

1. Keeping up with the newest technologies
2. Improving the effectiveness of R&D

To transform MARKETING AND BRANDING, innovative solutions are needed for:

1. Reshaping sales and marketing, while ensuring that sustainability is part of the brand
2. Communicating transparently and digitally with customers, employees, and stakeholders

In short, HR's mandate is to build the competencies that employees throughout the organization will need to innovate the what, why and how of their everyday work. This means putting the power, responsibility, knowledge and tools for innovation at the fingertips of every employee – with a common language and understanding, integrated productivity tools, and processes that can be used throughout the organization. This competency building is far more than just the behaviors and skills needed, it also includes the inner transformation and mindset shifts required to mobilize the entire workforce as a coherent innovative whole.

HR is in the unique position to make this kind of contribution, impact, and difference. HR knows how to look across the organization and connect dots as it develops policies and practices that work across functions and levels. HR's talent development expertise knows how to develop the competencies needed across an organization to maintain industry leadership by innovating and operating well. HR's organization development expertise knows about large scale engagement and change, and how to design systems that transform the

organization. HR knows how to be broadminded and focus on the good of the whole as it exercises its duties to the organization. HR understands the role that “inner transformation” plays when evolving a culture.

With expanded influence and responsibility for enabling innovation, HR can make its maximum contribution to meeting the innovation challenges that will determine the organization’s future.

So... How does HR go about playing this transformative role through a focus on innovation? Let’s explore that in *Part 3: Integrating HR and CEO priorities in a coherent framework.*



Part 3: Integrating HR and CEO priorities in a coherent framework

Previously, we examined how HR has a pivot-point opportunity to transform how it meets the most critical CEO priorities. We saw how that opportunity could be realized through a laser-like focus on *being innovative* as the *fundamental competency* to address these priorities.

The nitty-gritty, down-to-earth, practical question now rises up: *How might HR achieve this potential, and jump-shift its impact as a strategic business partner?* Here's our recommendation, as a starting point for dialogue...

Start with the top HR priority: Develop Leaders. Commit to a comprehensive focus on **Leadership for Innovation**. With this focus, leaders at all levels can learn and practice what it takes to implement the other 3 components of an HR *innovation* strategy:

- Engage employees *to work innovatively as part of their day-to-day job*
- Transform the culture *to sustain innovation at all levels*
- Redesign the organization *as a network of innovative teams*

All four HR strategic priorities are addressed within this coherent framework. Starting with **Leadership for Innovation**, HR can develop large-scale change programs for building innovation competencies and practices at different levels and in different parts of the organization. People can apply their innovative skills to the CEO list of essential, transformational needs: business growth, human capital, customer centricity, operational excellence, sustainability, disruptive technologies., and marketing and branding.

Within this **Leadership for Innovation** focus, there are four key roles for leaders to play:

1. Practitioners and Role Models for being innovative themselves
2. Facilitators and Coaches for others to be innovative
3. Sponsors for the climate & culture for innovation
4. Executives attentive to the “return on innovation investment” as part of business performance

Strengthen *leaders at all levels* (from entry supervisor to CEO) in the innovation competencies for the first 2 key roles: Practitioner & Role Model; and Facilitator & Coach. By practicing these roles, leaders not only augment their own job performance but also earn the credibility they need to effectively guide and motivate their peers and subordinates.

Strengthen *senior leaders* with the innovation competencies for the other 2 key roles: Sponsor and Executive. In these roles, senior leaders can effectively communicate and “institutionalize” the norms, values, policies, and systems needed to drive and sustain business transformation.

However... Caution... Big challenges ahead!

When taking on this pivot point opportunity, be conscious that for any transformative change to take root, 3 positive mindsets are essential to address in large scale change for innovation. Let’s call them the top-down, bottom-up, and middle-out mindsets. Without these mindsets, all this becomes a “program du jour” that will underachieve its potential – and won’t be transformative. Shaping and supporting these positive mindsets is one of HR’s first innovative tests for transformative change!

For the top-down mindset, the C-suite needs to see the same critical importance for innovation as the CEOs in the KPMG, PWC, BCG, Conference Board, and other reports. Being innovative is the fundamental driver for achieving CEO strategic priorities. And when HR focuses on building innovation expertise and stamina across the organization, it forges a dual-commitment with the C-suite for business success. Without this level of commitment, it may be possible to shift micro-cultures within an organization, but not the overall culture.

Interestingly, the level of a CEO’s support for innovation may depend on how many years he or she has been in that position. The KPMG report reveals that CEOs who have been on the job for 5 or more years may be more likely to say it’s important to have a culture for innovation than CEOs with less than 5 years, 78% vs. 63%. While both levels of support are positive, the momentum for transformational change will ride on the commitment of the C-suite as a strategic driver of the culture.

For the bottom-up mindset, individual contributors and teams need to see that being innovative is a natural, integral part of their current jobs, not an “add-on” to their regular duties. When HR defines *being innovative* as simply “doing something in a new, better, or different way,” that’s something every employee can relate to: who

doesn't have the need to do some aspect of their job in a new, better or different way? Then it's HR's job to ensure they have the confidence, skills, and opportunities to succeed in their performance of this aspect of daily work.

For the middle-out mindset, work to have mid-level leaders and HR leaders both see the complementary roles and skills they each bring to enabling innovation. Mid-level leaders have likely been the primary agents for innovative results within their areas of responsibility, and may be skeptical of HR's role in building innovation competencies. When HR focuses its expertise on developing a coherent framework, and collaborates with functional units to design and deliver the full complement of innovation competencies, that partnership will prove to be invaluable.

To guide the growth of these mindsets, and the positive practices they will spawn, it's critically important to have the right analytics by which to measure progress. According to the McLean report, "metrics and analytics was the least effective HR area regardless of organization size." Deloitte adds that 77% of executives now rate people analytics as a key priority.

For example, 44% of companies are now using workforce data to predict business performance, up from 29% in 2015. From an innovation perspective, such analytics could trace how well the organization is:

1. Establishing a common language for innovation
2. Aligning expectations and opportunities for being innovative
3. Promoting stretch goals and risk-taking
4. Fostering a healthy innovation process
5. Practicing versatile, innovative thinking
6. Engaging people across boundaries to co-create innovative solutions
7. Empowering different types of innovation

One more thing to be conscious of... Forging positive mindsets may be easier in companies that are already top performers in their industry. KPMG defines top performers as those who had an average revenue growth of 10% or more for the previous 3 years. Compared with other companies, top performing companies are more likely to have innovation already embedded in the business, 44% vs. 24%

On the other hand, the urgency decreed by CEOs, plus their confidence of success, can rule the day over any history of entrenched mindsets. According to KPMG's report, as well as Imaginatik's 2015 report on the *State of Global Innovation*, over 85% of the global CEO's are confident in their company's 3-year growth potential, as well as confident about the economic conditions over that period (80%). They're confident that they and their companies can take the leap and land safely.

In closing, two viewpoints comprise the through-line of this conversation:

- *HR has a pivot-point opportunity to jump-shift its impact as a strategic and innovative business partner*

- *HR can transform its value to the business using innovation as a laser-like focal point*

Viewpoints have power and consequences. From our decades of experience consulting with multinational corporations, we strongly believe that these points of view have a “fit” with the times, and a vitality to empower the consummate potential for HR to lead, engage, and transform organizations... and thereby make a quantum leap in its innovative impact on business success.

REFERENCES:

2016 Global Human Capital Trends, Deloitte

HR Trends and Priorities 2016, The McLean Group

2016 Global CEO Outlook, KPMG

Annual Global CEO Survey 2016, PWC

CEO Challenge 2015, The Conference Board

The New CEOs Guide to Transformation 2015, BCG

The State of Global Innovation 2015, Imaginatik