

Advisory
People and change

Assess your HR organization's transformation potential

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Taking the first transformational steps

The heart of the matter

What will it *really* take
to transform your
HR organization?

At some point, every HR leader is either starting, finishing or has recently lived through a functional transformation project. Many have championed at least one initiative, while others are gearing up for their second or third. Regardless of experience, the challenge of leading an HR organization through fundamental change is not for the faint of heart. With transformation budgets in the millions of dollars, missteps are costly and visible, with impacts that can be felt across the enterprise.

Even worse than the unexpected detour is misgauging from the start what's really required to reach the final destination. Too frequently, HR transformation initiatives are undertaken without a clear understanding of how robust the human capital capabilities are across the enterprise, and how much time, energy and organizational commitment is necessary to move them ahead. Insufficient attention is paid to determining the actual drivers behind a transformation effort, creating the plans needed to address key challenges, and recognizing the critical factors that play such an important role in shaping the final result. Inevitably, the transformation effort fails to fully deliver on its promise of performance improvement. This sets the stage for rework and tarnishes HR's reputation within the organization.

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An in-depth discussion

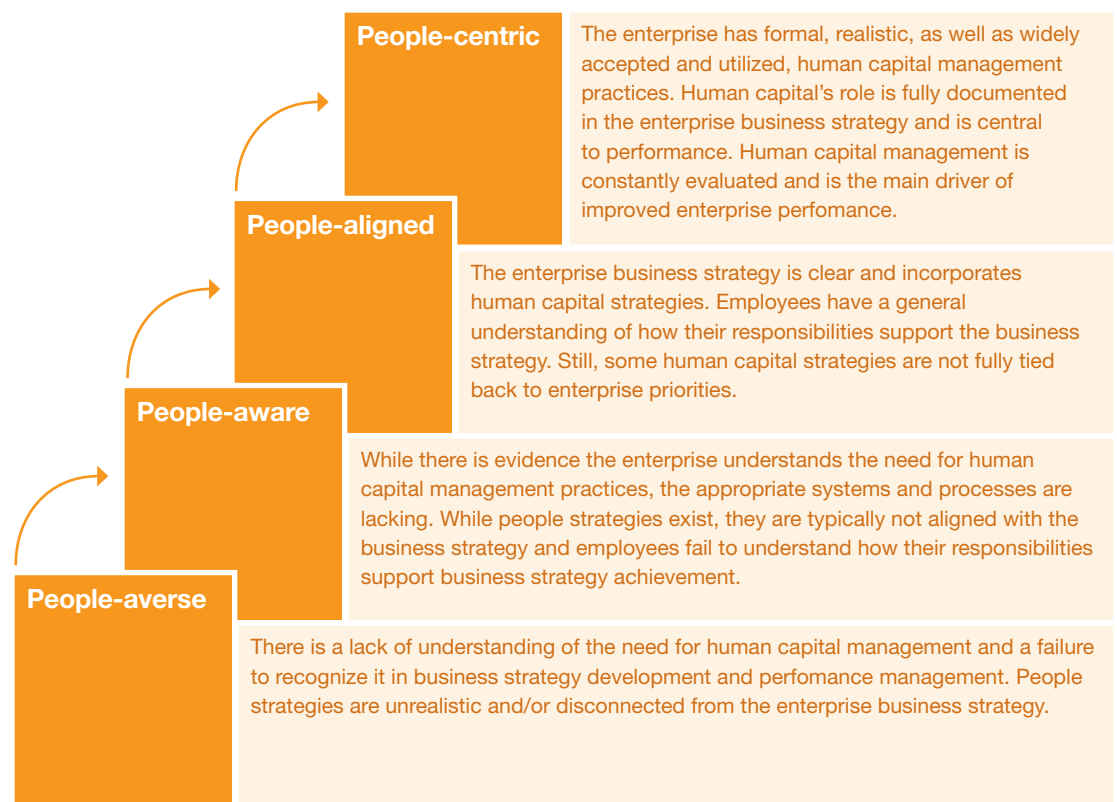
Capturing your organization's full HR transformation potential

How transformed are you now?

Confucius once said, “A journey of a thousand miles begins with a single step.” In the context of HR transformation, where you are when you take that first step can mean the difference between a short drive and a long road trip. Evaluating the strength of existing human capital capabilities will help you determine where the journey should start. More importantly, it will create a clearer picture of the time, resources and commitment necessary to take the performance of your HR organization to the targeted level.

One framework that we have found helpful describes four stages of maturity through which the enterprise should transition as HR improvements are implemented. Each stage functions as a guidepost that allows HR leaders to assess current performance levels over an improvement continuum (Figure 1).

Figure 1: Human capital maturity levels



When an organization reaches the “people-centric” stage, every employee understands how his or her work contributes to the overall enterprise strategy.

The first stage, “people-averse,” sends a clear message that strategic HR initiatives are not tied into the overall business strategy, nor are they supported by sufficient investment. Most likely, there’s little more than transactional capability within HR.

The next stage, “people-aware,” recognizes there is organizational awareness of the need to invest in HR. But there’s acknowledgment that the right skills may be missing if the enterprise decides to move ahead on that kind of investment.

At the “people-aligned” stage, intent and action are more closely aligned. Strategies are defined and organizational leaders understand enterprise success is grounded in strategic investments in the workforce.

When an organization reaches the “people-centric” stage, every employee understands how his or her work contributes to the overall enterprise strategy. And, because there’s shared understanding, it becomes more practical to make the kinds of HR investments that can help reduce the greatest obstacles to business success.

Our experience suggests you should not underestimate the importance of evaluating where performance falls on this continuum when you begin your HR transformation journey. Because not every organization is at the same starting point, transformation goals and the path each must take to reach its targeted destination will vary. If your orga-

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nization is in one of the earlier stages, you’ll need to set proper expectations within your HR and business communities, helping both to prepare for a longer transition period. If your organization is further along the continuum, you may be able to progress more quickly and accelerate how your workforce contributes to the company’s overall business performance.

For most HR leaders, a miscalculation at this juncture can mean the difference between launching a successful transformation initiative versus surviving multiple iterations that can leave a lasting impression of failure, ineffectiveness and malaise.

What’s driving your HR transformation effort?

Once you better understand how far the journey could be, you can make a more informed decision concerning the steps that will help you reach your final destination. As is true for the business traveler and the tourist, the factors influencing this decision are often not the same.

In our research, we asked chief HR officers to identify the primary drivers of HR transformation for organizations within their sector or industry. The research confirmed that regardless of where you sit, the need for HR to play a more strategic role is a common impetus for change. For retailers, manufacturers and financial services firms, this is influenced by changing business models and, correspondingly, the requirement that HR more closely align its efforts with the new business strategy.

By contrast, in the public sector, pressure to reduce operating costs and the imperative to rethink HR operating models due to new technology implementations are two primary drivers behind HR transformation efforts. There are an increasing number of federal agencies and state governments that have

launched large-scale HR transformation initiatives in recent years.

High operating costs are also a consideration for business services providers that need to cut costs in order to aggressively go after market share in a highly competitive environment.

The data reinforces what we know to be true—understanding the specific drivers behind your HR transformation effort can help you determine the right next step for your organization. Is it introducing an HR shared services model or building the HR capabilities necessary to promote a culture of innovation?

What obstacles will you encounter along the way?

Although HR leaders may take different paths to achieve transformation objectives, most agree on the obstacles that will surface along the way. Key challenges that can impede transformation efforts include lack of HR funding and the need to deal with day-to-day HR issues are high on the list.

In addition, HR executives in the public sector and business services often cite a lack of the right HR skills as a challenge to implementing their transformation initiatives. A good example of this is the introduction of pay for performance in some federal agencies. HR practitioners have been expected to implement new practices, policies and systems, as well as become “experts” on a topic for which they may not be adequately prepared or trained.

Based on our experience, HR organizations enduring years of cost cutting and staff reductions frequently face the challenge of trying to break old habits. They may be reluctant to shoulder the additional risks

Short of a GPS, what can you do to help your HR organization come as close as possible to its final transformation destination?

associated with transforming their operation. Whether or not your HR organization is confronting this particular roadblock or others, you should identify the obstacles that may impede your transformation effort. Do this early on, as part of the “route planning” for your trip.

Despite the challenges, some HR organizations progress further than others toward achieving their full transformation potential. Short of a GPS, what can you do to help your HR organization come as close as possible to its final destination?

Build commitment at the top. Executives have indicated that commitment from their organization’s senior leaders was essential to move forward. HR executives who have undertaken successful transformation initiatives actively reach out to their peers to build commitment before launching a transformation initiative. They also leverage formal and informal communication channels throughout the process to keep it refreshed.

Make the case for change. HR leaders working for manufacturing, financial services and retail organizations emphasize the importance of a business case that lays out the need for change. Although their counterparts in the public sector and business services often see this as less of a priority, they believe that skilled change leaders are critical for transformation success. Regardless of your sector or industry, leveraging relevant benchmark data and cost standards

to support the case for change will add to the credibility of your transformation effort.

Create a clear and compelling vision.

HR executives in business services and the public sector see eye to eye on this point. Consider the situation chief human capital officers in the federal government currently face. There's the increasing challenge of managing a blended workforce. There's the need to address the implications of an aging civil service. So, there is a strong mandate for change. However, in an environment that has many and, at times, conflicting sources of guidance, the path forward is far from clear.

A perspective on the road ahead

Based on our research and experience, we anticipate the number of HR organizations heading toward functional transformation will increase. This will happen as leaders seek to improve the human capital capabilities of the broader enterprise in the wake of changing business models, new technology, outsourcing initiatives and shrinking budgets. We believe the transformation journey will become riskier and even more

complex as companies continue to expand their operations around the world. They will no doubt require HR systems, processes and policies that can help them more effectively manage a global workforce. As organizations continue to try to squeeze more performance and efficiency out of all aspects of their operations, HR will be called upon to contribute even more substantially to enterprise success.

HR executives who really understand how to capture their organization's full transformation potential will ultimately improve the human capital capabilities of the broader enterprise. Those who don't will increase the performance gap and put their organizations at a competitive disadvantage.

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What this means for your business

Taking the first transformational steps

Whether you're a transformation neophyte or a seasoned pro, you can take steps now to help your HR organization and the broader enterprise develop the human capital capabilities required to succeed:

- **Develop your transformation initiative with the “bigger picture” in mind.** Successful HR transformation initiatives are rarely designed and executed in a vacuum. Strengthening the capabilities of the HR organization is only the first step. Your transformation initiative should be crafted with an understanding of how these capabilities can be leveraged to grow the overall human capital capabilities of the enterprise. For example, revamping recruitment processes and introducing new technology won't go very far if the managers seeking recruitment support do not understand—or buy into—the new recruitment model.
- **Strategize up front how to address transformation challenges.** HR leaders often recognize early potential impediments to transformation success. Yet they succumb to pressure to “get the project going” without creating a game plan that addresses them. There's a tendency to overestimate the ability of the HR team to keep up with the requirements of their day jobs in addition to fulfilling their transformation responsibilities. Taking the time up front to anticipate how to tackle challenges like this will prevent your initiative—and your team—from straying off the transformation track.
- **Build the right level of support.** Once you determine that a functional transformation initiative is on the horizon, dedicate a healthy percentage of your time to actively market and build internal support for this effort. Identify stakeholders who are critical to the transformation cause within and outside the HR organization. Judiciously engage them in your planning process. Be thoughtful about identifying and managing expectations regarding transformation outcomes early in the process.
- **Stay focused on the work at hand. It may be tempting to expand the scope of your transformation initiative to address other HR priorities.** But often distractions like this will only derail the effort. Stay focused on the work that will have the greatest impact on achieving desired transformation results. Tightly align your transformation priorities with the key tasks required to make them operational. Plan to update your key stakeholders regularly on the results.

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To have a deeper conversation on this topic,
please contact:

Duncan Harwood
Principal
214.754.7244
duncan.harwood@us.pwc.com

Diane Youden
Principal
214.754.5150
diane.m.youden@us.pwc.com

Clayton Gammill
Managing Director
214.754.5097
clayton.d.gammill@us.pwc.com

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