

FEBRUARY 2023

What Makes an Effective HR Function?





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THANK YOU

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INTRODUCTION

Attention to people and organization issues has increased with the COVID pandemic, subsequent mental health and well-being concerns, and clear evidence of the impact of people and organization on stakeholder value. In light of this attention, many consulting firms are exploring the “HR operating” model for how to build an effective HR function to respond to these trends. We see some commonalities in these approaches, including an overemphasis on HR structure, agility as the primary capability, and the employee as the primary customer of HR. Based on our research and experience, we propose an HR value logic that defines what makes an effective HR function so that value is created for all stakeholders. We use “HR function” as a broad term to refer to the HR department, mission, purpose, design, analytics, and people.

This RBL Institute playbook answers the question of what makes an effective HR function by reviewing:

1. The value of “HR” for key stakeholders to build the business case.
2. Nine recent approaches to characterize today’s HR function.
3. RBL’s recent research and insights on HR effectiveness leading to an HR value creation logic.
4. Action implications for diagnosis and improvements for HR value creation.

1.0 THE VALUE OF HR FOR KEY STAKEHOLDERS

In our work, **HR is not about HR, but about the value HR creates for stakeholders**. This simple mantra means that there is a connection between the business context and the HR function. We call this the HR value creation logic (see **Figure 1**) because it has an outside-in logic with HR actions designed to create value for stakeholders.

The business context consists of environmental trends (e.g., social policies, regulation, economic cycles, demographics, technology), future of work assumptions (navigating paradox, harness uncertainty, personalization), and stakeholder value expectations (customer, investor, communities outside and employees inside the organization).

These contextual conditions require increased attention to what we call “human capability” consisting of three domains:

- **Talent:** people, employees, workforce, competence
- **Organization:** culture, team, workplace, capability
- **Leadership:** individual leaders and collective leadership

These domains of human capability can be aligned to business context (e.g., make sure that employees and organizations are agile enough to respond to the increasing pace of environmental change or that employees have the skills to respond to stakeholder expectations).

The HR function then creates initiatives that deliver human capability. For example, the HR department’s purpose should be consistent with the organization’s mission or vision. HR practices should be linked to delivering human capability that creates value in the marketplace. HR professionals should demonstrate competencies that help create human capability that then increases value for all stakeholders. HR analytics are not about HR processes or actions, but how those actions deliver value to stakeholders.

This RBL Institute playbook focuses on creating an effective HR function so that human capability increases so that organizations succeed in emerging business contexts.

Figure 1: HR Value Creation Logic: Function Connected to Business Context



The focus of this playbook will look at the dynamics between Business Context, Human Capability, and HR Function, as well as the HR Function as a whole.

1.1 What key stakeholders want and get from an effective HR function

In a value creation logic, HR exists and is effective if and when it meets the needs of stakeholders inside and out the organization.

Figure 2 summarizes what stakeholders want to receive from human capability initiatives that defines the effectiveness of the HR function.

- Communities where companies operate want to ensure company reputations as social citizens through the human capabilities of the company;
- Investors want more information on human capability to predict the likelihood of business strategies being realized, to improve intangible value which is an increasing component of overall market value, and to reduce the risks of investments;
- Customers want to ensure stable supplier relationships to ensure products and services because of the human capabilities;
- Boards of Directors want to fulfill their fiduciary responsibility by ensuring human capability that enables their company to respond to future opportunities;
- Business leaders at all levels want to ensure that their missions, strategies, and goals are likely to be realized through the human capability they create;
- Current and future employees want to know how the company treats people as embedded in human capability initiatives to determine their likelihood of working at the company;
- Human resource professionals want to prioritize human capability investments that will have the most impact on results that matter.

Human capability initiatives are effective when they deliver these stakeholder outcomes.

Figure 2: Stakeholder Value From Human Capability Initiatives



1.2 Implications of stakeholder value logic

By focusing on value created for stakeholders, HR professionals engage in conversations focused less on the “HR” work and more on the stakeholder outcomes of HR work. For example, when engaging with senior business leaders, HR professionals are more effective when they begin a conversation by recognizing business context and being clear about the stakeholder value the business is trying to achieve, then HR can focus conversation on human capability initiatives that accomplish those stakeholder outcomes. This logic moves beyond “strategic” HR to outside-in value added HR.

Another example would be when a company has a strategy to shift from product innovation to customer service to respond to customer expectations. HR professionals who recognize this customer agenda can then look at the human capability initiatives to increase customer share:

- **Talent:** ensure that employees have customer relationship skills to gain share of customer.
- **Organization:** turn the customer brand promises into the internal organization culture.
- **Leadership:** commit to leadership competencies that are consistent with customer expectations.

Human capability conversations with each of the stakeholders in [Figure 2](#) demonstrate the value of human capability and define the effectiveness of the HR function.

We see these stakeholder conversations on human capability occurring more frequently as evidenced by the volume of media attention on human capability (TED talks, webinars, articles, social media posts), by the US Securities and Exchange Commission (SEC) requirement to disclose human capital, by thought leader forums (e.g., World Economic Forum, World Business Forum, The Conference Board) highlighting human capability issues, and by more conversations with key external stakeholders on human capability:

- With customers to increase customer share by giving the target customer confidence in meeting their future needs because of the human capabilities focused on them;
- With investors to increase market value through intangibles by giving investors confidence in future earnings because of human capabilities;
- With communities to increase social citizenship and reputation by creating human capability policies that encourage responsibility.

In brief, ***HR is not about HR, but about the value HR creates for stakeholders.***

2.0 NINE RECENT APPROACHES TO CHARACTERIZE TODAY'S HR FUNCTION

Because of the increased attention to human capability, most leading consulting firms have expanded their “HR” services to offer clients ideas that will improve the HR function. Each consulting firm suggests a theme for improving “HR” and focuses on dimensions of the “HR function.” We have synthesized this work to help discover what thoughtful colleagues recommend for HR functional effectiveness (see **Figure 3**). In the Appendix are selected slides that capture the insights from these nine consulting firms.

Figure 3: Overview of Views of the HR Function Themes and Focus

FIRM	THEME	FOCUS	
Accenture	Business operating model “High – res”	<ul style="list-style-type: none"> • Resilience / make the change • 6 key capabilities: agile, technology, configure, ecosystem, decision making, re-skill 	<ul style="list-style-type: none"> • 6 CHRO skills: systems thinking, financial acumen, leadership, technology/data, strategic talent, business acumen
Academy to Innovate HR (AIHR)	HR operating models	<ul style="list-style-type: none"> • 5 HR operating models from HR centralization to decentralization 	<ul style="list-style-type: none"> • Best practices: link to business strategy, collaborate, map competencies, redesign operating model and structure
Deloitte	High impact HR operating model	<p>Core elements/philosophies or base assumptions:</p> <ol style="list-style-type: none"> 1. HR customers ... workforce experience 2. Digital workplace empowers the workforce 3. Workforce insights inform business strategy 4. Fluid interactions: breaking silos 5. HR operational services: deliver data and services 	<ol style="list-style-type: none"> 6. Business HR: deploy workforce solutions 7. Communities of expertise: relevant, data-based, experience designed workforce solutions 8. External networks to add workforce solutions 9. HR leadership sets vision and priorities 10. HR enablers
Gartner	Agile HR: flexible	<p>Agile principles:</p> <ol style="list-style-type: none"> 1. Create space for strategic thinkers 2. Implement customer centric model 3. Manage portfolio not set agenda 	<p>HR operating role:</p> <ol style="list-style-type: none"> 1. HR business partner 2. HR problem solvers 3. Agile COEs 4. HR shared services center for service delivery <p>HR technology:</p> <ol style="list-style-type: none"> 1. Connect with employees 2. Manage employee performance and productivity 3. Conduct workforce planning and deployment

FIRM	THEME	FOCUS	
Josh Bersin	HR Capabilities (competencies)	<p>94 individual competencies in 20 domains</p> <p>Priorities:</p> <ul style="list-style-type: none"> • Develop leaders and managers • Change management and communication • Operating as business partner 	<ul style="list-style-type: none"> • Apply principles of organization design • Coaching individuals for performance • Understanding global cultural issues • Terminating senior executives
KPMG	Pathfinders	<p>HR functional model:</p> <ul style="list-style-type: none"> • Remove boundaries • Meet employee expectations • Digital drives processes <p>Lessons:</p> <ul style="list-style-type: none"> • Live values, connect with employees • Evolve/adapt employee experience • Lead with humanity • Adapt to change 	<p>Areas of impact:</p> <ul style="list-style-type: none"> • “S” in ESG: talent pool • “Total workforce”: talent management, personalized employee experience, skill gaps • Reimagine the world of work: employees adapt, workforce, employee experience <p>Priorities:</p> <ul style="list-style-type: none"> • HR strategy/operating model • Workforce strategy • Experience • Talent marketplace
McKinsey	HR operating model	<p>Five HR operating models/options:</p> <ol style="list-style-type: none"> 1. Ulrich + 2. Agile 3. Employee experience 	<ol style="list-style-type: none"> 4. Leader-led 5. Machine powered
Mercer	Target Interaction Model	<p>People centric HR operation model:</p> <ul style="list-style-type: none"> • Employee lifecycle • Place people needs at front of HR agenda • HR transforms around people • Measure employee satisfaction 	<p>HR customer: candidate, external workforce, employee, people leader, top management</p> <p>Operations: people operations platform, personal support, functional expertise</p>
PwC	Shaping next generation HR	<p>Next generation HR:</p> <ul style="list-style-type: none"> • Adapt to pace of change • Put advisors close to business to adapt to business needs • Is flexible and resilient 	<p>Roles:</p> <ul style="list-style-type: none"> • HR experts • HR advisors • HR leadership • HR partners

2.1 Common insights

These nine HR operating models, by different firms and with different names, have much in common. They all:

- Focus on the “**customer**” of HR as the employee (called people, workforce, or talent).
- Emphasize “**roles**” of HR professionals as part of the HR structure. In a summary of five of these models, HR thought leader [Marc Effron](#) said, “The striking consistency in these approaches to existing HR design suggests that the debate around design is largely settled and HR should now focus on what enables the success of its structure.” While names and titles differ, they all allude to similar roles in the HR department:
 - **Strategic Business Partner:** Senior level HR leaders (HR Business Partner, HRBP) who are responsible to develop and implement people strategy, advise their clients on key people issues and broker COE services as needed.
 - **Centers of Excellence (or Expertise):** Deep specialists in HR functions including Talent Acquisition, Talent Management, Compensation, Diversity & Inclusion, Data Analytics, among others. Their primary client is the HRBP and they provide advice and services in their areas of expertise.
 - **Shared Service Center:** Key resources for more transactional HR interactions including basic and intermediate-level questions about pay, benefits, recruiting, employee relations, and HR policy and processes.
- Highlight **agility** (by whatever name ... flexibility, change, transformation, fluidity) and collaboration in doing HR work.
- Call for increased attention to **analytics and information** to guide decisions.
- Recognize the emerging use of **digital technology** to deliver HR work.

As [Marc Effron](#) concludes from his review of these HR operating modes:

A new approach to HR design isn't needed to stay competitive. The model originally championed 20 years ago is still relevant to managing today's workplace and workforce and can be easily adapted to a variety of situations, as seen in our examination of the identical models used by top consulting firms ... The secrets behind HR success lie beneath the organization chart's lines and boxes. How you bring that structure to life, through the people within it, will differentiate your success far more than the design ever can.

2.2 Match to our HR value logic for stakeholders

When we match these nine approaches to our value creation logic (see [Figure 1](#)), we capture where these common themes focus (see [Figure 4](#)), which is less on the business context, some on human capability (with a heavy focus on talent and agility as the primary organization capability), and much more on the HR function (department design, roles, analytics, technology, and people). These approaches focus more on how to organize and deliver the HR function so that employees are more competent, engaged, and productive than value created in the marketplace.

Figure 4: Current HR Models Focus in the Value Creation Logic



3.0 RBL'S RECENT RESEARCH AND INSIGHTS ON HR EFFECTIVENESS LEADING TO AN HR VALUE CREATION LOGIC

At RBL, we appreciate, learn from, and build on the outstanding work done by our colleagues in these nine (and other) consulting firms, plus exceptional research by so many academic scholars (e.g., Dave edited *Human Resource Management* journal for 10 years and serves on other [academic journal boards](#)¹), and innovative practices from leading HR professionals from partnering with over half of the Fortune 100 and global firms in every continent.

We have worked to define and advance how to create and deliver value (see [Figure 1](#)) either starting with the HR function *so that* human capability improves *so that* stakeholders succeed or starting with stakeholder success *because of* human capability *because of* HR function. The *so that/because of* logic emphasizes value created more than activity. Let us offer an overview of our insights (theory, research, and practice), then compare our HR value logic to the nine views listed above.

3.1 Focus on insights

Insights come from the integration of theory (ideas), research (evidence), and practice (solutions) and all three are necessary for insights with impact. Consider these quotes from legacy thought leaders:

- **Leonardo da Vinci:** He who loves practice without theory is like the sailor who boards a ship without a rudder and compass and never knows where he may cast.
- **Immanuel Kant:** Experience without theory is blind, but theory without experience is mere intellectual play.
- **Kurt Lewin:** There is nothing so practical as a good theory.

A theory answers the *why* question. Explaining why an event happens is important so that results can be replicated in other settings. To offer sustainable explanations, theorists need to be committed to research (to test theories) and to practice (to ground theories).

Research then answers the *what* question with evidence to help discover reality versus myth and separate valid insights from popular opinion. Research may include quantitative studies that follow the rules of statistics with valid measures, samples, and analytics. We rely on empirical research which includes the following seven criteria that can be used to evaluate research (see [Figure 5](#)):

Figure 5: Criteria for Good Research

1.	Cites and builds on previous work
2.	Identifies dependent (or outcome) variables from HR work
3.	Shares a legitimate sample size to trust the generalizability of the insights
4.	Shares the data collection method (e.g., survey respondents)
5.	Acknowledges sample bias (e.g., geography, size of firms, or key informant)
6.	Relies on the latest statistical procedures to discover themes in data
7.	Shares data that visualizes and reports results in interpretable ways
8.	Recognizes limitations and future studies

¹ See the book [Strategic Human Resource Management](#) by John Storey, Pat Wright, and Dave Ulrich for more than 300 references to HR theory and research.

Research may also include **qualitative studies** that follow the rules of ethnography with observations to explore **new insights**.

Practice is about how things are done in terms of investments, actions, roles, responsibilities, resources, metrics, and timelines. By attending to these elements of practice, solutions are crafted and implemented.

We believe that HR functional effectiveness requires all three: theory, research, and practice. Theory without research is daydreaming; theory without practice may be esoteric folderol. Research without theory is unguided (dust bowl) empiricism; research without practice is a convenience study without sustainability. Practice without theory and research are one-off, isolated events that do not readily replicate. From theory and research emerge practices and solutions that offer evidence-based insights to make knowledge productive.

3.2 Overview of RBL’s research-based insights

At RBL, we have crafted both long-term and short insights through three major research projects that shape HR functional excellence (see **Figure 6**). Each is briefly described below.

Figure 6: Overview of RBL Insights Research

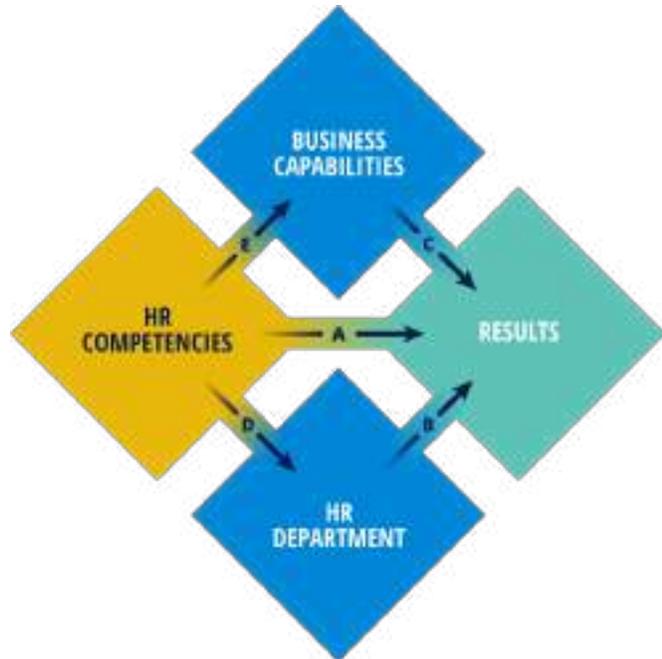
STUDY NAME	SAMPLE	HUMAN CAPABILITY INITIATIVES IMPACTING STAKEHOLDER VALUE
<u>HR Competency Study (HRCS)</u>	More than 120,000 global respondents in 8 rounds of data collection over 35 years	<ul style="list-style-type: none"> • Organization / business capabilities • HR department • HR competencies
<u>Organization Guidance System (OGS)</u>	More than 1,000 organizations	<ul style="list-style-type: none"> • 37 human capability initiatives in Talent, Leadership, Organization, and HR (www.rbl.ai)
<u>Governance and Guidance for Growth through Human Capability (G3HC)</u>	7,000 firms reporting SEC data using machine learning / NLP analysis	<ul style="list-style-type: none"> • Four human capability pathways and impact on financial, employee, and citizenship outcomes (double traditional results) see www.g3humancapability.com

3.2.1 HR Competence & Capability Study (HRC2S)

For more than 35 years, with eight rounds of research from more than 120,000 respondents, and in partnership with 19 global HR Associations (in round 8), Ross Executive Education at the University of Michigan and the RBL Group have explored how to be more effective in HR. In the eighth, most recent round of research, we have defined how to Navigate HR's Impact on results that matter (see **Figure 7**). We were focused on personal, stakeholder, and business results due to, HR competencies (question 1, path A), characteristics of the HR department (question 2, paths D and B and the focus of this playbook) and business capabilities (question 3, path E and C).

Figure 7: Navigate HR's Impact: HR Competence & Capability Study (HRC²S) Round 8

1. What competencies do you need to deliver personal, stakeholder, and business results?
2. What should be the characteristics of an effective HR department?
3. Which business capabilities should you help create to deliver business results?



To evaluate the effectiveness of the HR department, we examined seven characteristics with 58 survey items (available from the authors).

1. **Employee Practices:** HR policy/practices used for employees (10 items)
2. **Practice Alignment:** HR practices aligned to support development of key strategic capabilities (12 items)
3. **Capability Support:** HR department effectiveness at supporting capabilities (4 items)
4. **Stakeholder Value:** HR designs/delivers practices to add value to stakeholders (5 items)
5. **HR Department Credibility:** HR department is seen as credible (11 items)
6. **Information and Analytics:** HR accesses, acquires, and acts on information/analytics (7 items)
7. **Reliance on HR:** Organization relies on HR to provide insights (9 items)

Using data from more than 28,500 survey respondents (a 360 survey including HR and non HR professionals at all levels and around the globe), in more than 1,000 organizations, we were able to determine [a] how effectively these seven characteristics were done (mean score) and [b] the relative impact of each characteristic on business results (allocate 100 points) (see **Figure 8**). These research-based insights not only report what is being done, but also the value each of the seven dimensions delivers to business results (using regression analyses scaled to 100 points). The results in **Figure 8** show that all seven dimensions are being performed within a fairly consistent range (mean score of 3.51 to 3.92) and that they have varying impact on business results (8% to 23%).

Figure 8: Path B: HR Department Characteristics and Impact on Business Results

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

3.2.2 Organization Guidance System (OGS)

Based on our HRCS (and other) research and our experiences, we created the Organization Guidance System (OGS) where we identified nine dimensions of an HR department that may be applied at four stages of HR evolution (essential, functional, strategic, outside-in) (see **Figure 9**).

Figure 9: Maturity of HR Across Nine Dimensions

DIMENSIONS	STAGES OF HR DEPARTMENT MATURITY			
	ESSENTIAL FOUNDATION	FUNCTIONAL	STRATEGIC	OUTSIDE-IN
1: HR Reputation <i>What is HR known for?</i>	HR Compliance	HR Functional Excellence	Strategic HR	HR Outside-In
2: HR Customers <i>Who are HR's customers?</i>	We are employee champions	We are advisers to managers	We are strategists	We are business proponents
3: HR Purpose <i>What is our HR mission? Why do we exist?</i>	We exist to do the basics well	We exist to design and deliver innovative HR practices	We exist to partner with business leaders to help make strategy happen	We exist to add business value that impacts external stakeholders
4: HR Design <i>How is the HR department organized?</i>	HR is an efficient organization	HR organizes to offer specialized solutions	HR organizes to match business organization	HR organizes to build market value
5: Organization Capability <i>How does HR facilitate the right organization for the business?</i>	HR delivers organization role clarity	HR delivers organization systems	HR delivers organizational capabilities	HR delivers the ecosystem for external stakeholders
6: HR Analytics <i>How can HR access information to make better decisions?</i>	HR Scorecards or Dashboards	HR Predictive Analytics	HR Strategic Interventions	HR Guidance for Stakeholder Value
7: HR Practices <i>How do we create and deploy HR practices?</i>	HR delivers essential work	HR delivers leading-edge practices	HR delivers practices to enable strategy	HR delivers HR solutions that benefit external stakeholders
8: HR Professionals <i>What do HR professionals need to be, know, and do to be effective?</i>	Trusted operators	Functional experts	Credible partners	Engaged business partners
9: HR Relationships <i>How does HR go about doing its work?</i>	HR individual contributors	HR team players	HR as members of business teams	HR stakeholder partners

We then tested the extent to which these nine dimensions create value for employees, business, customers, investors, and communities (see **Figure 10**) by doing surveys of about 800 individuals in 500 organizations. This research had five dependent variables which represent stakeholders from HR work (columns) and 9 independent variables which represent HR initiatives based on the HR literature (rows).

Figure 10 shows that the stakeholders (columns C,D,E,F,G) are affected by different dimensions of HR (rows). Through variance decomposition analytics, we divided 100 points for each of the five columns to prioritize the relative impact of each of the nine initiatives (rows). The green cells in **Figure 10** indicate the highest impact of an effective HR department. Row 9 (relationships) has high impact on strategy (column D), customer (column E), and financial (column F) results which means that HR people need to learn to work together and build relationships to deliver these outcomes. This research offers more granularity to the value creation logic by identifying specific HR initiatives that deliver value to each of the five stakeholders. The research can be used within a company to “guide” where to invest in **HR to create value**.²

Figure 10: Impact of Nine Dimensions of HR Department on Five Stakeholders

HR EFFECTIVENESS	A. Global Mean (n=799)	B. Standard Deviation	What guidance can we offer? (Relative impact on ... divide 100 points)*				
			C. Employee	D. Strategy Business	E. Customer	F. Finance	G. Social Citizenship
1. HR Reputation	3.13	0.83	24.13	16.03	20.22	14.41	14.47
2. HR Customers	3.37	0.67	6.55	9.46	7.82	6.45	13.13
3. HR Purpose	3.42	0.74	12.30	16.21	12.09	14.71	10.92
4. HR Design	3.17	0.81	6.72	9.89	6.57	9.24	8.85
5. Organization Capability	3.17	0.84	8.80	8.12	11.31	10.32	9.66
6. HR Analytics	2.87	0.89	5.31	6.35	5.10	9.50	16.94
7. HR Practices	2.99	0.86	7.46	7.62	7.13	12.42	7.69
8. HR Professionals	3.26	0.74	10.62	9.34	8.08	7.65	7.23
9. HR Relationships	3.31	0.74	18.11	16.97	21.66	15.31	11.11
		R ²	0.22	0.26	0.19	0.17	10.7

* Each of the columns C, D, E, F, and G shows the relative impact of the nine HR department characteristics; each of these columns adds up to 100 points. Green has the highest impact, then yellow, then red.

² **Note:** You can go to www.rbl.ai and take the Organization Guidance Survey to determine what matters most in your organization. If you fill in the 12-15 minute survey, you will get a free report similar to **Figure 10** for your organization.

3.2.3 Governance and Guidance for Growth through Human Capability (G3HC)

Because of the relevance of people and organization to investors, in 2020 the US Securities and Exchange Commission (SEC) required 7,000 firms to report their “human capital” with little guidance on what to report in their 2021 annual reporting. Partnering with Amazon Web Services scientists, and using their AI/machine learning technology, we were able to score all 7,000 organization disclosures on the four [pathways of human capability](#).³ For 5,700 of these firms, we were able to run predictive analytics about Human Capability overall scores as well as in each of the four pathways and how these scores impacted employee, financial, and social reputation outcomes.

Our findings are remarkable (see **Figure 11**). AI/machine learning Human Capability scores explain:

- 44 percent of employee productivity.
- 26 percent of cash flow (EBITDA)
- 25 percent of market value over intrinsic value or intangibles (Tobin’s Q).
- 36 percent and 48 percent of two social responsibility indicators.

These results are nearly double the industry average for impact of Human Capability on business results as measured by surveys (see **Figure 11**). This work validates the reliability of our Human Capability framework and encourages the machine learning / AI methodology for explaining results.

Figure 11: Results of Human Capability on Key Outcomes

	EMPLOYEE PRODUCTIVITY: REVENUE\EMPLOYEE	FINANCE: CASH FLOW (EBITDA)	FINANCE: TOBIN'S Q (VALUE TO BOOK)	SOCIAL RESPONSIBILITY: FRAUD	SOCIAL RESPONSIBILITY: LITIGIOUSNESS
Human Capability R²	0.445	0.261	0.253	0.359	0.484

Investors, boards, senior business leaders, and HR professionals who seek higher confidence in employee, financial, and citizenship results should access this information to make informed Human Capability investments.

Clearly SEC human capital reports are not perfect or the only sources of data on Human Capability. Companies differ on what they disclose because of what they are doing and how transparent they chose to be about what they are doing. However, over time, the SEC reporting on Human Capability will likely evolve, and disclosures may eventually more closely match the rigor of financial, strategic, and risk management information included in today's SEC reports.

³Zhu, Daniel, Dave Ulrich, Sanjiv Das, and Norm Smallwood. 2023. *A system for analyzing human capability at scale*. To be presented at Intelligent Systems Conference (Intellisys) 7-8 September 2023 in Amsterdam.

3.3 RBL's view of characteristics of an effective HR function: HR Value

Drawing on the nine models of HR function and our research reported above, we would suggest ten dimensions for an effective HR function what we call the HR Value. Note that we have added a 10th dimension to our original nine – #7 about digital technology which is recognized in all nine of the HR models proposed. Also, we have broadened #5 from organization capability to human capability which includes organization, but also talent + leadership + HR.

Based on this work our ten dimensions of an effective HR function are highlighted in **Figure 12**. In this figure we highlight the question for each of the 10 dimensions and our contribution on how to answer these questions.

Figure 12: RBL's HR Value Contribution to HR Functional Effectiveness on 10 Dimensions

HR DIMENSIONS	QUESTION	RBL CONTRIBUTION
1: HR Reputation	<i>What is HR known for by stakeholders?</i>	Build the HR reputation for efficiency – innovative practices – strategy – customer value
2: HR Customers	<i>Who are HR's customers?</i>	Create value for stakeholders inside (employee) and outside (customer, investor, community)
3: HR Purpose	<i>What is our HR mission? Why do we exist?</i>	Define purpose/mission as who we are; what we do (human capability); why we do it (value creation)
4: HR Design	<i>How is the HR department organized?</i>	Match HR to business design; connect specialists (experts) to generalists with agility
5: Organization Capability	<i>How does HR facilitate the right human capability for the business?</i>	Deliver talent, leadership, and organization to create stakeholder value
6: HR Analytics	<i>How can HR access information to make better decisions?</i>	Provide rigorous and relevant information to improve decision making by offering guidance not just benchmarking or best practices
7: HR Digital Technology	<i>How can we use technology/digital to manage outcomes?</i>	Use digital to be efficient, innovate, share information, and form relationships even across boundaries
8: HR Practices	<i>How do we create and deploy HR practices?</i>	Innovate, align, and integrate HR practices (people, performance, information, work)
9: HR Professionals	<i>What do HR professionals need to be, know, and do to be effective?</i>	Upgrade the quality of HR professionals with competencies that have impact on stakeholder outcomes
10: HR Relationships	<i>How does HR go about doing its work?</i>	Form positive and collaborative relationships among HR and between HR and others

3.4 RBL comparison to other HR functional models

Given our work on defining HR functional effectiveness into 10 dimensions, we wanted to highlight how the nine HR operating models compare to RBL and each other, to inform our ideas, and to help HR leaders know where and how to focus to build functional excellence. **Figure 13** shares each of the nine models (columns), the research behind the model (as reported in row 1), and the concepts from these nine models as they relate to the 10 HR functional effectiveness work we have done.

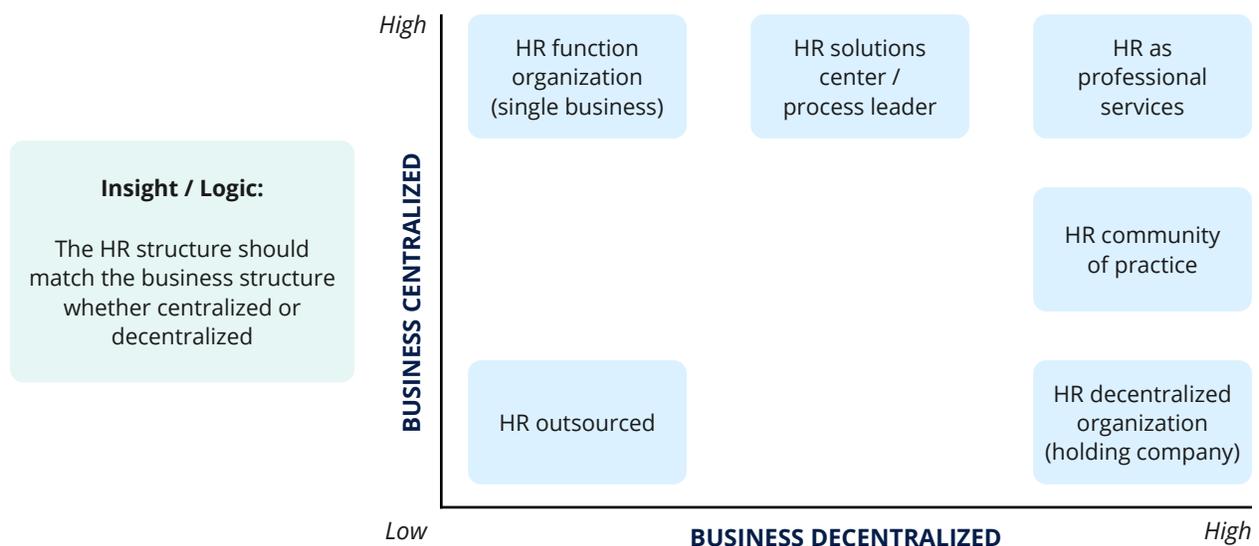
Figure 13: Overview of HR Operating Models

Author / Dimension	RBL	ACCENTURE	AIHR	DELOITTE
Research	<ul style="list-style-type: none"> • HRCS (round 8) with 28,500 people • OGS with 1,000 orgs • G3HC with 5,700 firms 	Executive surveys 570 CHRO surveys		"Research by Bersin Deloitte"
Reputation	Build the reputation from efficiency to innovation to strategy to customer value outside in	"high res"		
Customers	Create value for stakeholders inside (employee) and outside (customer, investor, community)	Inside/employees		HR customer (workforce)
Purpose	Define purpose/mission as who we are; what we do (human capability); why we do it (value creation)		Let strategy lead	Change, new products, cost, customer
Design	<ul style="list-style-type: none"> • Match HR to business design • Connect specialists (experts) to generalists with agility 	Fluid	5 approaches to HR governance	Operational, COE, business HR partner, digital
Human Capability	Deliver talent + leadership + organization to create stakeholder value	Workforce 6 org. capabilities	Focus on skills, not roles	Drive talent and workforce; culture
Analytics	Provide rigorous and relevant information to improve decision making by offering guidance not just benchmarking or best practices	Workforce insights		Insights; analytic capabilities
Digital/IT	Use digital to be efficient, innovate, share information, and form relationships even across boundaries	Digital connects workplace		Digital access to information
Practices	Innovate, align, and integrate HR practices (people, performance, information, work)			
People	Upgrade the quality of HR professionals with competencies that have impact on stakeholder outcomes	Systems, leadership, talent technology, business, finance	Have capabilities (not listed)	Customer, digital, adaptability, agile
Relationship	Form positive and collaborative relationships among HR and between others	Fluid interaction/ breaking silos	Partner to implement	Beyond structure to ways of working

Author / Dimension	GARTNER	KPMG	JOSH BERSIN	MCKINSEY	MERCER	PWC	MARC EFFRON
Research		18 HR leaders	4,000 Academy members	Survey of HR leaders	Case study		
Reputation		Pathfinders			Target interaction		
Customers		Workforce		Business led	Employee experience	Global trends Business	
Purpose		Employee experience		Employee experience; agility	Employee and workforce		
Design	specialized roles/ service team; shared services	HR service delivery		Five models based on goals	Manage employee	HR experts, advisors, ops, partners	Compares 5 models with similar logic
Human Capability	Employee well-being / workforce plan; agility	Workforce/ talent, agility, culture		Front line employee, agile	Employee	Adaptability Agility, change Flexible	
Analytics		Insights for business	High growth companies	AI, big data			
Digital/IT		Use technology		Machine learning automate; machine led	Fully digital experience	Modular apps	
Practices				Personalized, cafeteria			COE: talent, DEI, comp
People	Strategic thinkers	Live values; humanity; flexibility	94 skills in 20 domains mostly on HR tools				Know and love business
Relationship				Business led			Mortar not bricks

previously, HR as a department operates like any professional service firm that turns their knowledge and expertise into their client’s success. Some showed different “models” for the HR design. We have consistently argued that the HR structure or design should match the business structure or design. If a business is centralized (single business), HR is likely to be organized by function (staffing, training, compensation, organization design) for the entire business. If a business is completely decentralized (essentially a holding company), then each business would have its own unique HR functional experts. Since most businesses are some version of both centralization and decentralization (called a multi divisional firm, allied/related, conglomerate, diversified), HR’s most common design response is to have specialists (centers of expertise, experts) who have deep expertise and then transfer or adapt their knowledge to HR generalists who work in the business, geography, or functional organization units.

Figure 14: Align HR Department Structure to Business Strategy and Structure



Books: *HR Champions, HR Competencies, Transformation, HR Value Added, HR from the Outside-In, Victory Through Organization*

Fourth, the human capability outcomes both within the HR department and what HR offers to a business are focused on employees (as noted above) and on the organization capability of agility.

Fifth, analytics plays an increasingly critical role to deliver HR. Most of the analytics are about reporting what HR does more than what it delivers leading to benchmarks that offer comparisons more than guidance about what actions a specific company might take.

Sixth, there is a dramatic increase in the utilization of digital information through technology to drive efficiency, improve HR practices, and to connect employees who may be working remotely. The digital and technology agenda affects both how HR can help a business integrate technology into its strategic agenda and how HR can use digital information in doing human capability work. This is why we added this dimension to our HR Value logic.

Seventh, there are lists of competencies that HR professionals should demonstrate, often defined by HR people as knowledge, skills, and abilities they should possess. Few link these competencies to personal, stakeholder, or business outcomes, but there is a call to upgrade HR.

Finally, most models recognize that HR professionals need to work together (with agility, fluidity, collaboration) to bring the elements of HR into an integrated solution.

In brief, there is a growing literature of outstanding thinking and work going on to deliver HR functional excellence. Like a piano keyboard with 88 keys and only a few being played, many of these HR models are touching on a subset of the 10 characteristics of an effective HR function. Our G3HC work on 5,760 companies shows that when human capability work is integrated and complete, better outcomes occur.

4.0 ACTION IMPLICATIONS FOR DIAGNOSIS AND IMPROVEMENTS FOR HR VALUE CREATION

We believe that our value logic and research for HR functional excellence builds on previous work, relies on rigorous research, and leads to relevant actions. We propose and review a six step logic for improving HR value creation (see **Figure 15**).

Figure 15: Steps to a More Effective HR Function



4.1 Define the business case and opportunity

Our value logic emphasizes that creating a more effective HR function will lead to improved human capability (talent + leadership + organization) that will then lead to improved stakeholder value. This logic changes the conversations with each stakeholder (see **Figure 1** and **Figure 2**). This business case comes when HR professionals can empirically link their work to the outcomes stakeholders care about.

4.2 Adopt an integrated framework (10 dimensions)

It is tempting and common to improve HR by focusing on one or two dimensions to make a more effective HR function. See how the nine operating models of HR each focuses on a few dimensions of overall HR function effectiveness (**Figure 13**). The 10 dimensions based on our research and experience offers a complete perspective of effective HR functions (see **Figure 12**). Rather than piecemeal actions, the 10 dimensions offer a holistic approach to a more effective HR function.

4.3 Measure and identify gaps

To get started, it is helpful to measure the 10 dimensions. The survey in Figure 16 can be a diagnostic to help prioritize where to focus. This is a perceptual survey that can be filled out by both HR and business leaders to track current state.

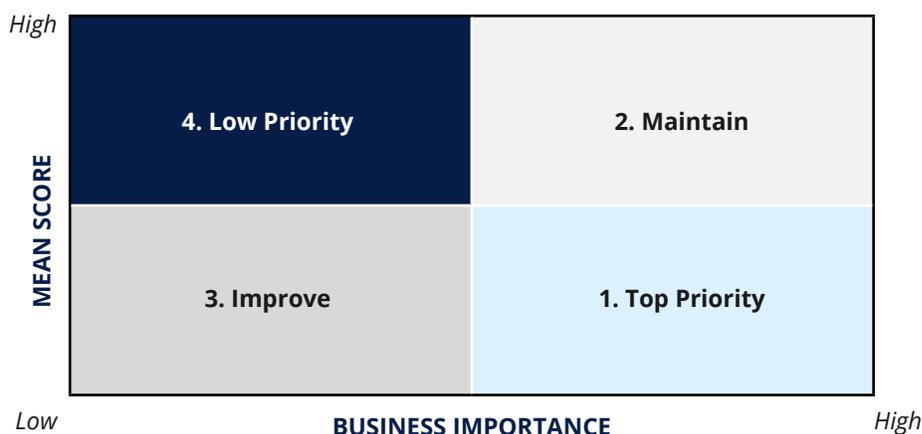
Figure 16: Assessment of Ten Dimensions of HR Effectiveness

HR FUNCTION DIMENSION	<i>Diagnostic questions</i>	HOW WELL DO WE DO? <i>Low 1 – 5 High</i>	HOW IMPORTANT IS IT? <i>Low 1 – 5 High</i>
1: HR Reputation	Have a reputation for creating value for all stakeholders?		
2: HR Customers	Serve all stakeholders inside (employees) and outside (customers)?		
3: HR Purpose	Share an HR mission about who we are, what we do, and why we exist?		
4: HR Design	Clearly allocate roles and work together to make knowledge productive?		
5: Human Capability	Build human capability (talent, leadership, organization) in businesses?		
6: HR Analytics	Access relevant and rigorous information to make better decisions?		
7: HR Digital Technology	Invest in and use technology/digital to do work and connect people?		
8: HR Practices	Innovate, align, and integrate HR initiatives?		
9: HR Professionals	Define and upgrade HR professionals competencies to be effective?		
10: HR Relationships	Form positive working relationships within HR and with others?		

4.4 Prioritize goals and investment

To prioritize, the information from the assessment in [Figure 15](#) can be plotted into the graph in [Figure 17](#). Cell 1 (top priority) are the dimensions from [Figure 5](#) that are lower on mean scores, but higher in importance scores. These should be the priority initiatives. The other three cells (maintain, improve, and lower priority) may help determine where to focus.

Figure 17: Prioritizing 10 Dimensions of HR Effectiveness



4.5 Take action and track performance

Depending on the HR effectiveness dimensions with the highest priorities based on [Figure 17](#), you can act to improve those priorities. [Figure 18](#) lays out some possible actions for each of the 10 dimensions. To take these actions, RBL offers specific ideas about what to do, tools for how to do it, examples to learn from, and metrics for how to track performance.

4.6 Assign accountability, engage, and share

With the priorities established ([Figure 15](#)) and actions to take and measure, you then make sure that someone is accountable to make progress. The accountable individual will engage those required to make progress, and share information.

Figure 18: 10 HR Functional Effectiveness: Actions and Metrics

HR DIMENSION	Action	Possible Metrics
1: HR Reputation	<i>Do an HR reputation exercise to build unity about identity</i>	<ul style="list-style-type: none"> Audit the perceived value added of the HR department to determine their reputation Evaluate how many business teams have HR members
2: HR Customers	<i>Define key stakeholders and determine what each gets from human capability</i>	<ul style="list-style-type: none"> Examine how often customer and investor criteria are considered in HR practice areas
3: HR Purpose	<i>Create an HR purpose (mission): who we are, what we do, why we do it</i>	<ul style="list-style-type: none"> Determine the quality of the HR department purpose statement Rate the perceived value of the HR department by different groups inside the organization
4: HR Design	<i>Govern HR to connect specialists to generalists and allocate resources with agility</i>	<ul style="list-style-type: none"> Evaluate role clarity between HR specialists and generalists # of rotations between HR specialists and generalists Extent to which HR professionals have positive relationships with each other Use of HR digital technology to accomplish HR work
5: Human Capability	<i>Diagnose, prioritize, and deliver human capability that creates stakeholder value</i>	<ul style="list-style-type: none"> # of human capability audits done within a business each year Extent to which human capability is included in strategy discussions, presentations, and documents Clarity of human capability presentations to SEC, investors, and others
6: HR Analytics	<i>Provide rigorous and relevant information to improve decision making</i>	<ul style="list-style-type: none"> Extent to which human capability indicators are included in decision making Extent to which human capabilities initiatives are prioritized for investment purposes
7: HR Digital Technology	<i>Use digital to be efficient, innovate, share information, and form relationships</i>	<ul style="list-style-type: none"> Extent to which HR technology creates efficiency as measured with lower costs Extent to which digital HR shares information Extent to which employees feel connected to each other through technology
8: HR Practices	<i>Innovate, align, and integrate people, performance, information, and work initiatives</i>	<ul style="list-style-type: none"> Alignment of HR practices to business strategy; extent to which HR practices are included in strategy discussions Integration of HR practices into “bundles” that deliver organization capabilities Reputation for innovation of HR practices
9: HR Professionals	<i>Diagnose, test, and upgrade competencies of HR professionals</i>	<ul style="list-style-type: none"> # of HR specialists who are certified and recognized as the innovators in the HR specialty area Rating of HR professionals on accepted HR competency models
10: HR Relationships	<i>Define and ensure positive working relationships among HR and HR and others</i>	<ul style="list-style-type: none"> Extent to which HR professionals have a positive working relationship with each other Extent to which HR professionals are seen as supportive by internal groups (employees, line managers)

CONCLUSION

Making the HR function more effective becomes ever more critical in today's changing business context. Many thoughtful firms are engaged in upgrading HR work. As we review these nine models and our research, we propose and HR Value logic with ten dimensions of an effective HR function. By improving on these ten dimensions, HR leaders will help create human capability (talent + leadership + organization) that will then be used to deliver stakeholder value.

APPENDIX

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Accenture business operation overview



The fallout from the COVID-19 pandemic has changed consumer behavior and fundamentally restructured the global economy. Possibly forever. Accenture research estimates that the ripple effect will redistribute more than US\$3 trillion of value across industries and ecosystems.¹ To survive, companies need to adapt. Fast.

One lesson is clear: Those armed with operating models that enable them to continuously adapt are more likely to prosper. Organizational agility and resiliency are increasingly recognized as critical to future success. In fact, **93% of executives** surveyed by Accenture said their very existence is jeopardized by operating models that can't keep pace.² **Seventy-four percent** feel they will need to completely rethink their operating models to be more resilient as a result of COVID-19.³

Organizations that fail to act now risk getting buried by the competition long before the next crisis.

Accenture business operation model: Focus on six capabilities around resilience and change

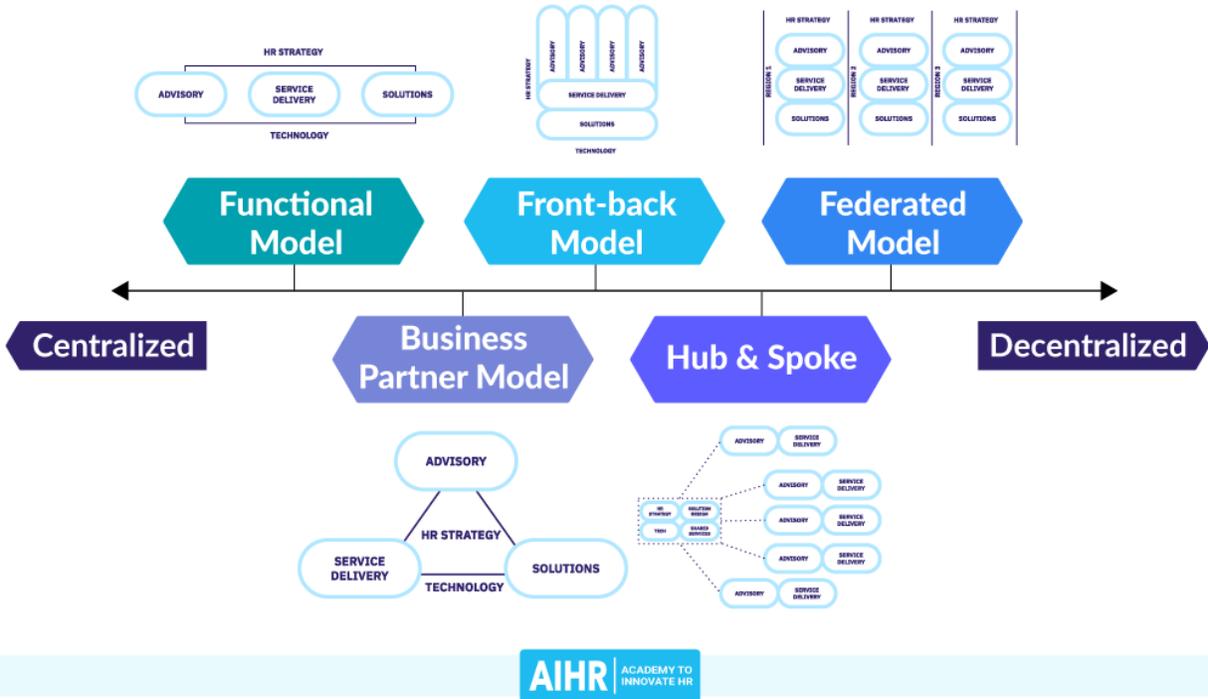


Accenture CHRO skills: High-results CHROs

Only 29% of CHROs are operating as "high-res"; they are more likely to be at the very top level of proficiency in six critical skills



Types of HR Operating Models

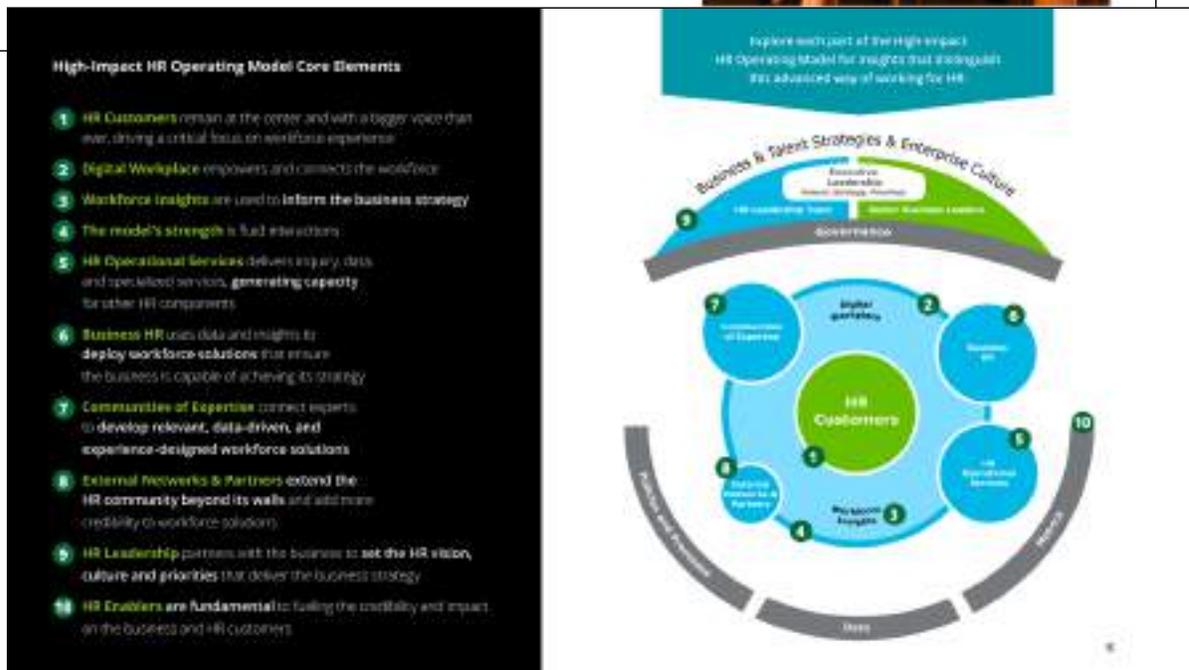


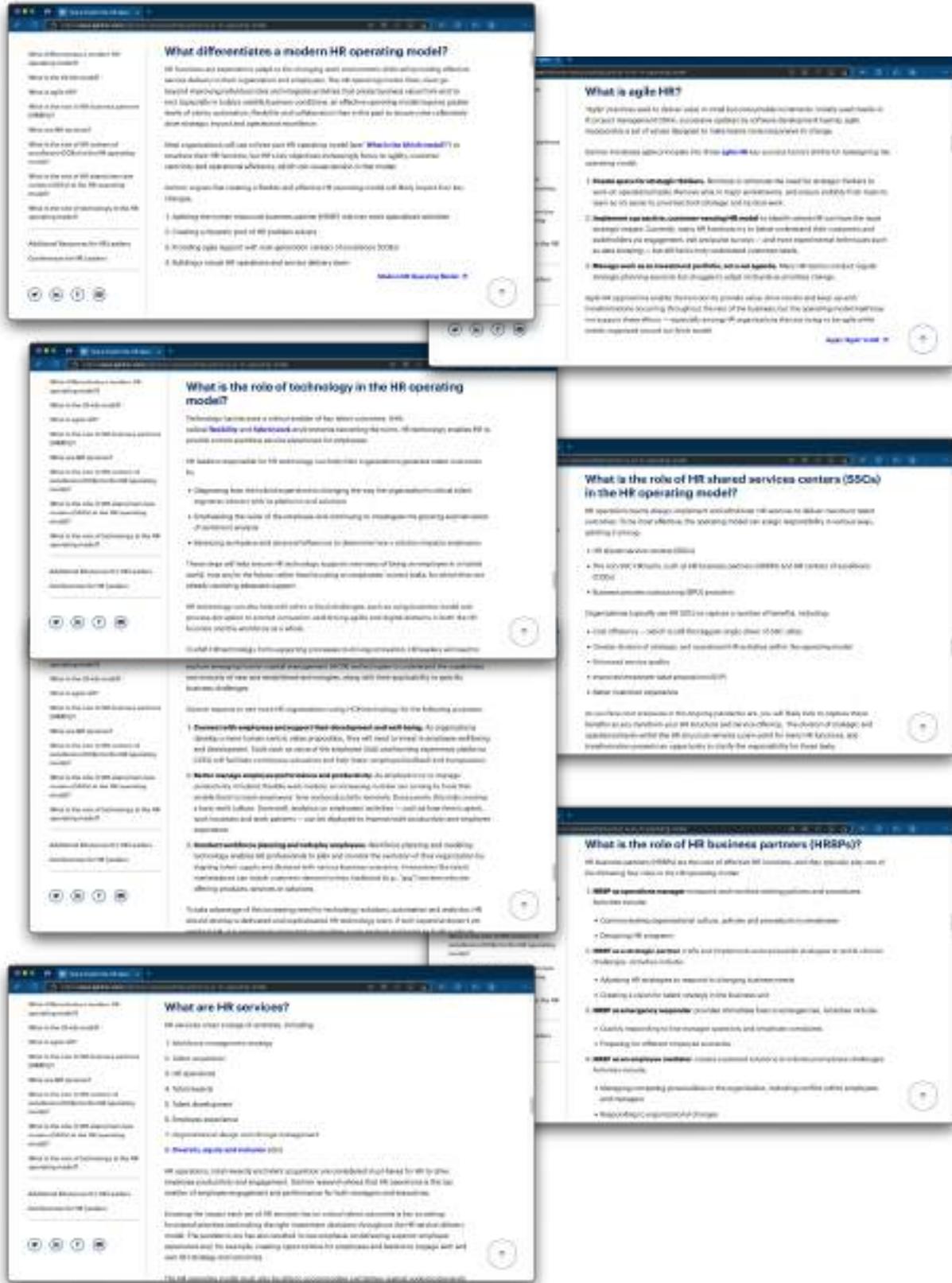
Academy to Innovate HR: HR operating model best practices

- 1. Let the business strategy lead.** The most effective operating model is a model that fits the business reality as well as the people strategy (which is derived from the business strategy).
- 2. Don't implement it alone.** Choosing and implementing a new target operating model is a multi-year venture that requires the mapping of role and skills, as well as extensive communication, change management, and training
- 3. Map critical capabilities.** To make an operating model work, you need to understand the required competencies (or capabilities).
- 4. Enable the organization in the operating model.** A new operating model often involves changes in titles, responsibilities, and job descriptions.
- 5. Don't confuse reporting structure with operating model.** A change in reporting line and change in operating model is not the same — the operating model is a deep-rooted change of how the HR model delivers services.

Core Philosophies of the High-Impact HR Operating Model

- 1** **HR Customers** remain at the center of the model with a bigger voice than ever, driving a critical focus on workforce experience
- 2** The **Digital Workplace** empowers and connects the workforce, with modern digital experience
- 3** **Workforce Insights**, derived through digital solutions and strengthened analytical capabilities of HR, inform the business strategy
- 4** **Fluid interaction among the HR components**, continues to be key to the Model's strength, breaking silos created by traditional HR operating models and ways of working





Which HR Capabilities Really Matter?

Individual HR Capability	High Growth Companies	Low Growth Companies	Impact	Impact Relative to All Capabilities
Developing Leaders and Managers	3.4	2.3	Extremely High	151%
Change Management and Communications	3.4	2.4	Extremely High	119%
Applying the Principles of Organization Design	3.1	2.2	Extremely High	115%
Coaching Individuals For Performance	3.9	2.8	Very High	93%
Operating as a Senior HR Business Partner	3.2	2.4	Very High	91%
Understanding Global Cultural Issues	3.1	2.4	Very High	67%
Terminating Senior executives	2.9	2.2	Very High	67%
Working with C-Level Execs	3.3	2.6	High	60%
Gaining Senior Leadership Buy-in for DEI Efforts	2.9	2.2	High	60%
Implementing Strategy for Contingent and Gig Workers	2.3	1.8	Significant	54%
Supporting Employee Mental, Emotional, Family Needs	3.2	2.5	Significant	41%
Leading the HR function (as CHRO or VP)	1.9	1.5	Significant	40%
Consulting with Business Leaders on Workforce Data	3.2	2.5	Significant	36%
Implementing Targeted Employee Communications	3.6	2.9	Significant	31%
Designing the HR Operating Model	2.4	2.1	Less Significant	17%

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The Josh Bersin Company Global HR Capability Project, Capability levels 1-5
 of 500 HR global HR Professionals: <https://joshbersin.com/the-global-hr-capability-project/>

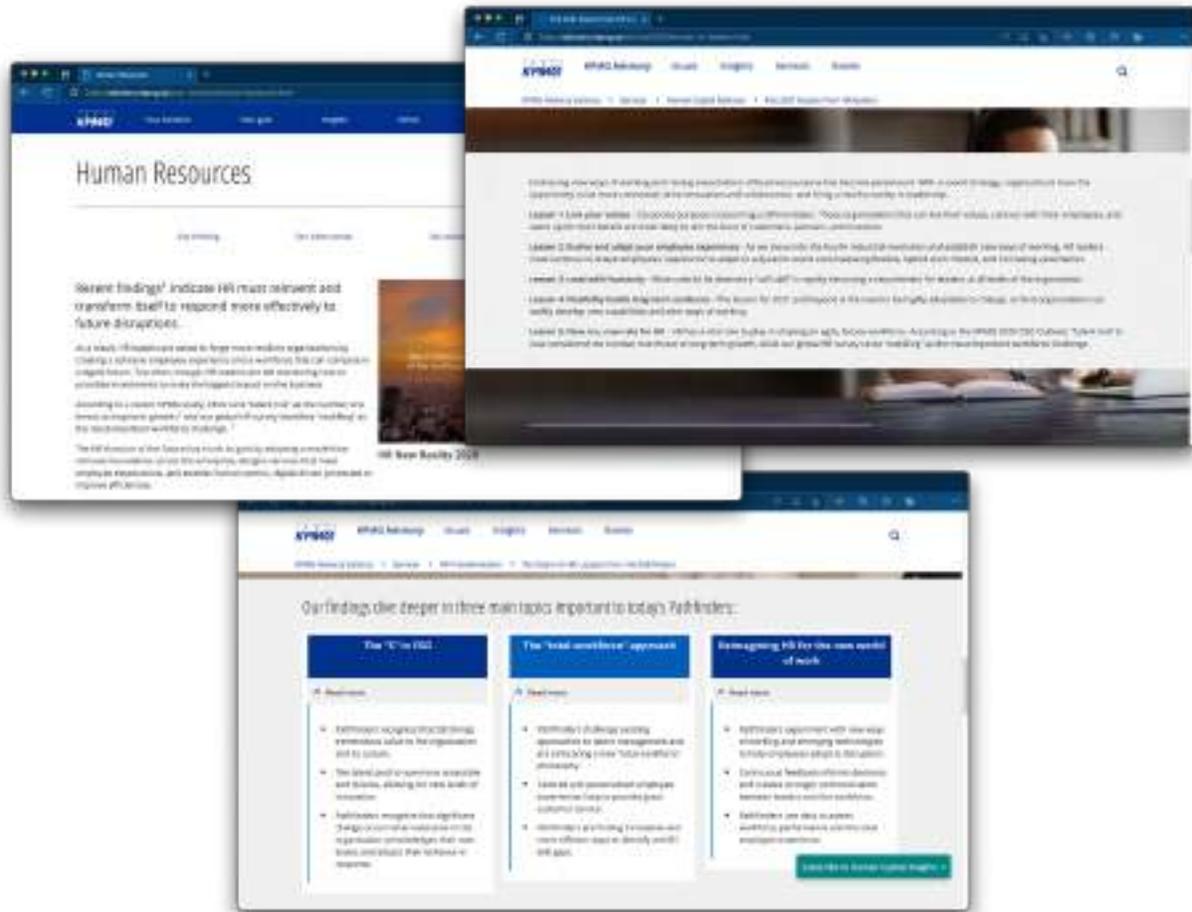
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Appendix 1: The Global HR Capability Model

The Global HR Capability Model is a model of the critical HR capabilities that are needed for high-performing HR organizations. The model is based on more than 30 years of experience examining HR capabilities and based on conversations with hundreds of global HR leaders. The model outlines the 94 unique HR capabilities we've identified as necessary for organizational and individual success. HR professionals can use the capabilities to assess their own capabilities and to identify areas for future development. The model also provides a framework for assessing the capabilities of HR professionals and organizations. This set will be regularly maintained over time to keep pace with the rapidly evolving world of leading HR organizations.

Global HR Capability Model

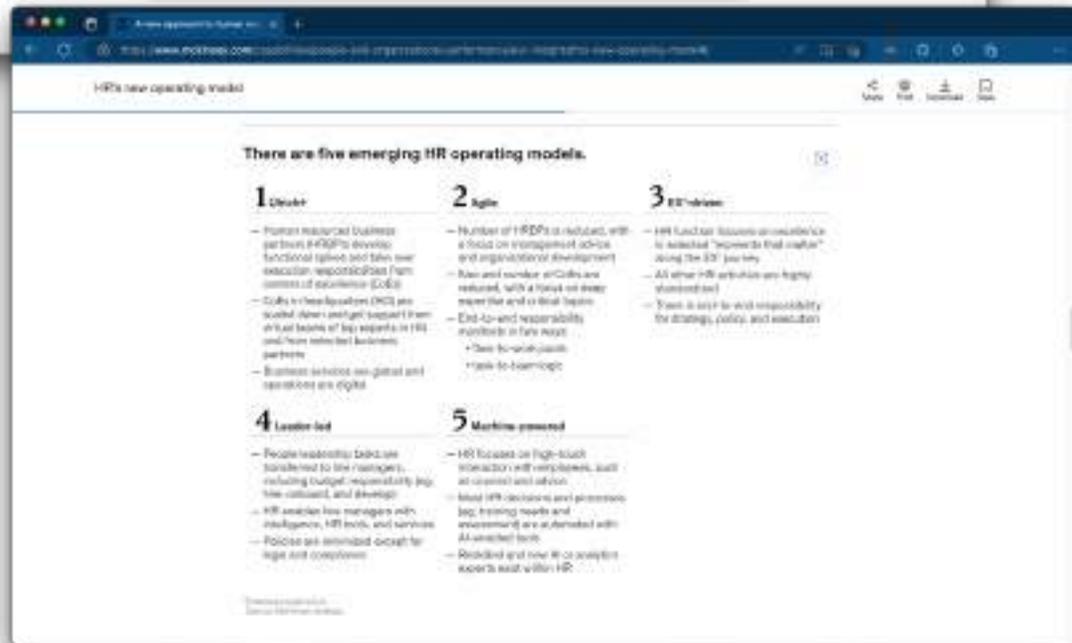
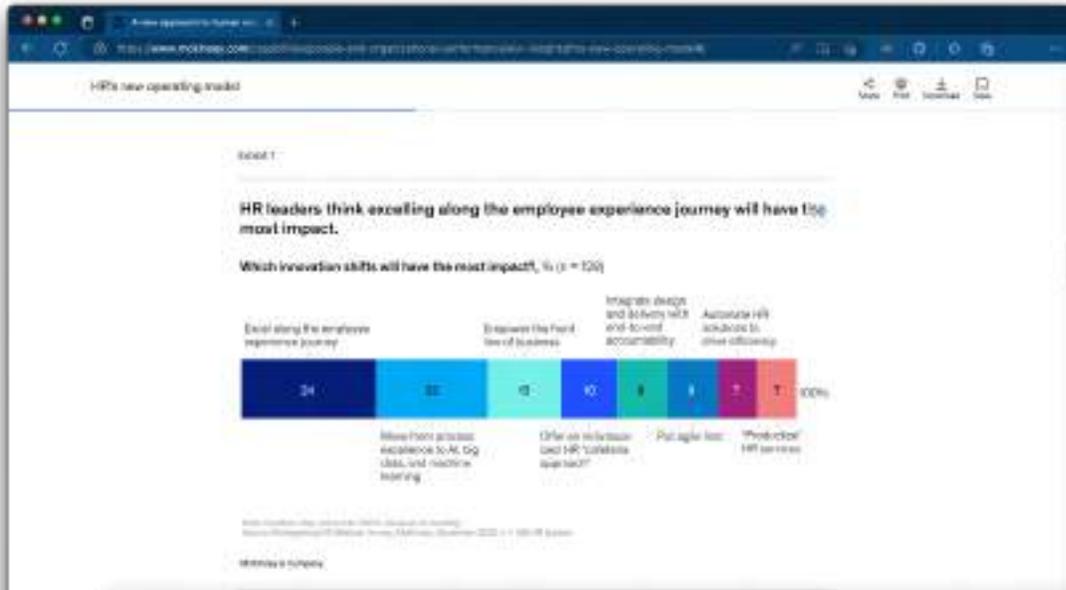
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<ul style="list-style-type: none"> Implementing benefits programs Employee recruiting programs Executive recruiting Offshore recruitment programs 	<ul style="list-style-type: none"> DEI strategy DEI measurement Report race diversity Workplace inclusion Senior DEI support DEI training 	<ul style="list-style-type: none"> Labor Union relationships Management and labor relations Basic level terminal fees 	<ul style="list-style-type: none"> Types of people data Statistical analysis Using analytics tools Data visualization Data quality Data privacy and ethics Advanced analytics Data AI tool tooling Workforce data consulting
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<ul style="list-style-type: none"> Global economic trends Strategy Value chain marketing Customer support Manufacturing and operations 	<ul style="list-style-type: none"> Measuring employee engagement Acting on survey results Senior visibility and touch Employee experience strategy Digital employee experience 	<ul style="list-style-type: none"> Leadership models Identifying potential leaders Developing early leaders Developing senior leaders Succession management Board management 	<ul style="list-style-type: none"> HR design Engaging leaders in development Career progression models Global mobility programs HR tools The business case for HR Coaching leaders
Change & Transformation	Facilities & Office Space	Implementation of HR	Analytics & Reporting
<ul style="list-style-type: none"> Change management HR goals and capabilities 	<ul style="list-style-type: none"> Location site selection Moving to remote offices Health and safety Flexible work/space policies 	<ul style="list-style-type: none"> Leading global HR Leading global HR in HR Senior business partnership HR operating models 	<ul style="list-style-type: none"> Recruitment systems Selecting appropriate tool and systems
Communication	HR System Design	Learning & Development	Compensation
<ul style="list-style-type: none"> Employee communication HR communication 	<ul style="list-style-type: none"> Design thinking Agile methods User experience Project management 	<ul style="list-style-type: none"> L&D needs assessment Creating learning experiences Competency models L&D tools and technology Leading the L&D function 	<ul style="list-style-type: none"> Employment by unit Mobile and cloud models Searching candidates Recruiting AI Outsourcing programs Interviewing processes Recruitment tools Talent acquisition academy Job descriptions Leading the L&D function
Compensation	HR Service Delivery	Design & Culture	Working With C-Level Executives
<ul style="list-style-type: none"> Compensation models Compensation Long-term pay Internal pay equity Strategic compensation Total rewards strategy 	<ul style="list-style-type: none"> Core HR processes Employee self-service HR help tools Case management Customer interaction 	<ul style="list-style-type: none"> Managing organizational culture Global culture of teams Org design High performance organizations Contingent workforce management 	<ul style="list-style-type: none"> Consulting with C-level executives Building and assessing senior leaders



Support the business as a strategic partner and serves their business by:

- Developing a new HR strategy and service portfolio, including new roles and an interaction model designed for HR customers
- Redesigning core processes like talent acquisition and management, improving on moments that matter along the employee lifecycle, strategically leveraging HR business partners and digital systems
- Check feasibility of Workday integration on an ongoing basis, ensuring its aligned with the global template







“Next generation HR Operating Model” is driving business change
 We believe a new HR Operating Model is more flexible to drive future business.

Traditional HR

- Based on a 3 role principle: Service of Operations, Shared Services and HR Business Partners interacting with Business Units.
- Offices based on job content and customer needs.
- Best works with large established organisations.

Next generation HR

- Results by the teams of 10 processes during different stages of change.
- Delivers activities and expertise closer to business leaders and managers, providing increasing visibility of specific business needs.
- Is flexible and resilient.

Next generation HR

Operating Model
 Transformation Engine
 acts in flexible, modular and virtual structures and teams.
 drives the strategic HR agenda.
 supports business transformation.

Accelerated mode of operation

Partnership Engine

- Delivers tailored HR programs and services, customer-centric, with high reliability and business value.
- Strategic HR policies are adhered to.

Business

HR Experts
 Thought leader

HR Advisors
 Change agent

HR Ops
 Operational champion

HR Business Partner
 Business expert

HR Leadership
 Strategic partner & enabler

HR Experts

- provide HR subject matter expertise to major HR areas.
- are specialists in flexible combinations of practice.
- execute and optimize strategic HR practices.
- support business transformations and change programs.

HR Advisors

- embed in the business and impacting change.
- influence the strategic HR agenda.
- coach HR representatives in strategic initiatives.
- provide consulting services in HR leadership.

HR Leadership

- set and manage the strategic agenda.
- drive HR organization and initiatives.
- define lead of HR engines.
- drive transformation engine speed.

HR Partners

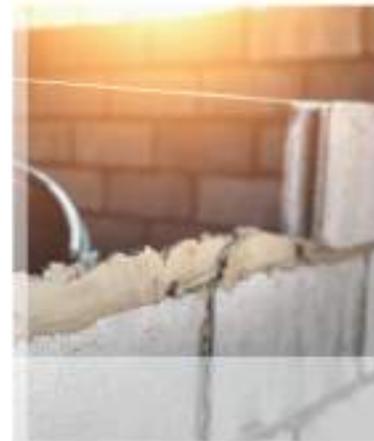
- deliver world-class HR program portfolio (e.g. Talent Management, Diversity & Inclusion, Rewards).
- execute HR policies and programs in customer segments.
- senior business leads and support HR agenda setting.

MARC EFFRON: STATE OF HR SUMMARY



It's the Mortar, not the Bricks: The State of HR Organization Design & How to Bring Your HR Structure to Life

by Marc Effron, Talent Strategy Group



Few HR groups have escaped the restructuring wave that's washed across the function over the past 15 years. By responding to calls for greater efficiency and more meaningful business impact, HR teams have been restructured to reduce costs and focus on fewer, more value-adding activities.

These restructured HR groups typically shifted to an organization design featuring three components – business partners, centers of excellence and shared services. These elements were inspired by Dave Ulrich's 1997 book *Human Resource Champions*, which described a world of HR that was foreign to most organizations at that time. While Ulrich's model has advanced since the book was published, the HR organization design implied by that model remains. We call this three-part design the New Standard model since it's become the default design for thousands of HR organizations.

The New Standard model has three, now familiar, operating groups within the HR function:

- **Strategic Business Partner:** Senior level HR leaders who are responsible to develop and implement people strategy, advise their clients on key people issues and broker COE services as needed.
- **Centers of Excellence (or Expertise):** Deep specialists in HR functions including Talent Acquisition, Talent Management, Compensation, Diversity & Inclusion, Data Analytics, among others. Their primary client is the HRBP and they provide advice and services in their areas of expertise.
- **Shared Service Center:** Key resources for more transactional HR interactions including basic and intermediate-level questions about pay, benefits, recruiting, employee relations, and HR policy and processes.

Despite these recent changes, we already hear calls to abandon the New Standard so that HR can adapt

INSIGHTS |



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THANK YOU

