McKinsey&Company
Organization

Article
McKinsey Quarterly
July 2017

The CEO’s guide to competing through HR

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Technological tools provide a new opportunity for the function to reach its potential and drive real business value.

A leading US healthcare company was struggling recently to recruit more nurses and stem high staff turnover. Patients were suffering, and the crisis was beginning to hit revenues.

Instead of just continuing to “firefight,” however, the company’s human-resources department responded by launching an in-depth analysis of the tenures in the group’s nursing population, noting in its study some surprising correlations between length of service, compensation, and performance.

HR leaders quickly saw the source of the problem—as well as a solution. They raised the minimum rewards for those early in their tenure and tweaked the total rewards for those with longer career paths, with the result being that the company retained more early-tenure, high-performing nurses. When the company rolled out the plan more widely, employee engagement increased and productivity jumped by around $100 million.

The story shows what can happen when HR steps out of its traditional silo and embraces a strategic role, explicitly using talent to drive value rather than just responding passively to the routine needs of businesses. That's a transformation many companies have been striving to make in recent years as corporate leaders seek to put into practice the mantra that their people are their biggest asset.

Some companies are making progress. The best HR departments are creating centers of excellence (COEs) in strategic areas such as organizational development, talent acquisition, and talent management. They are also providing better support to line managers via strategic HR business partners, and gaining points for pulling up from administrative minutiae to work on the long-term health of the business.

But there is still a long way to go. We hear continued frustration from business and HR leaders alike that the value of the much touted "strategic" approach remains at best unquantified, at worst ill-defined and poorly understood. Too many HR organizations still fail to make a hard and convincing connection between talent decisions and value.

This article sets out an agenda for renewed action. We believe the time is right to accelerate the reinvention of HR as a hard-edged function capable of understanding the drivers of strategy and deploying talent in support of it—most importantly as a result of the availability of new technological tools that unleash the power of data analytics.

To advance the agenda, we believe businesses need to concentrate on four things: rethinking the role of business partner to enable a better understanding of the vital link with strategy, using people analytics to identify the talent actions that will drive the value, fixing HR operations so they are not a distraction from HR's higher mission, and focusing HR resources in more agile ways so as to support these fresh priorities. Companies that take these steps will move toward a next generation of HR that's data driven, not experience driven; systematic, not ad hoc; and consistent, not hit and miss. (For more, see sidebar, "The new HR—at a glance.")

Rethink the role of the business partner

The starting point is for HR business partners—those senior HR individuals who counsel managers on talent issues—to stop acting as generalists and show that they really own the critical talent asset. This is a big enough change that it calls for a change in roles: replacing the business-partner role entirely with a new talent value leader (TVL), who would not only help business leaders connect talent decisions to value-creating outcomes but would also be held fully accountable for the performance of the talent.

The talent value leader

A TVL should have real authority over hiring and firing, even if actual decision rights remain with managers in the way actual spending decisions are taken by budget owners rather than being dictated by the finance function. Think of the manager of a European football team who is responsible for allocating resources using acquisition, compensation, evaluation, development, motivation, and other levers to maximize the players' collective performance.

Unlike the typical HR business partner of today, TVLs should be held to account using metrics that capture year-to-year skills development, capability gaps, engagement, and attrition. And to the maximum extent possible, they should be disconnected from the day-to-day concerns of operational HR so as not to get pulled back into dealing with employee issues—that means eliminating the HR liaison role that so many HR business partners play today.

TVLs, however, won't succeed without being able to deliver analytically driven talent insights to business managers systematically. This is a substantial change from today; while many HR business partners are resourceful and smart advisers to managers, few possess a data and analytical mind-set or the appropriate problem-solving tool kit.

When adopted, the expanded HR role we are describing starts to be taken seriously, as some companies are beginning to discover. A leading global materials company, for example, has been moving in this direction, specifying competencies for its HR leaders that now include the ability to "use analytics to diagnose and prescribe talent actions," to "translate talent decisions into profit-and-loss impact," and to "measure talent outcomes and their impact on value while holding managers accountable." The results have been significant. After an adjustment period, internal surveys show managers are substantially more satisfied with the support they receive from HR. Anecdotally, we also hear that more business leaders are scripting a role for their talent advisers during the strategic business-planning processes.

Broader leaders for a bigger role

A key challenge, of course, is where to find appropriate candidates to fill these bigger HR shoes. Many business partners, after all, have grown up in traditional HR roles with an operational-service culture. HR departments should therefore start a cohort-based, high-potential program that balances rotations in and out of HR with dedicated time for skill building. Companies can also reward executives from other functions for stints in HR, and potential HR leaders should experience line and other functional-leadership roles—in finance, for example—in order to build better business-strategy capabilities. Eileen Naughton recently stepped in to run people operations at Google from her role as managing director and vice president of sales and operations in the United Kingdom and Ireland. And Pepsico has begun to fill some HR roles with people from engineering, technology, or process-oriented backgrounds: leaders at the soft-drink giant say that engaging the business with data is critical to expanding the strategic role of HR.

Put people analytics at the core

Many organizations have already built extensive analytics capabilities, typically housed in centers of excellence with some combination of data-science, statistical, systems-knowledge, and coding expertise. Such COEs often provide fresh insights into talent performance, but companies still complain that analytics teams are simple reporting groups—and even more often that they fail to turn their results into lasting value. What's missing, as a majority of North American CEOs indicated in a recent poll,[1] is the ability to embed data analytics into day-to-day HR processes consistently and to use their predictive power to drive better decision making.

In today's typical HR organization, most talent functions either implicitly or explicitly follow a process map; some steps are completed by business partners or generalists, others by HR shared services, and still others by COE specialists. Many of these steps require a recommendation or decision by a human being—for example, the evaluation of an employee's performance or the designation of a successor to a specific role.

Embedded analytics, by contrast, either inform or replace these steps with algorithms that leverage the data to drive fact-based insights, which are then directly linked to the deployment steps in the process. For example, many companies now use HR analytics to address attrition, allowing managers to predict which employees are most likely to leave and highlighting turnover problems in a region or country before the problem surfaces. By making the development and delivery of insights systematic, HR will start to drive strategic talent value in a more consistent way, rather than episodically and piecemeal as at present.

To understand more concretely the role of people analytics in an HR organization's journey toward a more strategic role, let's look closely at a single process—succession planning—and then assess the potential business impact of a broader suite of initiatives.

Analytics in action: Succession planning

A standard approach starts with a talent-management or organizational-development COE laying out the process for the organization, designing the tools or templates, and training key stakeholders in what to do. Managers might then sit down with their HR partners and discuss potential succession candidates for key roles—ideally taking skills, competencies, and development pathways into account (in practice, of course, there may be a bit of "gut feel"). A traditional best-practice process would then create individual development plans for potential successors, based on the gap between that person and the potential role. As vacancies occur, these potential successors may or may not be tapped, much depending on whether the manager (or his or her HR partner) bothers to refer back to those plans.

An analytics-driven succession-planning process looks and feels very different. First, machine-learning algorithms might review years of succession data so as to understand success factors in a given role. Using that insight, the company might then derive the top five internal candidates for that role, accompanied by customized development plans (that is, what courses to take, what skills to build) based on their individual competencies.

Such information would support subsequent strategic decisions, consultations between managers and strategic HR partners, and cross-functional assessments of enterprise bench strength.

Business impact

The real prize is for those that can use data analytics not just to improve a single process, like recruitment or retention, but also to drive business performance—as has happened at a leading global quick-service restaurant business. The company mined data on employee personality traits, leadership styles, and working patterns and introduced changes that have improved customer service and had a tangible impact on financial performance (see “Using people analytics to drive business performance: A case study,” forthcoming on McKinsey.com).

To achieve such impact across the board, leaders will have to make significant investments in analytics skills and capabilities—but the returns should be commensurate. Based on a study of a range of industries with diverse workforces, operating models, and financial features, the McKinsey Global Institute estimates that companies using a portfolio of HR-analytics solutions could realize an increase of 275 basis points in profit margins, on average, by 2025. These increases will likely come about through productivity gains among front- and middle-office workers (which can translate into revenues or other increased-output opportunities) and through savings in recruiting, interviewing time, training, onboarding, and attrition costs.

Fix HR operations

The current reality of HR, as many business partners will attest, is that of the function routinely being pulled into operational issues and distracted from its core strategic mission. McKinsey research, indeed, shows that typical HR departments still spend close to 60 percent of their time and resources on transactional and operational HR, despite decades of pushing work out to shared services; the best-performing HR departments spend less than 40 percent of their time and resources on these transactional activities.

As part of its continuing transformation, HR must therefore raise service levels and improve the employee experience, using next-generation automation tools and standardized processes to drive higher productivity. There are three critical operational priorities for the HR organization of the future: continuous process improvement, next-generation automation technology, and user-experience-focused service improvement.

Continuous process improvement

Based on our work with companies, we see several ways to make HR operations more efficient—including finding further things that individuals and managers can do more easily themselves—notably by providing direct access to information or transactions online, introducing simpler processes, and ensuring clearer decision making. It’s also worth considering more geographically diverse sourcing of work and talent, as a leading agricultural company did when it found deep pockets of high-end instructional design talent in several Indian cities. These people, it turned out, not only were less costly but proved themselves capable of delivering equal or better service than the relatively well-compensated instructional designers who had served the businesses previously, mostly from the United States and Western Europe. There is always scope for smarter sourcing of external vendors, whether through insourcing or outsourcing: one US insurance company, for example, improved its reliability and cut the overall cost of its payroll process in half by bringing it back in-house.

Next-generation automation technology

New automation technologies will soon reshape a number of HR processes, building on core human-resource-management-system platforms (both on premises and in the cloud). Robotic process automation (RPA), smart work flows, cognitive agents, and natural-language processing, for example, will automate HR tasks previously carried out by people. The case of a leading global automotive-component manufacturer that was struggling with its employee-onboarding process is instructive. Thanks to the cross-functional complexity of the work flow, with different HR people needed to complete steps such as employee paperwork and scheduling orientation—and with IT, facilities, and security people needed to complete others—onboarding used to take weeks. RPA solved the problem with a bot that can access multiple systems, follow an intelligent work flow, and initiate communications. Onboarding time, on average, has been reduced by more than two-thirds, many errors created by manual tasks have been eliminated, and the journey has become more compelling for the individual.

For operational HR, the new frontier of technology is cognitive agents, especially when paired with natural-language processing. The former have developed to the point where in many cases employees can't tell that they're interacting with a piece of software. Natural-language processing may not yet offer seamless unstructured voice conversations for an HR setting—but leading HR-service organizations already leverage chat as a communication channel to answer most questions, "learn" from past interactions, and conduct "warm" handoffs when needed. One major international food and beverage company believes these automated technologies can reduce its costs by 20 percent while maintaining or increasing service levels (for instance, by enabling 24/7 immediate response).

User experience

Operational effectiveness is a critical part of employee satisfaction with HR. But whether it's understanding the customer decision journey in marketing or understanding user needs as the foundation to driving digital user experience, other areas of the business have sought to improve customer satisfaction in ways that most HR departments generally have not. The HR department at the Orlando International Airport is a notable exception. It found that staff employed by about 60 organizations based at the airport, ranging from airlines and security to retail and janitorial, faced a common set of challenges. These challenges were both undermining the employees' job satisfaction and affecting the quality of services they were providing for passengers and other customers. An overhaul of the staff experience tackled both problems. The airport revamped its shuttle-bus schedules, reducing commuting time for workers using the employee parking lots, which had a tangible effect on morale at the start of the day. The airport also made it easier for employees to find their way through its buildings and facilities. Finally, it took an entirely new approach to onboarding employees, providing them with updated weekly information so that everyone, regardless of their role, could help customers with queries about directions, the availability of services, or events taking place in other parts of the airport.

Focus HR resources in more agile ways

The changes discussed not only require the HR organization to recruit a new cadre of TVLs and to use people analytics to drive business value—they also demand a new type of agile organizational structure. Applying agility to the organization of HR will be critical to HR's ability to deliver a harder link between talent decisions and value.

Agile HR: A case study

It's easiest to understand HR agility through an example. A leading European bank implemented an agile HR model aligned to this vision, with great results. Previously siloed HR resources responded to opportunities or issues slowly and inefficiently, their work dominated by transactional and operational tasks. Morale was low as a result of a lack of role clarity and a surfeit of meetings aimed at engaging every conceivable HR stakeholder. In response, the bank's HR leaders implemented an agile "flow to the work" organizational model: there are a limited number of deep specialists and talent value leaders in a few global roles, and they are supported by strong shared-service centers and a pool of multiskilled HR professionals—people with capabilities to perform most HR actions and who are responsible for much of the talent work.

The model reduced the HR budget by 25 percent in its first year of implementation, the goal being 40 percent within three years. Just as important, the HR organization is working with renewed purpose, implementing key talent initiatives faster and substantially accelerating HR's response to opportunities and issues. Now fewer in number, the bank's HR business partners (TVLs in all but name) and COE leaders are devoting much more of their time to connecting talent to business strategy.

Agility, operations, and structure

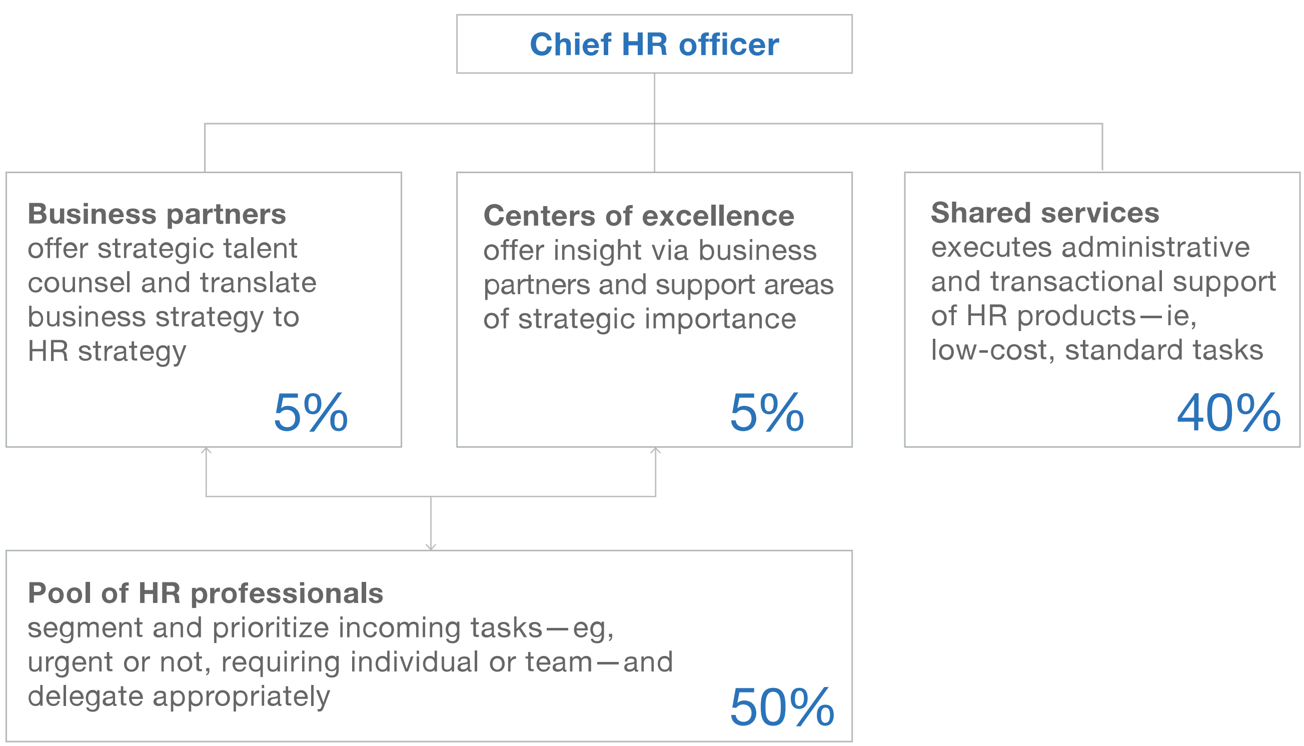
As this example suggests, the move toward a more agile HR organizational model has both operational and structural implications. Operationally, HR functions need to be able to create a solid backbone of core processes that either eliminate the clutter or camouflage the complexity to the business, all while delivering the basics (such as payroll, benefits, recruiting, and simple employee and manager transactions) without error or delay.

Agility, combined with analytics, also suggests structural change, particularly for centers of excellence. With more automation of insight generation, and especially the mass customization and delivery of those insights through technology, HR COEs will probably be a much smaller group in the HR organization of the future. Shorn of transactional resources and unburdened by operational responsibilities, these pools of talent will be able to work across disciplines (talent management, learning and development, and organizational design), supporting the new talent value leaders and business as a whole (exhibit).

Exhibit

An agile operating model for HR increases business focus, efficiency, and effectiveness.

Share of HR resources, %



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Calls for a more assertive and strategic role for HR are not new. The idea that the CHRO (controller of human capital) should be part of a C-suite triumvirate that includes the CEO (principal owner of strategy) and the CFO (owner of financial capital) has been championed by our colleague Dominic Barton, among others. But if HR leaders are to finally achieve the promise of being strategic—the sustained delivery of talent insights and actions that drive real business value—they will need to transform their own function to provide a foundation. By changing the way HR interacts with the business on strategic questions, notably through the creation of new talent value leaders, HR can gain responsibility and accountability for driving talent-linked value. By deploying data-driven insights and solutions in a systematic way, HR can dramatically ramp up the level of talent insight it delivers to the business. By driving continuous improvement in operational performance, HR can create the space for its leading thinkers to drive strategic talent insight and solutions. And by adopting a more agile approach to its resources, HR can drive significant productivity and focus execution and investments on the core initiatives each year that are proven to link to value.

1. Based on responses of participants at a McKinsey roundtable of 45 chief human-resources officers in the autumn of 2016.

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The authors wish to thank Gregg LeStage for his contributions to this article.