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What are Practical, Meaningful, and Actionable Ways for HR Professionals to Gain Business Experience and Acumen so that they can Truly Make an Impact as Business Partners?

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What are Practical, Meaningful, and Actionable Ways for HR Professionals to Gain Business Experience and Acumen so that they can Truly Make an Impact as Business Partners?

Abstract

CEOs overwhelmingly report that human capital is one of the leading growth enablers in the modern business world. Thus, in order to meet business goals, senior executives are increasingly holding HR departments accountable for delivering human capital results that are aligned to business strategy. However, as of 2014, 42% of non-HR business leaders believed that their HR teams were "underperforming" or "just getting by." In agreement, less than 8% of HR leaders believed that their teams had the necessary skills to deliver the results that their counterparts were seeking. The perceived "unreadiness" of HR among business leaders is not only a U.S. phenomenon, but a global one as well. Executives in Japan, Germany, the UK, and China all recognize the problem, but doubt their company's ability to respond (Appendix 1).11 For companies to effectively address this skills gap they must understand the causes behind the issue. They can then tackle the problem through two general avenues: 1. Adapting organizational design arrangements to better enable HR to work more closely with the business, and 2. Implementing traditional and nontraditional education/training initiatives.

Keywords

human resources, business acumen, human resource business partners, talent management

Comments

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Maria Grillo & Jae Man Hwang
April 2015

EXECUTIVE SUMMARY

Question

What are practical, meaningful, and actionable ways for HR professionals to gain business experience and acumen so that they can truly make an impact as Business Partners?

Introduction

CEOs overwhelmingly report that human capital is one of the leading growth enablers in the modern business world.[1] Thus, in order to meet business goals, senior executives are increasingly holding HR departments accountable for delivering human capital results that are aligned to business strategy. However, as of 2014, 42% of non-HR business leaders believed that their HR teams were "underperforming" or "just getting by." In agreement, less than 8% of HR leaders believed that their teams had the necessary skills to deliver the results that their counterparts were seeking. The perceived "unreadiness" of HR among business leaders is not only a U.S. phenomenon, but a global one as well. Executives in Japan, Germany, the UK, and China all recognize the problem, but doubt their company's ability to respond (Appendix 1).[11] For companies to effectively address this skills gap they must understand the causes behind the issue. They can then tackle the problem through two general avenues: 1. Adapting organizational design arrangements to better enable HR to work more closely with the business, and 2. Implementing traditional and nontraditional education/training initiatives.

Roots of the Issue

Although there is disagreement about this among business and HR leaders, two of the main frequently cited causes, at the firm level, for HR's business acumen gaps are:

- ➔ Lower *standards* to enter the HR field in comparison to other business functions. More than 70% of all HR professionals enter the field without a specific degree or certification in business or HR.[11]
- ➔ Lack of *organizational investment* in developing the business acumen on their HR talent. 45% of Deloitte's 2014 global survey respondents reported that their firm does not provide HR staff with developmental experiences or prepare them to deliver solutions aligned with business challenges.[11]

What Specific Business Knowledge does HR Need?

The skills gaps within HR will vary across different organizations, but there is consensus about the *distinct* set of both HR-specific and general business knowledge skills that HR needs to more effectively meet today's business demands. These can be grouped into 3 general dimensions:

1. HR and Talent Skills
2. Business, Industry, and Global Skills
3. Management, Leadership, and Program Implementation Skills

See Appendix 2 for a detailed description of these dimensions[11] and Appendix 3 for the capability requirements that successful HR business partners should have.

Approaches for Developing HR's Business Acumen

Organizations can develop HR's business acumen through two general avenues: 1. Adapting organizational design arrangements to better enable HR to work more closely with the business, and 2. Implementing traditional and nontraditional education/training initiatives.

1. **Organizational Design:** Several organizations have found success in developing their HR team's business acumen by rearranging some aspects of their organization's design or reporting structure in order to enable HR professionals to work more closely with the business.

    a. HR as an in-house consulting firm: A large chemical and pharmaceutical company organized its HR unit as a business, for example, such as a company-in-company or an in-house consulting firm. It developed pricing for its services to other divisions in the company and held it accountable for performance as a business unit. It helped the HR function develop commercial and financial acumen by having to run their own business.[1]

    b. The "Biz-Insider": SK Telecom, Korea's market leader in wireless telecommunications, has "matrixed" some aspects of its organizational design and reporting structure, enabling HR professionals to develop stronger connections with

the business. SK places selected HR managers, called "Biz-Insiders," in each business unit for 1 or 2 years. Biz-Insiders report to both HR and business unit leaders. The business unit leader has authority over the Biz-insider's performance appraisal while the HR office holds authority over his/her placement. This arrangement has allowed SK's HR managers to get a greater understanding of business-specific issues and to collaborate more with business leaders.

c. Rotations: Several companies are adapting cross-functional rotations as part of their strategy to re-skill their HR and other back-office functions with increased business acumen. High performers or leadership program participants are given the opportunity to do a rotation through a non-HR function or profit center. McKesson and GE are prime examples. They offer HR leadership development participants, who are often recruited out of graduate school, an opportunity to complete such a rotation. It helps them acquire new skills, gain a stronger understanding of the business, and accelerate their careers.[2] On the flip side, many companies are also bringing strong line managers into HR roles and training them in competencies specific to HR. This injects leadership with cross-functional business knowledge into the HR team, influencing peers and direct reports. The Wall Street Journal reports that among large companies that hired new CHROs in the past five years, about one third selected a non-HR executive. That's up from about 10% in earlier periods. This is the prevailing practice not only for executives but also for HR managers. This shift reflects an effort to bring a different perspectives and a deep understanding of business into the HR.[8]

d. Job Shadowing: At Johnson & Johnson, HR managers may shadow sales professionals in various positions in order to understand this critical customer-facing function for J&J. HR managers are also encouraged to participate in job interviews and learn to evaluate job-specific capabilities. Participating in conversations between hiring managers and job candidates helps an HR manager better understand the required competencies and the business in general.[10]

2. Education/Training: Formal education and training initiatives can help you educate your employees in foundational business concepts and trends. This approach can be both traditional (finance and business strategy classes, seminars, etc.) or nontraditional (annual report or balanced scorecard sessions). Regardless of the approach pursued, ensure that staff are acquiring the knowledge they truly lack by first assessing their strengths and weaknesses in this area. Depending on your company's particular needs and resources, one or more of these approaches should feature in your business acumen development strategy:

a. Company Annual Report: Share your company's annual and semi-annual results in a meaningful way. Use this opportunity to educate your people about how the company generates revenues and the challenges and opportunities it faces in the marketplace. Present numbers and figures in ways that are easier to understand.[12]

b. Leverage the Balanced Scorecard: Conduct a workshop educating your HR team about the different balanced scorecards used by business leaders in your company. Explain how lagging and leading indicators play a part in increasing competitiveness and profitability.

c. Formal Training Program: Implement an organization-wide business acumen education training program taught by functional managers and business leaders. Different aspects of the organization could be discussed each month, taught via e-learning sessions, or delivered by managers during team meetings. The lesson plan/topics/resources can be distributed to managers ahead of time. The key to such an initiative is to make it interesting and approachable.[12] The India-based company Aditya Birla Group (ABG) and Honeywell both found success by implementing different versions of a formal training program. [15]

See Appendix 4 for other ideas to build business acumen, and Appendix 5 for detailed practices done by different companies.

Conclusion

Research shows that organizations can indeed re-skill their HR teams and provide them with the tools to increase their understanding about how the company makes money, what drives long term competitive advantage, the skills needed to maintain and drive profits, new and future products and services, how customers perceive value, and how to drive innovation. Armed with this knowledge HR professionals are better able to collaborate with the business in setting strategy and executing on the talent front in a much more innovative and future-oriented way. This vision is achievable through the disciplined implementation of educational initiatives and the deliberate re-design of organizational structure to enable HR professionals to gain a deeper understanding of the business.

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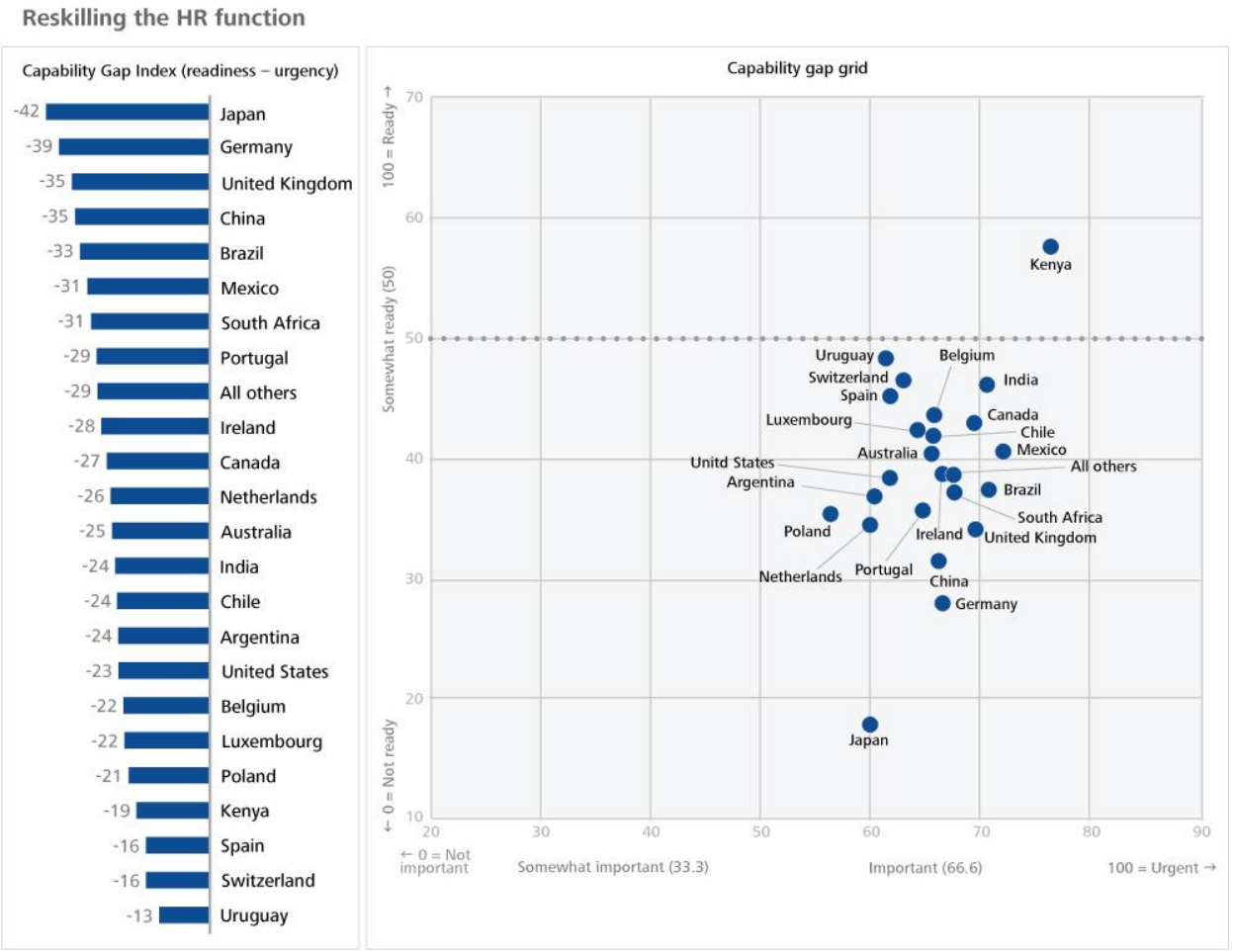
APPENDIX

Appendix 1. Urgency vs. Readiness: Who is leading, who is lagging? [11]



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The Human Capital Capability Gap Index

The Deloitte Human Capital Capability Gap Index is a research-based index that shows HR's relative capability gap in addressing a given talent or HR-related problem. It is computed by taking an organization's self-rated "readiness" and subtracting its "urgency," normalized to a 0–100 scale. For example, if an organization feels that an issue is 100 percent urgent and it also rates itself 100 percent capable and ready to address the issue, the capability gap would be zero. These gaps, which are almost always negative, can be compared against each other.

The capability gap grid

By plotting the gaps on a grid (with readiness on the vertical and urgency on the horizontal), we can see how capability gaps vary among different countries and industries.

- Capability gaps at the lower right part of the grid are those of high urgency and low readiness (areas that warrant major increases in investment).
- Capability gaps at the upper right part of the grid are highly urgent, but companies feel more able to perform in these areas (they warrant investment but are lower priority than those at the bottom right).
- Capability gaps on the left side of the grid are areas of lesser importance, and those lower in the grid are areas of less readiness.

Appendix 2. Examples of Key Skills for Business Acumen

Adapted from Deloitte's 2014 *"The Re-skilled HR Team"*[11]

1. HR and Talent Skills
    a. Technical HR skills: Specialists should have deep skills in training, recruiting, sourcing, succession planning, etc. These technical skills should be updated every year as new technologies and best practices emerge.
    b. Labor market and workforce knowledge: Deep understanding of the cultural differences and demand and supply forces in the labor markets and workforces where their companies operate.
    c. Managing a service operation: Understanding how to manage a service operation, design a service-centric system, measure quality of service, and implement self-service technology.
    d. Technology and analytics: Payroll systems, cloud and mobile technologies. Comfort with data management, statistics, and analytics.

2. Business, Industry, and Global Skills
    a. Business and industry acumen: Deep understanding of business and industry trends: how the company makes money, what drives long term competitive advantage, skills needed to maintain and drive profits, new and future products, how customers perceive value, and how to drive innovation.
    b. Global insights: Global implications for the business and the industry in which it operates, such as global supply chains, talent markets, and how to implement HR programs across countries and regions.

3. Management, Leadership, and Program Implementation Skills
    a. Management and leadership: Understanding of how people lead, how to coach leaders, and how to lead their own teams.
    b. Project and change management: Understanding of how to design and implement (getting managers and employees to adopt it) an effective program.
    c. Continuous development and knowledge sharing: HR should have an HR for HR team that certifies, develops, and continuously improves the skills of the entire HR function.

Adapted from SHRM, *from "Becoming a Business Partner"*[4] *and "Challenges Facing HR in the Next 10 years"*[5]

- ➔ Financial Acumen - comprehensive understanding of what drives profitability and cash flow
- ➔ Market Orientation - deep understanding of the external environment
- ➔ Strategic Perspective - overall big picture understanding of the business
- ➔ HR and organizational metrics/analytics/business indicators
- ➔ Knowledge of business operations and logistics
- ➔ Strategic agility, System thinking
- ➔ Business Knowledge and Economic Awareness
- ➔ Knowledge of Government and Regulatory Guidelines
- ➔ Knowledge of Labor Markets
- ➔ Knowledge of Technology
- ➔ Effective Administration
- ➔ Knowledge of Sales and Marketing

Adapted from Reilly & Reilly, *from "Building Business Acumen"*[6]

- ➔ Having an acute perception of the dimensions of business issues
- ➔ Being able to make sense out of complexity and an uncertain future
- ➔ Being mindful of the implications of a choice for all the affected parties
- ➔ Being decisive
- ➔ Being flexible if further change is warranted in the future

Appendix 3. Importance of Business Acumen

Figure 3-1. SHRM's Body of Competency & Knowledge [13]

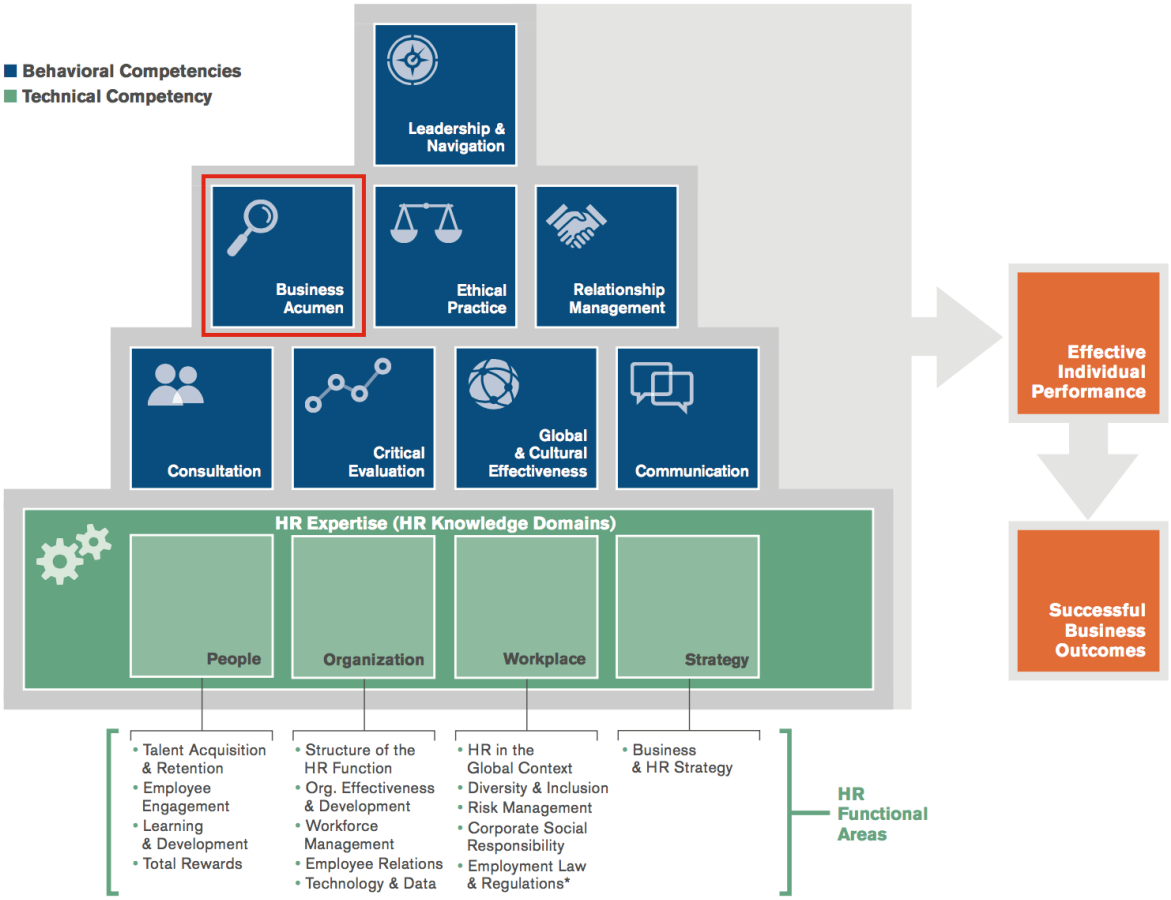


Figure 3-2. Deloitte's Underlying Capability Requirements [3]

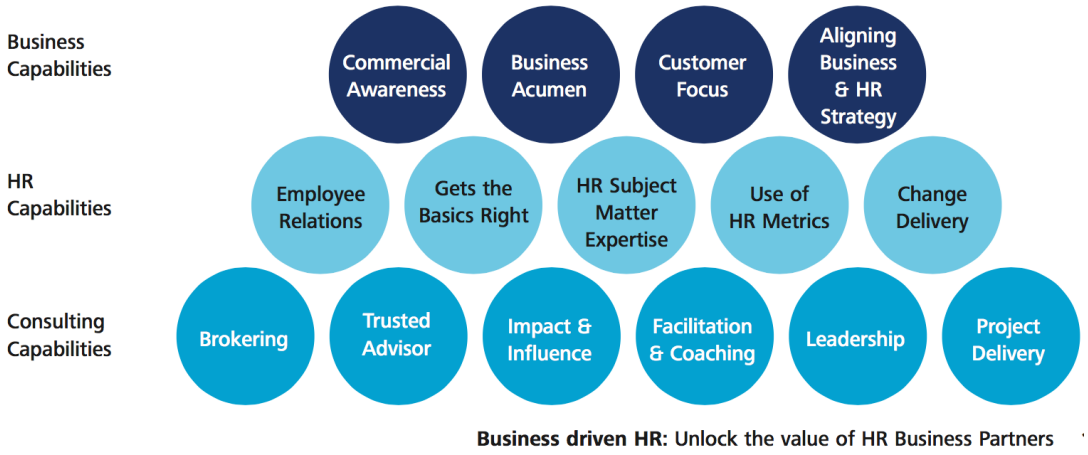
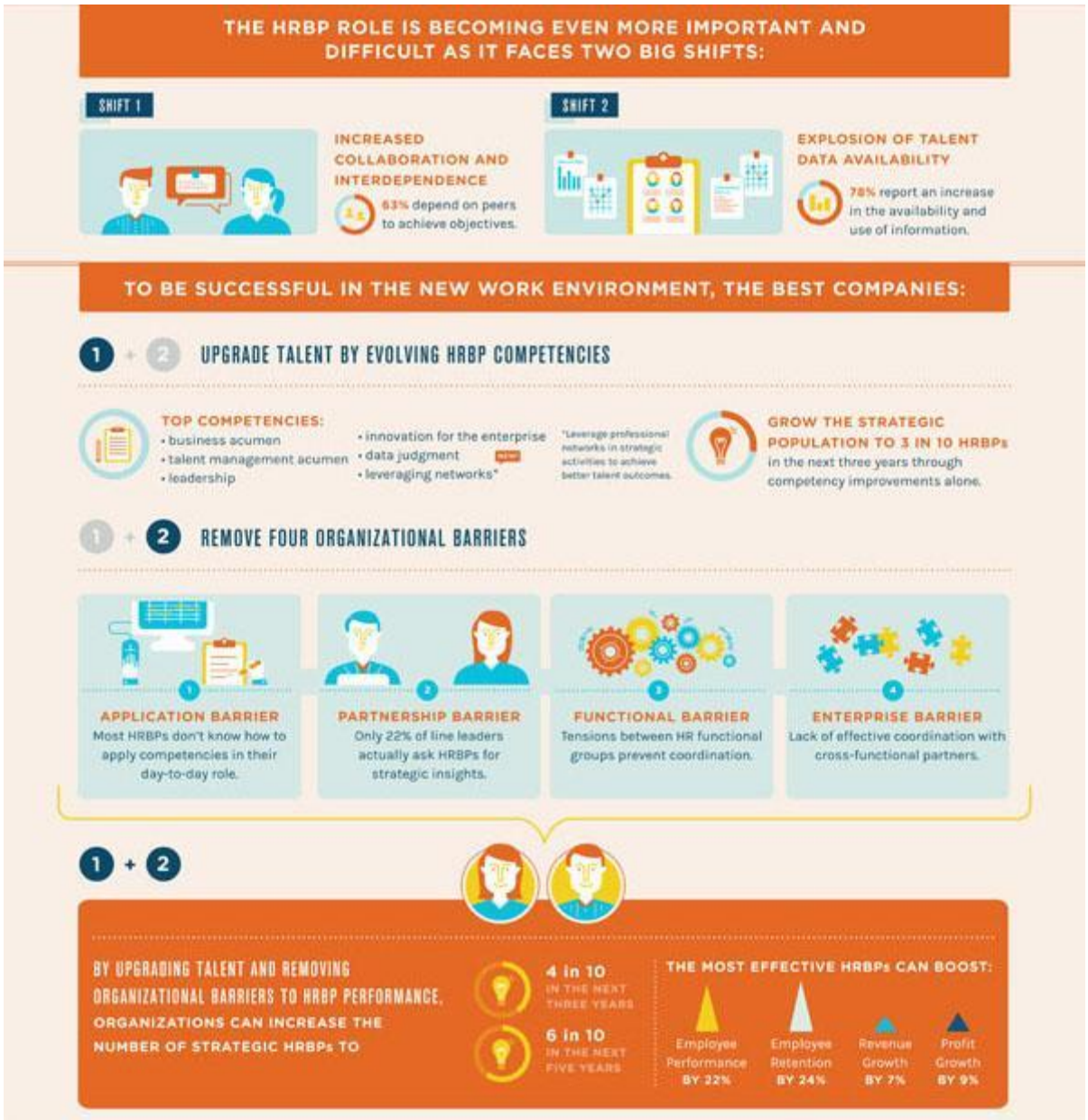


Figure 3-3. Executive Boards Unlock HR Business Partner Performance [14]



Appendix 4. Other Ideas for Building Business Acumen

- Kevin Cope, Six ideas for Building Business Acumen [8]
    - ➔ Commit the time to study and research
    - ➔ Talk with Key Company Managers
    - ➔ Be proactive - Contribute and follow through
    - ➔ Attend industry meetings and Make outside contacts
    - ➔ Find a mentor
    - ➔ Influence management

- Reilly & Reilly, Building Business Acumen [6]
    - ➔ Understanding one's thought process; Building frameworks and direction to organizing one's thoughts and deciding how to allocate attention to the most important issues.
    - ➔ Develop business knowledge; including understanding cooperative and competing nature of stakeholder interests, an appreciation of the need for a business strategy that offers sustainable competitive advantages in fiercely-competing market, and ensuring the talent development
    - ➔ Use management process effectively; since management processes are the tools, procedures and ideas that give structure to organizational thinking and communication about business activities
    - ➔ Develop leadership and management skills; to manage the various people relationships essential to the enterprise's success

- Reilly & Reilly, Strengthening Your Business Acumen [6]
    - ➔ Be aware of the current capabilities and shortcomings of your firm and key competitors
    - ➔ Make sense out of the complex and dynamic marketplace to enable a reasonable view of the future
    - ➔ Be mindful of the apparent opportunities and probable risks
    - ➔ Outline a path to success
    - ➔ Understand the actions required to move your organization along the success path
    - ➔ Test the logic of your thinking with knowledgeable others in the organization
    - ➔ Allow for modifications in light of the thinking and analysis of others
    - ➔ Decide on how to proceed
    - ➔ Communicate the rationale for the decision and explain the roles and responsibilities of people and parts of the organization
    - ➔ Seek buy-in and support
    - ➔ Commit to action
    - ➔ Be resilient in the face of success and failure, and be ready to change as necessary

Appendix 5. Best Practices by Organization

- **Johnson & Johnson, "Business-based HR"** [10]
  - ➔ **Job Shadowing** - An HR manager may shadow a salesperson in various positions to understand and get a better sense of what it takes to do a business well.
  - ➔ **Participating in Job Interview** - At least one HR manager should participate in every job interview even if it's evaluating not general personality but job-specific capabilities. Participating and listening in conversation between interviewers and interviewees helps an HR manager better understand the required competencies as well as the business.
  - ➔ **Company-wide Seminar** - e.g They hold a regional HR meeting regularly and share the information about each market and HR best practices between countries.

- **British Petroleum, "Cultivating Acumen"** [8]
  - ➔ Making **connections outside the company**, not just for transactions and deals, but to explore broader issues outside the normal business relationships.
  - ➔ Opening up **conversations within the company** like an in-depth dialogues where people talk about the business, the context, and what they are looking for from a company like BP

- **SK Telecom, "HR Biz-Insider"** [10]
  - ➔ **HR Account Manager** - The company assigns HR managers to each business unit as a liaison officer or an HR consultant so that they can collect the business-specific issues for better understanding of business itself as well as HR issues including leadership, grievance, etc.
  - ➔ **Biz-Insider** - They place selected HR managers in each business unit for 1 or 2 years. These Biz-insiders can provide HR division with in-depth information across the each business unit since they have to report to both HR and business unit leaders. The business unit leader has an authority over the Biz-insider's performance appraisal while the HR office holds authority on placement.
  - ➔ **Guest Lecture** - They regularly hold a guest lecture from internal and external business experts.
  - ➔ **External Education** - The company utilize external institutions for developing a financial acumen.

- **GE, "HRLP; HR Leadership Program"** [2]
  - ➔ **Training**; Training will occur frequently throughout 2 years on program. Key areas of training are core HR skills, including coaching, assessment skills, conducting investigations, and compensation; Critical skills, including facilitation, change management, and presentation. But one of the cornerstones of the HRLP experience is the four global, week-long seminars. During the seminars participants will work closely with nearly 100 HRLP peers from around the world, in partnership with senior HR and business leaders, participating in formal learning, business simulations, and community service activities.
  - ➔ **International Assignments**; Given the vast global presence of GE, demands of the business do provide opportunities for HRLPs to complete international rotations.
  - ➔ **Other Activities**; They will participate in a business critical, cross-business project with a global HRLP team, join roundtables with senior HR leaders, have opportunities to serve as a mentor to future HRLPs, and take on leadership roles in initiatives impacting future HRLP generations.

- **Cisco, "HRLP; HR Leadership Program"** [9]
  - ➔ **Job Assignments;** Participants work in an environment that is dynamic, global, and cross-functional. They increase the knowledge of Cisco business and HR operations by participating in multiple assignments.
  - ➔ **Rotation**; Program participants rotate through several HR roles, which are determined by the participant's area of interest and Cisco's current business needs.
  - ➔ **Facilitating;** Participants have opportunities to facilitate several team-based projects that expand the participant's skill set and add significant value to the business.