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Building a world class HR department

Dave Ulrich and Joe Grochowski

Abstract

Purpose – This paper aims to define and clarify the nine criteria of an effective HR department, and it illustrates how these nine criteria deliver value across four distinct stages of an HR department.

Design/methodology/approach – This research is based on over 100,000 respondents from the HR competency study along with interviews and discussions with senior HR professionals in over 100 global 500 organizations across all industry sectors.

Findings – Many HR transformation efforts exclusively focus on how to organize the HR department. This paper argues that organizing and designing the right HR department is an important part of HR transformation, but focusing only on the HR department is a narrow focus of the overall effectiveness of HR. The overall effectiveness of the HR department consists of nine criteria that deliver value across four stages.

Originality/value – This paper provides HR professionals with a simple and practical framework to audit the overall effectiveness of the HR department by clarifying the nine criteria of an effective HR department that deliver value across four stages.

Keywords Transformation

Paper type Viewpoint

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For the past 30 years, HR transformation has been occurring along a simple theme: *HR is not about HR*, but HR begins and ends with business. We find that many who focus on HR transformation are focused almost exclusively on how to organize the HR department. We believe in designing the right HR department, *but focusing only on the HR department is a narrow focus of the overall effectiveness of HR*.

As we have done empirical research with over 100,000 respondents and advisory services with dozens and dozens of HR leaders, we have distilled nine dimensions of an effective HR department.

The following are the nine dimensions of an effective HR Department:

1. *HR reputation*: What is the reputation of the HR Department?
2. *HR context/deliverables*: What are the criteria (settings) that shape HR work?
3. *HR strategy*: What is the mission or strategy of the HR department focused on capabilities?
4. *HR design (process, roles and structure)*: How is the HR department organized?
5. *HR and organization capability*: How does HR facilitate the definition and creation of organization capability?
6. *HR analytics*: How do we make better HR investments and choices?
7. *HR practices*: How do we create HR practices?
8. *HR professionals*: What do HR professionals need to be, know and do to be effective?
9. *HR work style*: How does HR go about doing its work?

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Table 1 The stages of HR departments

Domain	Foundational/administrative	Functional	Strategic	Outside in
1 HR reputation <i>What is the reputation of the HR department?</i>	We are known for compliance, getting things done, delivering as promised. We are efficient and task-oriented and measure effectiveness by completing transactional items <i>HR efficiency</i>	We are known for functional excellence and innovative ideas in HR areas around people, performance, information and work <i>HR functional excellence</i>	We are known for linking our HR work with business strategy; we make strategy happen. We understand strategy and provide data that drive business results <i>Strategic HR</i>	We are known for our knowledge of the business context including general business trends and external stakeholders (customers and investors). We can show how HR practices impact external value; we increase customer share, investor intangibles and community reputation <i>HR outside in</i>
2 HR context/definition of success <i>What are the criteria (settings) that shape HR work?</i>	We are successful through efficient delivery of HR practices; we make things happen; our customers are employees and first line managers <i>We service</i>	We are successful because of HR innovation; we focus on best in class, expert-based solutions: our customers are HR forums where we have great respect <i>We create</i>	We are successful because we help make strategy happen; we focus on strategy time frame; our customers are senior leaders working on strategy <i>We integrate</i>	We are successful by responding to conditions; we focus on the future; our customers are business customers and investors to influence business leaders <i>We influence</i>
3 HR strategy What is the mission or strategy of the HR department focused on capabilities?	<i>Who we are:</i> We provide essential, foundational and timely HR services focused on the terms and conditions of work <i>What we deliver:</i> We deliver HR foundational services efficiently, with a strong focus on compliance and employee relations <i>Why we exist:</i> to do the basics well	<i>Who we are:</i> We are proactive in providing best in class HR practices. We optimize HR <i>What we deliver:</i> We design innovative HR practices related to people, performance, information and work <i>Why we exist:</i> To innovate our HR practices to drive the HR strategy	<i>Who we are:</i> We are strategic thinkers, strongly versed in business acumen and HR solutions. We serve line managers by understanding the critical capabilities the business needs and we prioritize our work based upon those needs <i>What we deliver:</i> We provide connection of HR practices to business success through strategic HR <i>Why we exist:</i> To partner with the business and provide strategic business solutions	<i>Who we are:</i> We help meet business needs by having a thorough understanding of current capabilities, external trends and external stakeholder needs. We contribute to the knowledge of what is coming next and how to prepare for the future, helping make sure that our HR work responds to external business conditions and links to customers and investors <i>What we deliver:</i> We deliver the talent, leadership and culture to increase customer share, investor confidence and community reputation <i>Why we exist:</i> To add business value, that impacts external stakeholders

(continued)

Table I

Domain	Foundational/administrative	Functional	Strategic	Outside in
4 HR design: process, roles and structure <i>How is the HR department organized?</i>	We do foundational HR work efficiently through technology and service centers HR headcount is determined by cost to employee ratios We are organized with a focus on cost efficiency and standard delivery of products and services <i>HR is an efficient organization</i>	We have clear roles and responsibilities for who does what HR work. HR headcount is determined by cost plus impact of HR programmes to employee ratios We are organized with a focus on cost efficiency and standard delivery of products and services. We eliminate redundancy by centralizing all specialized work and drive one-size-fits-all throughout the organization <i>HR offers services</i>	We match the HR structure to the business structure, we understand the difference between strategic and essential work and make structure choices accordingly. HR headcount is determined by complexity of work Our design is driven by how we best respond to business needs. We embed specialized roles where needed. Our line of sight is with the business where customization creates business value. Our structure creates line of sight for standardization where needed and structure reinforces the key touch points and relationships that optimize the business <i>HR aligns to business</i>	Centers of expertise design solutions related to external stakeholders; we build positive relationships among the HR community HR headcount is determined by scope of impact The design logic is that for most companies, HR services represent a platform of resources that enable businesses to reach their goals. This makes HR an eco-system designed to meet each business' market opportunity <i>HR is a market-oriented eco system</i>
5 HR and organization capability <i>How does HR facilitate the definition and creation of the right organization for the business?</i>	We help make sure that roles and responsibilities in the organization are clear HR reengineers or redesigns structure (boxes)	We work to do organization design by integrating HR systems Organization is a system HR does a systems audit	We use a model for organization design (STAR, 7S, alignment) that connects to strategy Organization is alignment HR does an alignment audit	We define the organization as a set of dynamic capabilities that define what the organization is known for and good at doing Organization as capability HR does a capability audit
6 HR analytics <i>How do we make better HR investments and choices?</i>	We have HR metrics focused on a scorecard or dashboard that tracks how we are doing. Most often measurements focus on past indicators Cost of HR is the main focus <i>HR scorecard</i>	We have HR metrics to gain insight about people and organization. We use big data to see trends Metrics are based upon big data and insights we draw <i>HR insights</i>	We have HR metrics focused on HR interventions that help deliver strategy. We also focus on predictive analytics to gain insights on the future <i>HR interventions</i>	We seek HR data that will have impact on forming and on delivering business strategy Metrics are based on the business scorecard. The HR scorecard is the business scorecard <i>Business impact</i>
7 HR practices <i>How do we create HR practices?</i>	We have individual HR practices in people, performance, information and work. We have HR systems in place	We are best in class and next in class on innovative HR practices with top HR experts taking the lead in creating them	We have integrated solutions that match business strategy with business leaders involved in creating them	We offer integrated solutions tailored to customer and investor expectations who are involved in creating them <i>(continued)</i>

Table I

<i>Domain</i>	<i>Foundational/administrative</i>	<i>Functional</i>	<i>Strategic</i>	<i>Outside in</i>
8 HR professionals <i>What do HR professionals need to be, know and do to be effective?</i>	Our HR team needs to be great at administration. They need to understand process and legalities of talent operations <i>Trusted operators</i>	Our HR team needs to have deep expertise in their respective disciplines. They should have advanced degrees and years of experience in their focus area <i>Trusted experts</i>	Our HR team needs to know and understand the business, how we make money, who we serve, how we differentiate in the market, the industry and how the work of HR supports the outcomes of the business <i>Credible partners</i>	Our HR team needs to understand the full context, the market, stakeholders, strategy and capabilities to leverage HR work to drive better outcomes from the organization in service of the customer <i>Credible activists and strategic positioners</i>
9 HR work style <i>How does HR go about doing its work?</i>	HR work and people focus on getting things done, on time and within budget; HR has good systems and technology. HR people are credible and reliable	HR focuses on technical expertise that offer unique insights. HR people have or can access deep expertise. HR people work well within HR	HR architects' business solutions through collaborative relationships with finance, marketing and information	HR anticipates business challenges and proposes solutions by figuring out what is next. HR people understand and have relationships with outside stakeholders

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“HR is not about HR, but HR begins and ends with business”

These nine criteria for an effective HR department build upon and extend the RBL Group’s empirical research and books in a number of areas, such as RBL’s 13 milestones of HR transformation, the research results from round 7 of the HR competency study, research from “Leadership Brand,” RBL’s organization capability audit tool, RBL’s four practices of an HR department, RBL’s work on HR value creation and “HR from the Outside In” and HR department questions from the book, *Victory through Organization*.

These nine criteria for an HR department may be seen as delivering value at four stages:

1. *Foundational/administrative*: HR focuses on efficiency.
2. *Functional*: HR focuses on best practices.
3. *Strategic*: HR focuses on delivering strategy.
4. *Outside in*: HR focuses on stakeholders outside the organization.

This results in a matrix (see [Table I](#)) that can be used to audit the overall effectiveness of an HR department.

These nine domains represent the criteria for an effective overall HR department.

Review the nine domains by the four stages of HR departments in [Table I](#) and assess where your HR department is today. Use a scale from 1 to 10, with 1 being “low” and 10 being “high”, to assess your HR department in each domain and stage.

The challenge is that you cannot do everything well, so if you have already addressed the low hanging fruit, think about what you can decide to stop doing. You may be doing work in HR that the business loves you for that is not in line with where the business is going. *How do you manage that?* It is about being aggressive with priorities. You need to take one or two items and get real clear. Take the nine domains and focus on the one or two. You get in trouble when you try and do all things equally.

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