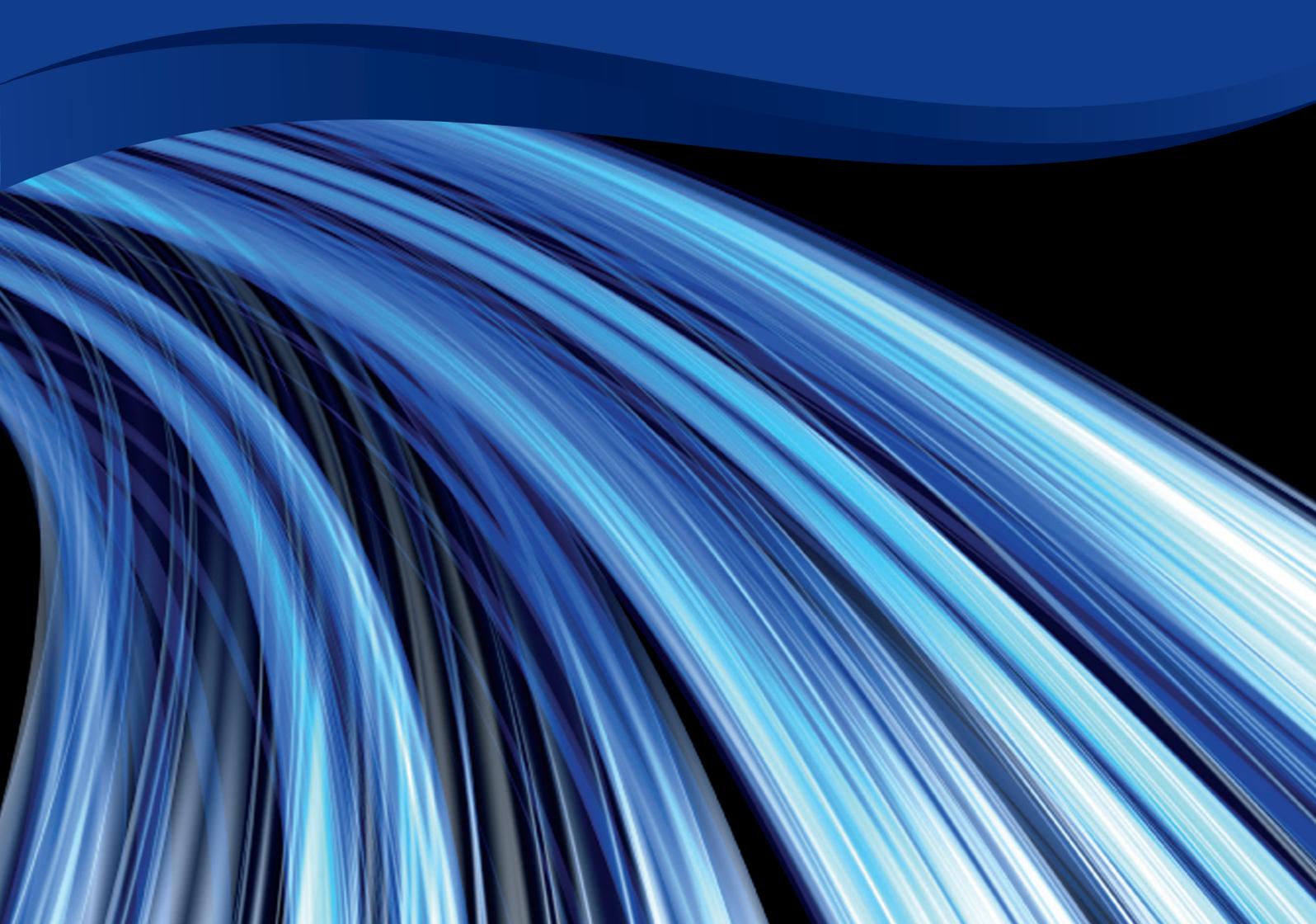


Research

Next Generation HR – moving forwards into a new economic climate

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Context and objectives of research

The financial turmoil of recent times and subsequent global economic issues have had a major impact on business, and not just in the financial sector. Many organisations are needing to deliver major cost structure and efficiency improvements in short timescales, whilst at the same time needing to drive growth – often in new or adjacent areas. This has placed a new burden on HR, both in terms of supporting their organisations with this fine balancing act, but also because it has put their role under scrutiny and in sharp focus.

For HR functions, it is a time of re-evaluation of purpose and performance against ever more challenging requirements. HR has a recent history of becoming more effective in relation to the ‘what’ in terms of resources, priorities and costs. The Ulrich model, and 3 box model of HR value provision have become established, and skills and career paths have evolved to support these organisational models. What is under close examination now is the ‘how of HR’ – how to do more with less in an increasingly ambiguous, complex and paradoxical environment. Henley’s work to date has revealed that there are four key challenges crystallising for HR:

- 1 Presenting a more holistic, joined up, organisational capability offer to business.
- 2 Increasing its focus on shorter-term productivity and efficiency in a longer-term strategic context and reducing return on investment timescales.
- 3 Regrouping around the vital basics and not delivering ‘strategic partnership’ at the expense of operational excellence.
- 4 Being more pragmatic and less perfectionistic in the design and implementation of solutions, and more comfortable working with judgement and shades of grey.

This is challenging the hardware and software which HR has been busy cementing in and building around for the past few years. HR has to adapt its operating model in order to bend what it has to meet these changing needs. This adaptation raises structural, process, skill and behavioural implications, and takes HR to a point where judgement, tolerance of ambiguity, flexibility and pragmatism are the new watchwords.

The fact that this is happening has already been validated through Henley’s own research and a wealth of more anecdotal evidence. What is not really known, however, is how it is tangibly impacting HR functions around the world and how they are successfully reacting to these questions. It is this practical question which forms the basis for this new piece of research.

How was the research conducted?

As with any Henley HR Centre research, the dominant source of research content comes *from the horse’s mouth* – that is, from real HR people, and often their customers, in real jobs in real organisations. Questions are asked of as diverse a mix of people and organisations as is possible or practical, across corporate, NGO and public sector; and across a diverse mix of sectors or industries. An external literature search is also performed so that Henley’s own

findings can be supplemented by, and contrasted with, those of others. All this is designed to allow the recipient of a research report to gain a good overview of the issue, and the various different perspectives on it, so that they are well-equipped to translate any findings to their own organisational context.

In the case of this piece of HR Centre research, a mix of face to face interviews and email survey questions were used to generate the inputs. Face to face interviews each lasted around an hour, and went into considerable depth. Eighteen such interviews were conducted in total with HR Directors and HR Leadership Team members across the following organisations, to whom Henley expresses its thanks:

NHS, Inchcape, Oxfam, B&Q, Waitrose, British Telecom, Unilever, Willmott Dixon, Aviva, Everything Everywhere (the new business formed by the merger of Orange and T-Mobile), Oracle, Mercedes-Benz UK, KPMG, Nationwide Building Society, British American Tobacco and Transport For London.

In addition, an email survey was created and used to gather a further sixty-eight responses from senior HR practitioners. Around 80% of email respondents were HR Directors, spanning twenty-six industry sectors. Seven out of ten of these worked in organisational units of more than one thousand employees, and six out of ten represented multi-national organisations.

The research was focused around the following five key questions:

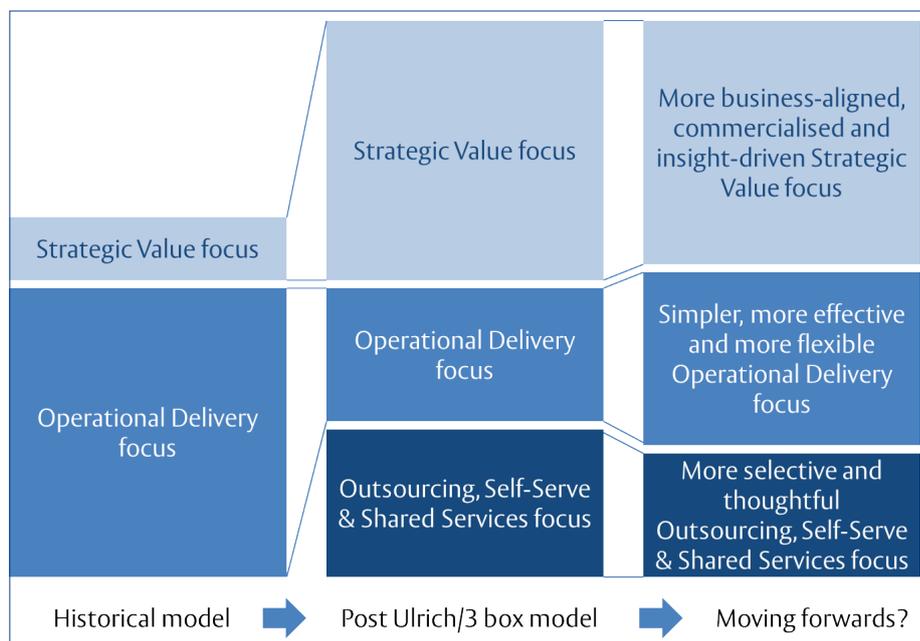
- 1** How is role of HR seen to be changing, moving from the past 3 years to the next 3 years?
- 2** What challenges is this throwing up for HR functions?
- 3** How will HR be measuring its success in the next 3 years?
- 4** What is HR doing to react to these challenges, and what is working?
- 5** What kind of external support is going to be most valuable going forwards?

Interview notes and email survey responses were then examined and aggregated, and potential insights identified before being compiled into report format.

Overall conclusion

Overall, this research project suggests a harder-edged, more focused and business-centred HR than has perhaps been the case in the past. There is less talk now of structural change and the development of *soft* skills such as coaching, and instead an almost unceasing reference to *harder-edged* skills such metrics, productivity, commercial prioritisation and strategically-aligned capability development. This suggests that Next Generation HR in the context of the new economic landscape may in fact be a selective *commercial hardening* of the HR model of 2008 and 2009, reinforcing the strategic and operational value model whilst *'shrink-wrapping'* it around an explicitly commercial and insight-driven offer.

Figure 1 Could the next stage of HR's evolution look like this?



There is an overwhelming impression that there is consistent agreement as to what HR needs to do in order to add appropriate value going forwards, but it seems there is a degree of uncertainty as to how to do it. There is general agreement, it appears, that the answer is not so much a structural one, but that it is related more to making the structure and operating models that have been implemented work better, more flexibly and in a more commercially-aligned way. It seems that the majority of HR functions see a much more proactive and insight-driven use of data and metrics as being a key vehicle for this, along with a further step-change in commerciality and OD skills. There seems to be a real sense of purpose and excitement as to the opportunities.

Equally, there are concerns as to how able HR is to meet this ambition, and there are clear concerns around the degree to which HR career development and structure has enabled the creation of people who have the necessary skills to bridge this, and other capability-related gaps seen as key to Next Generation HR.

Summary of findings from the HR Centre research

‘Our organisation has interpreted the Ulrich model by the book, and we are now questioning if this is how we want to be. Elements of the model are pushing in different directions, and this is leaving us unable to easily adapt to the complexity of the current need’

In compiling and analysing the different inputs in creating this research report, there was a very strong correlation between interview data and survey data, allowing the presentation of both qualitative and quantitative viewpoints around a common set of issues. These are discussed in more detail in the main body of the report, but are summarised here.

There is a clear view that the role of HR has become more complex and paradoxical in the past three years or less. Key among the drivers for this are the continual drive to do more for less, a broadening of what is required from HR and an increase in ambiguity, complexity and conflicting priorities emanating from the business context itself, with many organisations trying to balance competing needs in order to manage their way through tricky economic times.

Playing a central role in driving employee engagement and cultural change are still seen as key roles for HR, but the continuing challenge to the sustainable financial performance of organisations is seeing HR radically step up its efforts to become more commercial and anchored in business outcomes as opposed to a more functional and process focus. Three years from now, 92% of those questioned predict that business outcomes will be the dominant currency of their HR functions, as opposed to 57% over the past three years. In particular, there is a determination to add much more value in the productivity and efficiency space whilst continuing to deliver longer-term organisational capability in a quicker, cheaper and more aligned way whilst at the same time not letting the vital basics slip. This is manifesting itself through, among other things, a predicted tripling in focus on data insight and metrics over the next three years.

HR is also focusing strongly on simplification, de-duplication and offer alignment. Nearly three-quarters of those surveyed revealed that their organisations are already engaged in process re-work. Interestingly, it appears that HR sees itself as having largely moved past the period of fundamental structural change and outsourcing, with structural change low on the agenda of most HR functions surveyed, with fewer than half of those questioned saying that further headcount reduction was being considered and 78% saying that no outsourcing is currently planned.

However, there is a growing recognition that some of the structural models which have been implemented need to be significantly refined in order to meet the current and future needs of business, and the focus now is on ways to bend what has been created to deliver in a more flexible way. As one HRD reflected ‘*Our organisation has interpreted the Ulrich model by the book, and we are now questioning if this is how we want to be. Elements of the model are pushing in different directions, and this is leaving us unable to easily adapt to the complexity of the current need*’. As a result, 40% of those questioned were actively working on role clarification in HR.

Beyond process re-design and role optimisation, the main thrust of HR improvement effort is on skills and behaviours. Old stalwarts such as commercial acumen remain front of mind, and continue to raise ever more fundamental questions around the value of more tactical commercial ‘training’ versus the benefits of a wider business view on HR career development; with some organisations now pursuing proactive recruitment strategies from outside HR to deliver this commercialism in short order. Increased confidence

and ability to work with, and drive value through, data is another strong theme; and making allies of Finance is seen as a key need for HR to be credible and to be capable of presenting a more relevant argument.

But with them at the top of the wish list is skill in OD, which is seen as being core to providing an holistic view of organisation, supporting strategic capability development as well as delivering greater short-term effectiveness.

However, there is one less traditional theme which emerges as a common requirement. A frequent outcome of the ‘leaning up’ of organisation structure and the need to balance local market optimisation with central economies of scale, is the requirement to work with, both from a skills and behavioural perspective, more ‘federal’ operating models where local and central needs are reconciled and where shades of grey replace good old black and white. HR functions recognise that making these operating models and governance approaches work is not so much down to structure and process, but predominantly down to collaborative working, a solid understanding of differing needs, and an ability to work with ambiguity, flexibility and pragmatism. A very significant 78% of those surveyed feel that a more pragmatic and principle-based approach to policy and governance is the direction in which their HR function is heading.

This challenge appears especially relevant to the working relationship between HR Business Partners and Centres of Expertise, and between Group and Regional or Divisional HR in the approach to processes, tools and policy frameworks. This is something which some HR functions are already addressing in various ways, with two large corporations achieving significant improvements through the use of *HR Advisory Boards* as vehicles in reconciling these and other issues.

So what is it that HR feels it needs most from those working as external providers? Interestingly, the number one request is for support in up-skilling in OD, with 47% citing this as the most desirable offer from beyond their own organisational boundaries. Almost alongside this is help in increasing the capability of HR individuals in analysing and manipulating data, and turning information into insight. These sit atop a continuing desire for external challenge and support in creating really commercial HR individuals with more advanced partnering skills and the ability to ask the questions which drive positive business outcomes. As one interviewee said *‘the difference between a good and not so good HR person is now much more apparent. The business is no longer willing to accept an HR Partner who is just an administrator’*.

All in all, the report paints a picture of HR as being acutely conscious of what it needs to do to maximise its value proposition to business, and increasingly looking at more behavioural and skills-oriented solutions to address any gaps, rather than structural change. But what is also suggested is that HR may need to be a bit braver, creative and tactical in the short-term in order to meet some of the more urgent needs around commercialism, OD and data analytics; but look more fundamentally at how it builds this capability longer-term, since there are indications that our approaches to developing these elements over the past few years are not bearing fruit in a way that the new economic landscape requires.

Nick Kemsley

Co-Director Henley Centre for HR Excellence

Literature search (for full list of references see back of report)

As with any piece of research conducted by the Centre for HR Excellence, the aim is to provide a summary of independent external research on the topic being discussed, so that the reader can compare and contrast the findings of the Centre's research with the views and opinions of others.

In conducting a literature search relating to the way in which HR functions are being challenged by, and reacting to, the new economic climate; inputs have been pulled together from a wide spectrum of sources. Only research conducted in the last three years has been studied, with an emphasis on 2011 findings in order to be as topical and relevant as possible.

The tone of the more recent literature strongly suggests a determination in HR, not to reinvent itself all over again, but to refine and focus what it has built over the last decade or so to be a much sharper representation of the business agenda. As **Lissak et al** ⁽⁵⁾ suggest in their report on behalf of Deloitte, *'HR transformation has been synonymous with implementing new technology, but is now more about focusing on the right business priorities...'* Later they go on to say that, to add most value in the current global economic world, HR must be *'operationally sound and strategically aligned'*.

In the same report it goes on to say that *'there has been significant focus on process standardisation and the implementation of HR systems and tools. As a result, most companies are focused on cost savings in areas which account for less than 1% of corporate revenue. It is a long and indirect way for HR to support the company's business strategy. What companies really want is for HR to tackle the business issues that they are facing today...HR transformation must begin with understanding the business priorities, then aligning its organisation, programs, resources and policies towards those objectives'*

Much of the literature refers to a visibly more evident relationship between what the business needs and the activities on which HR focuses its ever-leaner resources. In particular, the desire to be ahead of the curve in terms of underpinning business strategy with the requisite organisational capability in terms of talent. Strategic workforce planning (SWP) emerges as one of the most important areas where HR is seen to be able to add most value to business going forwards.

In **PwC's** recently published *15th Annual CEO Survey* ⁽¹⁾ – *delivering results through talent – the challenge for HR in a volatile world*, the vital link between SWP and business strategy is articulated as *'the delivery of growth depends on being able to institute well-informed and proactive strategic workforce planning'*. This report goes on to reveal that CEOs are increasingly recognising the importance of matching business plans and organisational strategies, with 24% of CEOs saying that they have had to cancel or delay a strategic initiative as a result of talent constraints.

SWP is again recognised as a key element in **Harris'** 2011 research into *the top best practices for the high-impact HR organisation* ⁽⁶⁾ on behalf of Bersin & Associates. Harris cites strategic workforce planning data to support decision-making as the second most important opportunity area for HR after a more structured approach to governance and business case creation.

There is a recognition, however, that being able to fully engage with SWP still remains a major challenge for HR functions and individuals alike. In **Ventana's** 2011 piece *Next Generation Human Capital Management* ⁽³⁾, the assertion is that *'for the most part, workforce planning remains an elusive HR management best practice'*. One of the key reasons for this proposed in the literature is connected with HR's capability in the data and metrics arena.

The survey of CEOs conducted by **PwC** and referred to earlier also includes the statement that *'a lack of quality information is making it hard to anticipate strategic talent needs'*. It goes on to say that only around 16% of CEOs say that they are getting comprehensive HR management information for the measures they say are important. The prevailing view across the various reports and papers seems to support the view that data and metrics offers perhaps the best return on investment for HR in terms of adding value to business, but that the function's current approach is over-dependent on information-rich spreadsheets and too low on organisational insight. **Verdana** ⁽³⁾ reports that *'96% of companies rely on cost and budget-related metrics and utilise spreadsheets heavily'*.

This insight-driven approach is centre stage in 2010 research by the **CIPD**. In its paper authored by **Sears** ⁽¹⁸⁾ entitled *Next generation HR: time for change – towards a next generation for HR*, the case is made that HR as a function has moved through the phase of being *service driven* to a phase of being *process driven* and must now embark on a move to being *insight driven*. Sears describes a situation where HR has a *'new relationship with data gathering and analysis – generating true insights'*. This report finds that in some organisations HR is already becoming more of an insight-driven discipline and talks of organisational insight as being a key differentiator in the performance of HR functions moving forwards into the future. In this future, HR's key value-adding role is in building what Sears calls *Organisational Equity* – a combination of factors such as authenticity, agility and future-fit leadership; with HR playing a role as commentator, guardian and valuer. As such, this would support the *'crucial need for HR to support not only short-term performance, but also to put driving sustainable performance at the heart of its purpose'*.

Similarly, **Mercer's** 2011 research on *The next generation HR service delivery model* ⁽¹¹⁾ sees measurement as one of five focus areas characterising organisations who are seen as successfully adapting to the demands of modern times. These five focus areas are listed as:

- Being more strategic
- Being guided by metrics and measurement
- Flawless execution of the basics
- Being effective in supporting managers
- Cost-effectiveness

In terms of the type of data and metrics which are seen to be most valuable for HR to focus upon, workforce planning, productivity and measuring the financial impact of HR activity are the three which are most often talked about. In **Harris'** report for Bersin & Associates ⁽⁶⁾, measuring the financial impact of HR emerges as the number one challenge for the HR function, with workforce metrics following in second place. **Lissak** ⁽⁵⁾ also talks of two of the key new roles for HR as being *'anticipating critical workforce needs and...enhancing workforce performance'*. In their 2011 piece *HR transformation – it's all about the business*, **Piercy & Tabakman** ⁽¹²⁾ see the area of metrics as being sufficiently important

to merit structural change, citing *'workforce analytics'* as one of a number of potential new Centres of Expertise which could emerge in HR - along with risk management and compliance, inclusion and engagement, and HR effectiveness.

This is perhaps the appropriate place to talk about technology as an enabler for HR value delivery into the future. In their 2011 research report, *An expansive landscape of HR service delivery opportunities*⁽⁷⁾, **Towers Watson** reveals that the way in which HR approaches the utilisation of systems needs to evolve. They see a *'move from organisations throwing old technology at problems to looking at flexible new technologies that leverage self-service and shared service functions, deliver more streamlined capabilities and robust analytics, and organise existing systems around enhancing HR service delivery more broadly'*. However, they go on to say that despite this, spend on technology is largely steady or on hold in the current budgetary environment, and only around 20% of organisations are currently upgrading their HR information systems.

Gartner research⁽¹⁰⁾ refers to the rise of 'software as a service' models whereby standardised yet configurable software solutions are available, particularly in connection with outsourcing approaches, as a means of better managing HR information. It also discusses the opportunity raised through what it describes as the *'consumerisation of IT'* and the proliferation of smartphones, tablets and other individual data devices. The **CIPD**⁽¹⁸⁾ also refers to *'performance enabling technology'* for HR.

Although it has been said earlier in this research report that structural change appears relatively low on HR's agenda, it is not true to say that structure is not seen as important. What is commonplace in the literature is that, although HR is not looking to reinvent its structural models having worked so hard to implement them, these same structural models are creating issues which need to be addressed through other means in order for HR to live up to its ambition moving forwards.

One of the legacies which HR is living with as a result of prior structural change is the issue of difficulties in developing commercial acumen as a result of a partition of skills in HR. In a brief but interesting article published earlier this year in HR Grapevine entitled *Engineering the next generation of HR partners*, **Pask**⁽¹³⁾ argues that the '3 route' model for HR career development (generalist, centre of expertise, shared services) raises issues for the next generation of HR people. Pask's view is that HR functions' implementation of this structural model can make it hard to move *'across streams'* and that this is becoming ever more difficult as these streams become increasingly distinct. *'HRBPs will increasingly need experience of other disciplines such as business management, marketing or communications'* Pask says, and encourages HR functions to consider the *'design of new career paths which combine business experience with structured experience of several HR disciplines'* as a means of addressing this paradox.

Leckie et al⁽⁸⁾ in the 2010 research report *what keeps HR heads up at night?*, state that *'one should question if the current organisational design of HR departments is meeting the needs of the fast changing operational world in which we work'*. Their view is that the somewhat silo-driven structure of many HR functions both limits creative thinking but also pre-determines the answers to questions (for example, a manager approaches Recruitment with an assumption that they need to recruit, when another approach may be more relevant) and therefore gets in the way of HR being able to make more strategic interventions. Leckie et al also suggest that *'whilst HR continues to structure itself around providing [functional] expertise, employees will continue to by-pass their manager and come to HR instead'*.

The solution proposed by Leckie and company is not to change the structure itself, but more the way of working – overlaying this structure with cross-functional work teams such as PMOs, prioritisation groups, cross-divisional think tanks etc. They describe how these cross-functional or project team working models are on the increase, arguing that as HR's challenges are increasingly becoming cross-functional or cross-divisional, the roles of front office, back office and CoEs overlap, and so a distinct silo model is inappropriate in meeting these challenges effectively. The **CIPD** ⁽¹⁸⁾ has a similar view, saying that *'too much of the debate is focused on structure or roles and making the HR BP model work...not how HR needs to change how it works in light of new demands'*.

Commercial acumen for those working in HR is discussed at length in the literature as continuing to be an elusive prize. *'You've got to know the business to make HR strategic'* was a key conclusion of some benchmarking research conducted by the US-based **APQC** ⁽¹⁵⁾ in 2010 on the subject of *Next Generation Human Resources*. **Mercer's** *The next generation HR service delivery model* ⁽¹¹⁾ comes to a similar conclusion. In findings relating to factors hindering HR's ability to adapt to the new world, Mercer cite limited HR capability in the top three issues, and in particular, reference the impact of a lack of business breadth, saying that *'it is virtually impossible for existing staff to transition from an administrative to strategic business partner role without exposure to the business, strategic expertise, and other competencies which support them in their consulting with senior managers'*.

PwC's recent CEO survey ⁽¹⁾ also comes to a similar conclusion, saying that *'to become a true strategic partner means understanding the company's business, its industry, its strategy, and looking at its financial measures to gauge success'*.

But commercial acumen is not the only capability seen as being key to Next Generation HR effectiveness. In Mercer's *The Next Generation HR service delivery model* ⁽¹¹⁾ referred to earlier, they list a lack of skills in organisational development (OD), talent management and partnering as being critical blockers to HR adapting to the most recent demands from business. They go as far as saying that *'today's HR service delivery model requires capabilities that HR typically does not possess'*.

It seems clear, however, that an uplift in HR's ability to add strategic value must sit upon an improved capability in delivering the basics. **Sears** ⁽¹⁸⁾ sums it up well when he says that HR is *'able to engage in higher value adding OD only where grounded in business and delivering the fundamentals well'*. Mercer also identify a failure to provide top-notch transactional services as the fourth greatest blocker to the next generation of HR service delivery. This is also supported in **Bersin & Associates'** ⁽⁶⁾ *top best practices for the high-impact HR organisation*, where Harris lists the three characteristics of the high performing HR function as being:

- 1 Approaches aligned to the business
- 2 Getting the basics right first
- 3 Continual improvement rather than radical change mindset

In discussing *getting the basics right*, Harris finds that those HR functions who do not, are three times more likely to complain of a lack of respect from the wider business.

So, to summarise the findings of the literature search, there appears to be a strong level of consistency around what HR sees as the problem and the gap which needs to be bridged. In many areas, HR functions are sharpening their

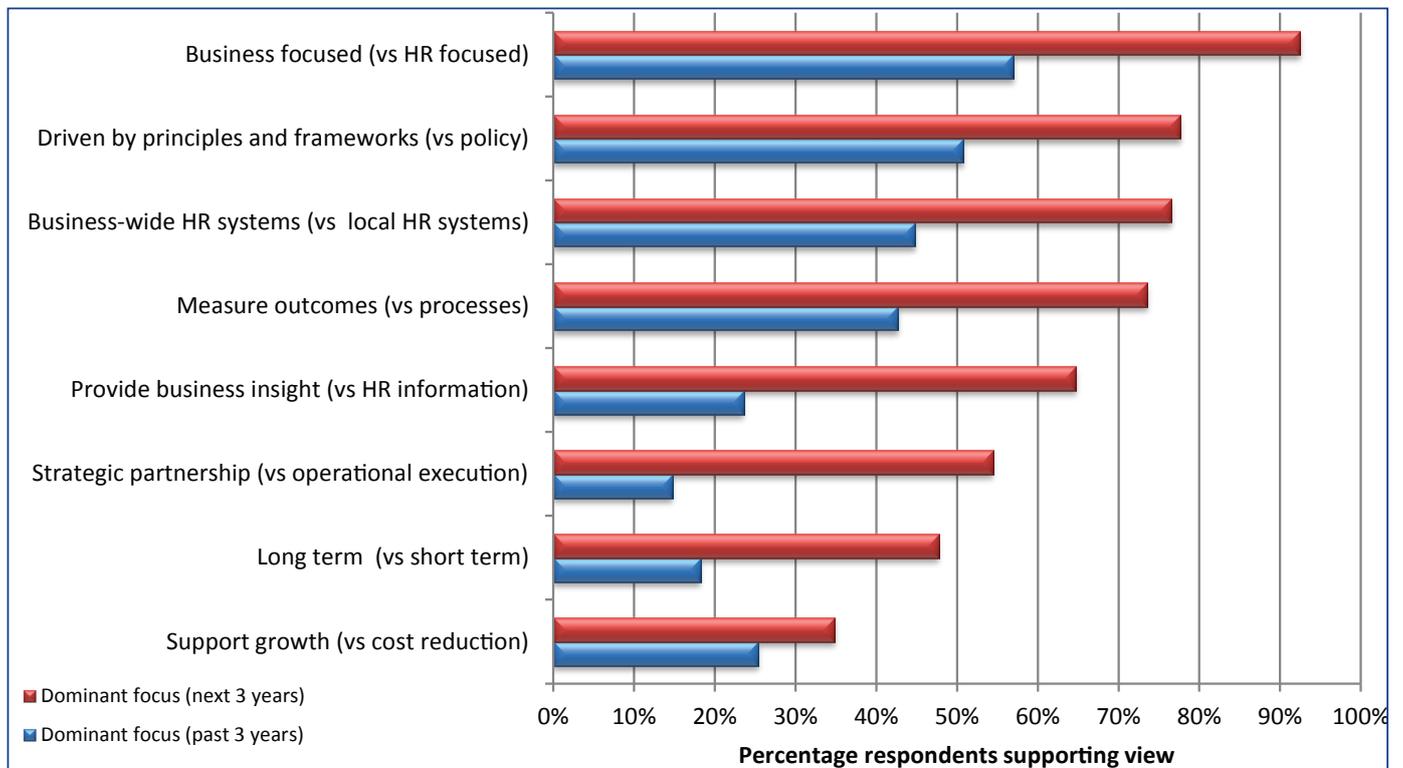
approach, becoming more visibly aligned to business objectives and attempting to use workforce data to become more proactive and insight-driven. Structural legacies and skills gaps are, however, raising some issues which beg deeper questions around the approach to HR career development, whilst also offering some smart solutions such as cross-functional working. What seems clear is that HR is very focused on making a step-change in the value it delivers to business.

Main body of report – more detailed findings from the Henley research

1. How is the role of HR seen to be evolving?

Across the board, those involved in the research interviews and surveys express a clear view that the breadth of the role of HR functions is getting wider and wider in terms of the things which HR are, and will be, involved with. They see an increasing role in the productivity and efficiency space, supporting business change, an ever-greater focus on engagement, an increasing amount of time being spent on performance of the top of the organisation - all in addition to the basics and supporting development through other levels of organisation. There is also an additional requirement relating to the way in which HR works, with the function needing to be more flexible, commercially relevant and pragmatic in design and execution.

Figure 2 Predicted shift in emphasis on various elements of HR's role over the next 3 years



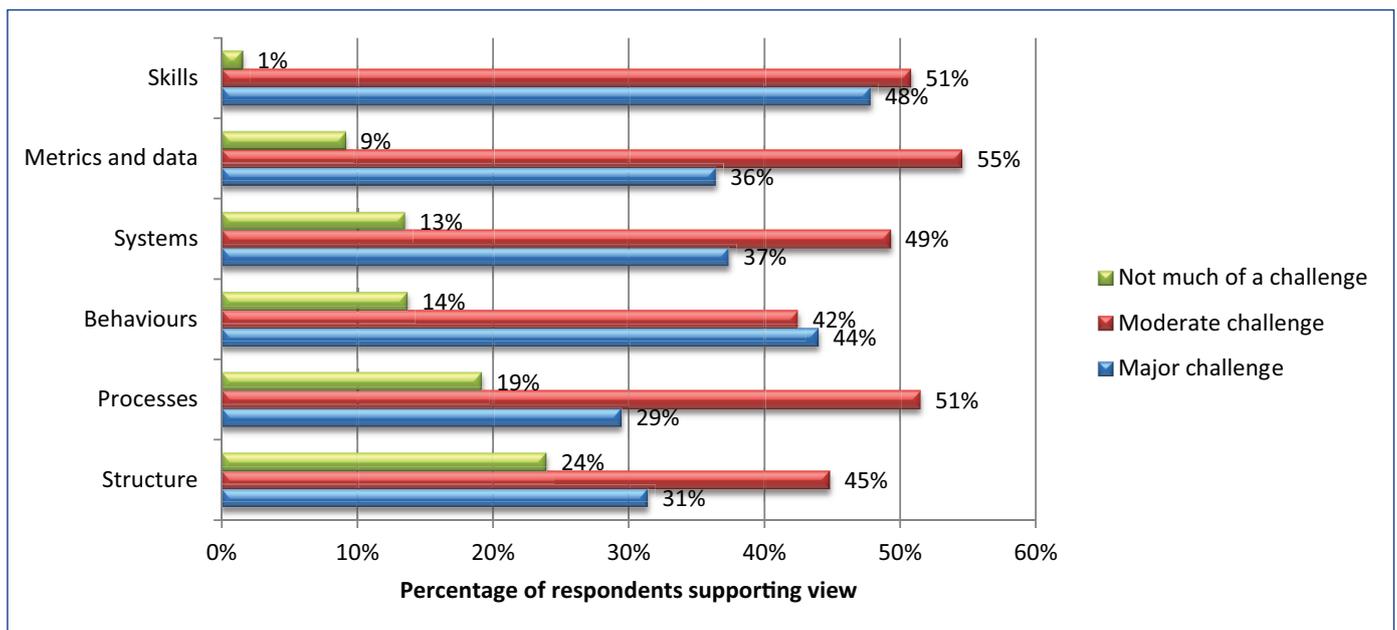
When asked to talk about the predicted shift in HR's role over the next three years, there are some clear trends:

- Greater business focus – when asked about the relative balance between a focus on the wider business and a focus on the HR function, and the way in which this balance might change going forwards, 92% of those surveyed see HR becoming predominantly business-focused, rather than functionally focused, in the next three years. This is in contrast to a figure of 57% saying that this was the case over the past three years.
- This shift in business focus is matched by a corresponding shift in focus from process to outcome, with the proportion of those saying that their HR function is focused in the main on outcomes rising from 43% historically to 74% going forwards. One HR Director was bold enough to ask the question...*'Do we seek solace in process to make up for a lack of power and influence?'*
- Alongside this is an equally significant shift in the approach to data, with a three-fold increase in the focus given to providing insight through metrics, as opposed to simply information, predicted over the next three years. An HR Head in a Professional Services organisation summed up the rationale for this by saying...*'virtuous circle of insight drives engagement with HR'*. As for how this is delivered, 77% see a move to more globalised HR Information Systems as a key enabler in this area going forwards.
- The increasing need for flexibility in approach is also highlighted, with 78% of HR functions predicting that they will have a dominant focus on governance via frameworks and principles as opposed to policy over the next three years, versus around 50% historically.
- Interestingly, the results show a shift in emphasis around cost reduction. Over the past three years, cost reduction has been more of an emphasis for HR, with 43% of HR functions seeing it as a dominant focus. Going forwards, this is seen to be rebalancing, with 81% of HR functions seeing their main focus shift either to a growth agenda, or to a balanced cost management and growth agenda.
- Interestingly, those questioned see an ever increasing focus on the strategic role of HR versus the operational. Whereas only 15% of HR functions considered themselves to be more focused on strategic issues than operational over the past three years, a significant 54% see this reversing over the next three years, with a further 37% seeing an even balance between the two. A particular focus area for this strategic contribution is capability planning. As one interviewee put it... *'HR not only needs to be aligned with current business issues, but needs to participate in painting a picture of the future and play its role in anticipating future capability (skills, culture, organisation...).* HR should be saying it has solved issues that the business never thought it even had.'

- Balance of long and short term focus - the question of focus on operational work comes up again when considering whether HR functions should be biased towards longer or shorter-term approaches. Although the proportion of those expressing the view that HR should operate a balance between short and long term remains reasonably level in moving from past to future, only 11% see HR having a predominantly short term focus going forwards, with nearly 50% predicting that it will have a dominant focus on the longer-term going forwards. Although this fits with the previous finding that HR’s focus is predicted to become much more strategic and less operational going forwards, there is perhaps a note of caution to be raised. Previous HR Centre research shows that business places enormous and principle value in the operational basics, and that these need to be working well before the strategic conversation is given air-time. Furthermore, this previous research found that over half of HR’s business customers see HR as ‘over-emphasising the strategic element of its role to its own detriment’. There is therefore perhaps a need for any re-balancing toward the longer-term, more strategic work, to be on a foundation of excellence in the basics.

2. What challenges is this throwing up for Next Generation HR?

Figure 3 Relative scale of challenges to be faced in the next 3 years



In the research, we asked both interviewees and email survey recipients to highlight the organisational arenas in which they felt the key challenges would lie in moving forwards with Next Generation HR ambition and objectives outlined in the previous section of this report. The challenges are ranked and summarised as follows (from perceived biggest to smallest):

- 1 **Skills** – 99% of HR respondents see this as a big or moderate challenge for their functions going forwards. The skills which are most often cited are commercialism, dealing with ambiguity and paradox, OD and productivity, metrics and data analysis, and the ability to work in more ‘federal’ operating models.

- 2 *Metrics* – this is sufficiently significant to demand its own section in the report, with 91% of HR people seeing this as a big or moderate challenge. In particular, the challenges of moving from process metrics to outcomes, developing insight from information and increasing the focus on business KPIs. A good relationship with Finance is seen to be a key enabler here, and there is a strong view that HR should be much more selective and forward-looking in the data it presents to the organisation, and much more relevant to the key strategic and tactical issues.
- 3 *Systems* – here there is a view that significant IT investment going forwards will be a key enabler for HR's role, but that HR is often 'bottom of IT's list'. However, this is balanced with a more wide-scale belief that there is an awful lot which can be done with existing data and systems before investment is considered.
- 4 *Behaviours* – 86% see this as a big or moderate challenge for HR in the next three years. The key behavioural need is in working across central/local structures, where the needs of both must be considered and optimised to the context of the organisation. This is creating behavioural challenges between HRBPs and CoEs in particular, with individuals often struggling to exhibit attitudes and behaviours which are aligned with this need, focusing instead on more historical 'binary' approaches which are either over-local or over-central in approach.
- 5 *Process* – this is all about simplification, de-duplication, alignment and governance. Balancing process complexity with risk, driving better knowledge sharing and moving to more principle-based governance are the most commonly-expressed needs.
- 6 *Structure* – only 31% see this as a major challenge, with a significant 24% not seeing this as much of a challenge at all, perhaps indicating that the bulk of HR's restructuring effort is seen as water under the bridge. However, there is a significant theme relating to the rigidity of structure getting in the way of flexibility, and a desire to clarify roles where organisations are moving to more nuanced structures in the 'federal' space, or more ambiguous matrix reporting.

Beyond these top-level results, there is obviously a lot of depth and texture which can be added through the interview feedback. In combining both sets of data, there are some strong common themes which emerge.

The first of these is one of 'balancing' - short with longer term, central with local, efficiency with effectiveness, cost constraints with service levels, basics with development activity, and doing more with less generally. This was summarised well by one interviewee, who said...*'taking on these additional duties and complexities has left us a bit stretched on all the other stuff'*. Another said *'we have to find the bandwidth to make sure we don't take our eye off the vital basics like resourcing'*.

Another common theme is the need to simplify and align HR's offer to business and also do the same for the wider business - removing duplication, aligning across business areas and reducing silo working emerge as key focus areas. *'The challenge for us will be to focus on de-duplication and ROI and stop dabbling'* was just one of many comments in this regard. As business is asking HR for more holistic,

joined up and efficient organisational solutions to its issues, the HR function has to work out how to marshal its various different elements, which can sometimes be managed somewhat as silos, creating inefficiencies, interface issues, a lack of focus and in some instances completely contradictory activity. How does HR organise itself and behave so as to deliver an integrated and relevant *people and organisational offer* rather than a smorgasbord of different *process pieces*?

This implies increased collaboration and finding the right balance of consistency and flexibility. One CHRO said that *'As we have grown as a business we have required more governance, but our people are not used to working in a corporate way. Group/Divisional working is a key challenge for us.'* The vast majority of the organisations involved in the research are evolving their operating models at enterprise level. Whereas in the past, being biased towards the local 'coal-face' or having a powerhouse in the centre of the organisation might have been helpful in driving business success, there is now a recognition that a bit of both in the right quantity is where the most value is released – a *federal* mode of operating in which both central and local needs are considered, balanced and reconciled. The problem is that this looks great on paper but is difficult to implement in practice, since it takes us from the reassuringly digital '1s' and '0s' of who does and decides what, to the annoyingly crackly ambiguity of 'analogue' working where the answer to many dilemmas is *'it depends'* or *'both are right'*.

Henley finds, through its work with many organisations with this ambition, that the key challenge connected with operating in a more *federal* way is surprisingly not one of structure or process. The reality of organisations is that *everyone is based locally* and reports into *either* a central or local structure – there is no organisational structure called *'federal'*! Therefore, what makes people work effectively to this model is much more a function of attitude, behaviour and capability. Against a backdrop where the easiest option is to fall back into your *home behaviour*, it takes continual and significantly more personal and organisational effort to maintain a balance between extremes.

HR is well placed to make this situation better or worse, since it has a role both in organisational transformation and effectiveness, but also in designing policies, processes and tools which touch everyone in the organisation and which must reinforce this level of pragmatism and flexibility rather than entrench inflexibility and bureaucracy.

This requirement for flexibility and pragmatism is most evident at the process level, in the degree to which Centre of Expertise initiated activity recognises local practicalities and differences, but even more so in what is seen as HR's rather *perfectionistic* approach to process design. The overwhelming message here is one of *'when is something good enough?'* and that a relevant and well-implemented but imperfect process scores a win over a work of art which never leaves the studio... *'We in HR need to look at the complexity which we put into the business through gold-plated processes which are designed from the assumption that employees and managers are bad people. You create an environment where people don't feel trusted and you can increase the very risk you are trying to protect against'* was one very pertinent comment from a global HRD.

The last key theme is metrics and data insight, which is seen both as a key challenge and an opportunity. There is a strong view that this is a potential easy win for HR in that it already has a lot of data at its fingertips and could deliver a lot of value through simply working with and presenting it differently. Comparisons are made with Finance in terms of the credibility which goes with

numbers which can easily be translated to what’s important around the Board table. As one HR Head in the public sector said...*‘data insight is key to being credible, since it gives you a firm basis on which to have a discussion with decision makers...we need to really challenge what we measure and how we use the data’.*

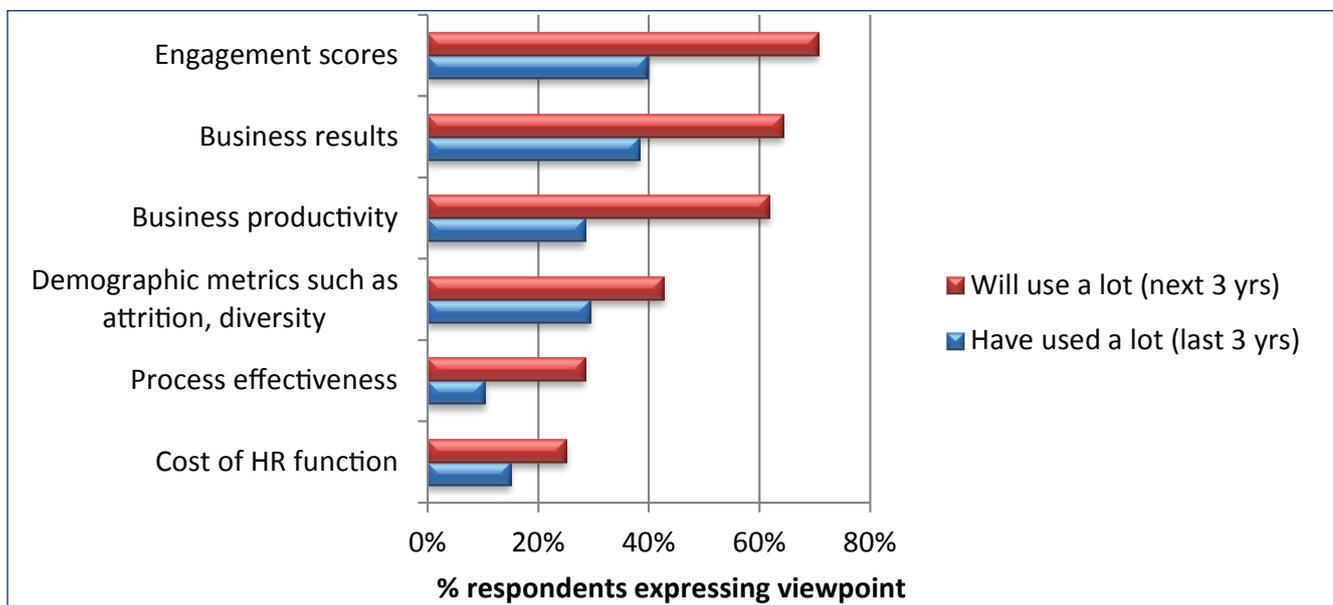
But how relevant to what keeps our business leaders awake at night is what we give them in terms of metrics and data? It is easy for us to feel that our job is done if we are delivering a monthly ‘HR metrics’ report to the Board, but quite often these do not present data relevant in type or format to the issues at hand, have not been analysed and manipulated to pull out the key insights to support decision making, and are backwards looking. This approach to people and organisational data is described by one interviewee as *‘just the same old c**p that nobody listens to’.*

However, although we may often have the raw data, the research shows that senior HR people have doubts as to whether their HR functions have enough of the right kind of capabilities to make the most of the opportunity presented. One HRD said...*‘people who are good with people are often not good with numbers. We don’t have enough people who can ask the right question from the data’.* Another requirement was an understanding of commercial business metrics. HR leaders see huge benefits in being able to engage with senior management in their language of business, and then translate this to people and organisational implications and questions.

3. How will HR be measuring its success in the next 3 years?

In the research, HR leaders were asked to express views as to how the success of their HR function should be measured. In the email survey, they were asked to comment on a number of potential types of measure, and say the degree to which they have historically, or would in the future, consider this kind of measure in determining the success of HR. They were asked in addition to say whether they used or would use this type of measure ‘a lot’, ‘quite a lot’, ‘occasionally’ or ‘not at all’. They were also given the opportunity of mentioning other potential measures of success.

Figure 4 Evolution in type of metrics used to determine the success of HR functions



The results in Figure 3 were then combined with more in depth interview feedback. The research raises some interesting common and varied themes. The underlying sentiment is perhaps best described as being split into two camps – a quantitative one in which HR's success is translated from the success of the wider business in terms of its contribution through people and organisational levers to business performance; and a more qualitative one, where success is judged by the degree to which HR is involved and at the heart of decision making as a result of its perceived value and credibility.

The interview and survey data shows a desire to move beyond more traditional and comfortable ways of showing HR's value to a necessarily more courageous and relevant one. There is a view that HR can sometimes be accused of using metrics which allow it to hide behind process and shy away from explicitly connecting what it does with the short, medium and longer-term performance of the business. One Board level business customer of HR said of how HR measures its success...*'HR needs to play more of a tangible role in making the strategy live. It's not about designing the best performance management process - it's about how business leadership is made real from an HR perspective!'*

Commercialism is a key theme. Many of those interviewed see one measure of success as having an HR strategy which looks much more like the business strategy – *'Metrics should be business metrics - we are only successful if the business is successful. This changes the ambition of the team. We must focus on outcomes not process. Are we delivering the business strategy and how healthy is the organisation and its leadership?'* Another theme is having HR work driven much more from commercial business needs with *'financial measures being used as context for HR processes and performance, what conversations to have and so on'*.

One useful summary of what success could look like is that provided by the UK HR Director of a well-known international business. They talk about an HR which is focused on key business-relevant themes, few in number, co-developed across the different HR areas, based on insights gained from multiple external and internal data, followed through in prioritisation, work plans and reviews.

Those who take a more qualitative view of HR success talk about HR being *'at the heart of everything'* and *'when we have the basics right and are a strategic player'* as being key aspirations. Again, there is a clear view that getting the basics right is a key ingredient in HR being seen as successful, which needs to be considered alongside the earlier finding that HR leaders see the role of their function as moving away from the operational detail to a degree. An interesting example of this in the research is outsourcing. Not only is it decidedly off the agenda for most HR functions (78% of HR people asked say that their function has no plans in regard of outsourcing in the short to medium term), but there is evidence that such approaches have, in some cases, impacted these critical basics and hence the credibility of HR in the eyes of its business customers. One HRD commented... *'We are examining our operating model and re-balancing it. We don't want to go back to where we were, but we need to change some bits... we have some gaps now due to the outsourced model not working so well for us'*. Some of the organisations who took part in the research were actively in the process on *'in-sourcing'*, taking back control of some of the basics. This was typically in the recruitment area.

Employee engagement remains a leading measure of HR's value, in terms of morale through tough times and/or change, skills retention and productivity. This is seen to be even more the case going into the future, with the percentage

of respondents saying that their HR function used this type of measure ‘a lot’ seen to increase from an historical 40% to a predicted 71% over the next three years. This is very much supported through the interviews too, with engagement seen as a key way of demonstrating tangible value where links could be made to commercial issues of relevance to senior management such as unnecessary external recruitment, the cost of sickness and absence etc. In other research conducted in recent years, linking engagement to business outcomes is shown to be a vital element.

When we look at the types of things which HR measures, both historically and into the future, it is true to say that the research indicates a bit of a re-balancing from a focus on demographic data measures towards a greater focus on business outcomes being key in defining the value of HR going forwards. Of those people who took part in the survey, 63% predict that they will use business metrics ‘a lot’ in the coming three years, versus between 28% and 38% saying that this has been the case historically. A somewhat surprising 10% of those asked say that their organisation doesn’t use business metrics “at all”. One HR leader said of the data and metrics challenge...*‘this way of thinking has to be embedded in all HR people, not just the leadership’*.

Interestingly, HR costs are historically, and going into the future, at or near the bottom of the pile in terms of the importance HR functions put in them as measures of success. This is potentially at odds with some of the comments collated around the role of HR. Sentiment such as that expressed by one HR Head that *‘as a support function we feel that we have to evidence and justify why we exist, as a whole and as individual areas. We have talked about this for years, but now it’s very clear that we have got to gain support in a much more sophisticated way - understand what we do and how much it would cost to deliver through another means’* appears from time to time in the verbatim interview feedback, although by no means a reflection of all organisations.

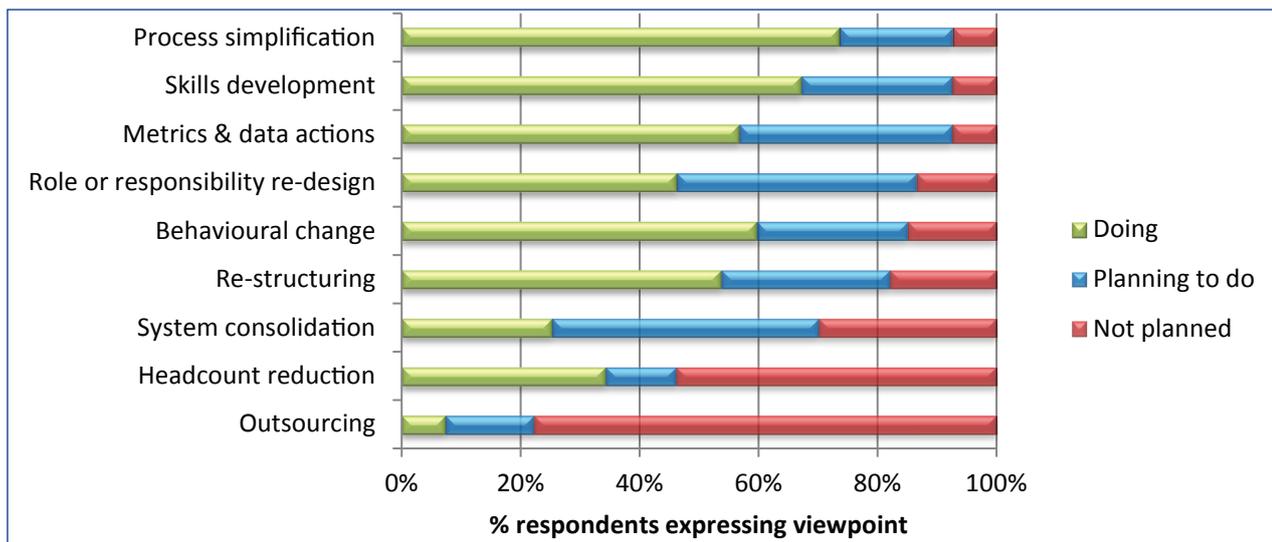
Business productivity and efficiency measures are also predicted to rise in importance, with a growing focus on outcome versus process. *‘Where are the variances around productivity in the organisation? How well are teams working together? How effective is HR at supporting the business in this way? These things will become increasingly more important’*.

To end this section, two interesting perspectives are raised in the research. Firstly, the use of external recognition. *‘We need to build on our internal success with engagement and seek external recognition to attract the capability our business needs. I want us to be ahead of the market for young workers aged 18-24 in a way which addresses social issues around alternatives to university and student debt.’* – an example from an HRD in Financial Services of how external measures of success can blend with business success. Secondly, being measured on the degree to which employees understand and are engaged with the strategy of the organisation. This is often talked about as a fundamental issue in organisations, so it is interesting to hear at least one business talking about it explicitly. A non-HR senior business leader remarked that *‘Leadership is not just about the top of the business - need to look at the degree to which people understand and are engaged with the strategy.’*

4. What is HR doing to react to these challenges, and what is working?

In the research, HR leaders were asked to describe the kind of activity that they were either already undertaking or planning to undertake in order to underpin their HR function’s capability in delivering what business was asking of it in a 2012 world and beyond. In the email survey, they were asked to group this activity under the headings shown in Figure 5 below.

Figure 5 HR functions’ focus on activity to underpin its own evolution



Across both interview and email survey data, results here mirror other areas of the findings in many ways, with skills, behavioural and metric-driven activity being top of the list of actions in terms of current focus. Process work, however, proves the most common action focus area, at least in the short term, with 74% saying that their HR function is already engaged in process re-work. The main thrust of this process work is not the development of new processes, but either the migration of administrative processes into Shared Services, or the de-duplication and simplification of HR processes.

A strong theme in the interviews is a realisation that the complexity of some people processes is having a negative impact on business’ perception of the value that HR is adding. ‘Process and policy is becoming unwieldy’ as one senior customer of HR put it. It seems that as organisations strive for efficiency and productivity, the definition of ‘over-designed’ is shifting, and there is greater scrutiny on the effort versus impact of people processes and a growing intolerance of requests for managers’ time which are not perceived as value-added or business-critical.

A number of organisations surveyed are in the throes of moving certain administrative processes into Shared Services environments – principally payroll, contract and policy-driven services. One large organisation is actively using IT-enablement of certain administrative processes to reduce the number of more junior HR staff in administrative roles, re-consolidating HR’s key value delivery around the HR Business Partner. Another retail business is upgrading its HR process management systems, and using this as a means of pushing for more consistency and standardisation in approach and consequent behavioural

change...*'This has driven much more of 'one way' approach to policy and process, which has had cultural challenges. We have sat down and bashed out compromises and this has meant new ways of working.'*

At the same time, HR itself is looking towards process migration, rationalisation and simplification as a means to allow it to make better use of the leaner resources it has – helping the function address the challenge of providing more with less. Two major businesses are engaged in what one of them termed *dynamic resource allocation*, whereby certain HR resources are pooled in more flexible structures and allocated in a more prioritised way. In one case, a business had redeployed recruiters to M&A activity during 'dry spells' in business-as-usual recruitment. Another area under scrutiny is Learning and Development, with a number of organisations surveyed either looking at, or planning to look at, their L&D catalogues in terms of learning products. In terms of the low-hanging fruit, many HR functions are looking at reducing the number of key performance indicators which they capture and reports which they produce as an easy way of taking work out. Processes, such as cross-regional or cross-departmental networking processes – which encourage the sharing of best practice and economies of scale – are also seen as valuable.

Interestingly, over half of HR people questioned say that their function is not planning any headcount reduction, and a significant 78% say that they are not planning any outsourcing activity. This is perhaps evidence of a more inward-looking efficiency drive.

When it comes to skills, 67% of respondents say that this is an area of current development focus for their HR functions, with a further 25% saying that activity in this area is planned near term. Specifically, an up-skilling in commercial acumen and Organisational Development/Organisational Effectiveness skills are viewed as the most critical skillsets requiring development. The ability to operate at transformational and tactical levels at the same time, plus resilience in the face of constant change and pressure are also commonly mentioned.

It is worth clarifying that, in this research, 'commercial' is in nearly every case described as *knowing how the business works in a commercial sense*, rather than simply being able to tell your ROTA from your EBIT. Understanding the operating environment and competitive landscape, the market dynamics, the product and service portfolio, the commercial pressures on the business – what constitutes good business and bad business and how value is delivered to customers and consumers.

As a simple means of developing such commercial understanding, many HR functions are taking the cost-effective step of involving people from the wider business in their functional team meetings. One or two others are encouraging their HR people to *turn the conversation around* – to start conversations with their business customers by asking about business performance and then making connections to people and organisational questions which relate directly to this, rather than a speech around the latest, apparently disconnected, HR initiative. The same organisation is taking its HR Business Partners through a programme which includes, among other elements, the opportunity to increase their commercial awareness through the use of external and internal speakers, industry experts and so on. This sentiment is echoed by a HRD in the Retail sector who believes that *'external stimulus works well, especially at senior level'*.

The interesting theme which arises from the survey and interviews, however, is a determination to source HR people from outside HR as a means of delivering a more fundamental uplift in commercialism in reasonable timescales, with one organisation specifically recruiting HR people from consultancies, and others putting people from the wider business into senior HR roles - and seeing benefits in short order. The use of non-HR career experience as a means of addressing the perceived commercial gap has been highlighted in previous HR Centre research, but although seen by both business and HR leaders as the most effective means of developing this capability in the function, it was the least utilised option. Does this latest research imply that HR functions are now beginning to embrace this previously under-utilised option?

Up-skilling in Organisational Development and Effectiveness is an extremely strong theme – more than with previous pieces of research. One reason for this seems to lie in the requirement for HR to become more involved in productivity and efficiency, as described earlier in this report. Another driver which was evident from the research was the need to be smarter around how we *design* our organisations. The implication here is that there is an apparent shift from the more traditional view of OD/OE being in the main about longer-term, strategic evolution; towards it including the ability to influence shorter-term productivity and structural efficiency to a much greater extent. This is understandable given the context of many organisations right now. As a reaction to this, OD/OE is being given greater focus within HR. One HRD says *'We are pulling out the OE role to report directly into the Group HRD to focus more strongly on organisational design'*. Equally, as organisations are increasingly focused on principle-based governance models, minimum resources and cross-unit ways of working, trying to maintain some level of consistency and coherency around structure design becomes ever more critical.

What comes across in the interviews is that very few organisations seem to have a clear idea as to how to address the OD/OE capability gap. The interest in LEAN™ and Six-Sigma™ as the tools of choice with which to address efficiency seems to be out of kilter with the desire for more pragmatic, less effort and training-intensive approaches. However, once these tool and process-based methodologies are removed from the equation, they leave a void which is proving difficult for HR functions to fill.

One or two organisations are experimenting with somewhat more flexible tools such as the Levinson Organisational Assessment™ approach, but in general, organisations are looking to external providers such as business schools to deliver volume capability enhancement in these areas through the use of development programmes. Beyond this, and somewhat more tactically, OD/OE expertise is being bought in at senior level and used to drive the formation of Centres of Expertise in OD and OE. Whereas, a few years ago, many organisations were choosing to develop pools of OD people who could be assigned to support change in different areas of the business, a more popular view expressed this time around is to use a small number of experts to create a consistent view of best practice and develop tools, principles and approaches which can be picked up and used by anyone in the business. Also popular is the trend to equip HR Business Partners with a grounding in OD/OE, but this is raising some challenges both in terms of capability and bandwidth.

Behaviour change is a current focus area for 60% of those questioned, with a further 25% planning for it in the near-term. Within this area there are some

interesting findings. Behaviours associated with optimising the working relationship between Centres of Expertise, Shared Services and HRBPs are seen as a major need. Against a backdrop of evolving operating models in business, the re-balancing of the power and influence of group or central functions is taking HR roles and responsibilities into a somewhat less black and white space. Trying to clarify and/or work with this ambiguity is possibly the most common need being worked on in HR. Key to addressing this is an understanding that the different elements of HR are not in competition with each other, but need to bring respective expertise to bear in an aligned way. One global financial institution has found that there is a lot to gain through Regional and Group HR approaching conversations with each other in a different way – asking ‘*what’s your concern?*’ and putting themselves in each other’s shoes as opposed to going into a situation *expecting* an entrenched position or making assumptions around motives. This very small and simple metaphor for a working relationship is delivering meaningful personal insight and therefore behavioural change. However, in many organisations, HR leaders say that they are experiencing a degree of backlash against proposed new ways of working, as well as capability challenges in making them work.

Although fundamental structural change is not at the top of HR’s to-do list, two organisations have chosen to make informal tweaks to their existing decision making structures by implementing ‘*HR advisory groups*’ to help guide the agenda of HR, arbitrate and align between different HR areas, and to look at prioritisation.

Some organisations are looking to shift perceptions and change behaviours in a more systemic way. One organisation is taking the opportunity to bring junior line managers into HR for a time early on in their management careers, in order to give them an appreciation of people issues. This is seen to help in two ways: by minimising people-related management issues later on, and by developing a view of the value of HR and when they should be involved. Other desired mind-set shifts relate to the way in which HR people are encouraged to think about data – as a powerful ally as opposed to a scary foe – and asking people to think from the point of view of value added to the customer as a way of helping align HR around the right things.

As indicated earlier, data and metrics is a key focus area for HR functions looking to uprate their performance, with 57% saying that there is work ongoing, and a further 36% saying it is planned. Areas being addressed included benchmarking and the re-designing of the data which HR collates. There was some resistance in the wider business to a move to more consistent data sets, but in general, taking an end-to-end approach to data and tying business outcomes back to people processes is seen as adding value.

Another theme on the metrics and data front is ‘*making friends with Finance*’ as HR realises that providing consistent data and linking people and financial data is key to providing insight in a language which lands with HR’s key stakeholders. One business is undertaking a Data to Insight project, and has come up with the somewhat obvious, but rarely applied, principle of asking the Executive Team what data it would most value seeing from HR. Others are undertaking joint planning meetings with Finance colleagues in order to reconcile people and financial data in the budgeting process.

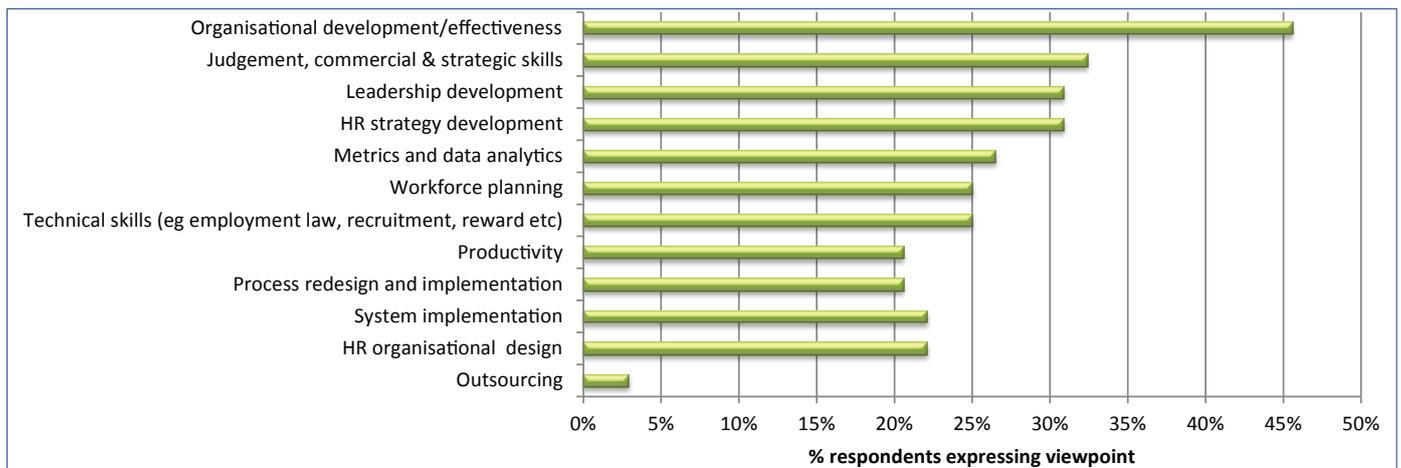
In the mid to longer-term there are some more ‘structural’ ambitions, although very little which fundamentally challenges the overall model of HR. Instead, the

focus is more about role optimisation and system enablement, with 40% saying that they are planning to clarify roles and responsibilities, many as a result of changes in local and central governance. 45% are planning system upgrades and alignment activity, mainly in the area of payroll.

5. What external support is going to be most valuable going forwards?

We asked HR leaders to think about what assistance from third parties they saw as being most valuable in helping them address some of the HR capability questions raised in this research. The email survey results are shown below.

Figure 6 Areas in which HR leaders feel that external support would be beneficial



There is a surprising degree of consistency in the answers, with the following areas seen by most HR functions as being those where external support would most be needed or appreciated:

- 1** OD/OE – organisational development, efficiency, organisational design and strategic organisational capability is cited as the number one need, with 46% of those asked saying that this is the most desirable external input in terms of capability building.
- 2** Data manipulation and analysis is, unsurprisingly considering the points raised earlier in this report, seen as another major area where external support is needed. The main objective of this support is to help HR measure the things which are most useful to business, synthesise it to create insight, and present it in a useable and credible way.
- 3** Applied commercialism and advanced partnering skills remain as key needs, with a desire to expose HR Partners in particular to external best practice, different perspectives on the role and practical tools and approaches to maximise their value contribution.

Interestingly, outsourcing support is seen as the least required support area. Not only are over three-quarters of those asked saying that they have no plans to further outsource processes or services, but a number are actively bringing certain activities back in-house.

Final words

A comprehensive summary is provided at the head of this report, but there is an opportunity to provide some brief reflections on the research.

The comments of the participants appear to reflect an HR function which is even more determined than ever to deliver value in a tangible, measurable and relevant way. They also reflect an HR function which is happy to hold the mirror up to itself and unafraid to face into where it needs to change. The change which it is identifying as critical is not a reinvention or major restructuring, but more a re-focusing around the priority needs of the business and an evolution of ways of working and behaviours.

The objective, it seems, is to instead work better and smarter with what exists so that its impact on business is maximised for the resources employed. This is resulting in the re-appraisal and slimming down of processes, the sweating of data to provide insight over information, and a desire to up-skill HR's people to meet an ever-growing scope in an environment which is ever more complex and ambiguous.

There are many examples where HR functions are succeeding in meeting these challenges. However, it is true to say that some things remain elusive. As a function, HR is still looking for ways to develop its commercialism to the level it feels is value-added, and the subtleties of more federal operating models continue to put stresses on role clarity and process design.

The overall feeling though is of an HR which is much clearer about where it wants to go, and what it will take to get there, even if it doesn't have all the answers right now.

This research, along with other pieces of research, feedback and experience working with the HR community globally; will be used to inform the programmes, events and bespoke services offered back to both member and non-member organisations through 2012 and beyond.

So finally, thanks to all those who contributed, either through giving up their time to be interviewed, or through taking part in the survey, and thanks also to Nick Holley and Rudi Kindts for assisting with some of the interviews.

For further information relating to this research, or for any other HR-related questions or comments, please feel free to contact the HR Centre.

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