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HR IN TOUGH TIMES

ADAPTING TO A CHANGING WORLD



TOMORROW'S ADAPTIVE ORGANISATION

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By Philip Sadler, CBE

The first decade of the twenty-first century brought with it a whole new series of challenges for organisations and their leaders. These challenges in turn have important implications for the role of HR.

The main issues to be faced include:

- The impact on all kinds of organisations of the near collapse of the global banking system – savings and pension funds have been seriously eroded.
- A loss of morale and the erosion of traditional loyalties in the workforce, resulting from a combination of a substantial number of plant closures and redundancies and the closure of final salary pension schemes, all in the context of rapidly inflating top management reward packages and ‘golden parachute’ payoffs.
- Growing public concern about the social and environmental impact of the actions and policies of business organisations, particularly large global enterprises – in those cases where individual companies have been criticised, there are negative consequences both for the morale of existing employees and for the firm’s ability to attract fresh talent.
- Very considerable performance and morale problems in the UK public sector and in the fields of health, education and crime prevention in particular – these problems stem from failures of leadership and organisation design as much as from resource problems.

In facing up to these issues senior HR people need to think through very carefully what implications they have for their roles and for the policies they are able to influence. There is a need for them to revisit some fundamental questions to do with the HR function and its relation to questions of the purpose and governance of the organisation.

Next Generation HR

The picture presented here is one of what good HR looks like today. The CIPD's ongoing Next Generation HR research is a more future-focused research programme looking at what the role of HR will be in five to ten years, and what HR people, including those leading HR functions, will need to do differently to support sustainable performance in organisations. Themes emerging include the need for HR to be more insight driven, for HR to be an applied business discipline and for HR leaders to be both partners and provocateurs. For further details about this research, see cipd.co.uk/nextgen

There are particular implications for HR specialists who are also members of boards or top executive teams. They are not only responsible for the formulation and implementation of HR strategy but also share the collective responsibility for the governance of the organisation, its conformity with the law and its obligations of stewardship, to its investors and other stakeholders.

The pursuit of shareholder value

In businesses that focus exclusively on shareholder value, the process of human resource management often involves little more than carrying out the basic administrative functions that are necessary – recruiting and inducting employees, remuneration, compliance with employment law, and so on. There is often a complete absence of understanding of the role that progressive HR policies can play in building employee commitment and, through this, establishing a sustainable competitive advantage. Where this state of affairs exists, it reflects a remarkable lack of knowledge on the part of top management of the impressive array of research findings that show how critical gaining the commitment and loyalty of the workforce is in achieving sustainable competitive success.

The point is often made that if a company declares the creation of shareholder value as its sole purpose, this is hardly likely to be inspiring and motivational for the shop floor or graduate entrants. Even a statement of purpose that is about meeting the needs of all the stakeholders is unlikely to call forth exceptional commitment and effort. For this to happen the purpose needs to be inspiring or challenging, seen as worthwhile, as serving society in some higher way than the purely material interests of the stakeholders. It also needs to be capable of being clearly articulated in very few words and sufficiently tangible that the extent of its achievement is capable of verification.

Shared purpose

This resonates with one of the eight themes in the CIPD Shaping the Future research looking at the drivers of sustainable, long-term performance (2011). This theme is shared purpose. Our research identified that organisations can't impose a sense of shared purpose. Rather, employees need to be encouraged to find their own meaning at work, so they can connect and create a true sense of what they are at work to do, that's beyond profits or short-term efficiency measures and regardless of the sector they operate in. See cipd.co.uk/shapingthefuture for further details of this.

A company that, from a modest start in a garage rose to be one of the world's most rapidly growing and successful businesses of all time – Hewlett Packard – was guided from the beginning by Dave Packard's thinking on purpose:

*'I want to discuss why a company exists in the first place. ...I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being. ...We inevitably come to the conclusion that a **group of people get together and exist as an institution that we call** a company so that they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society.'*¹

A similar point is made by Arie de Geus:

*'There is accumulating evidence that corporations fail because the prevailing thinking and language of management are too narrowly based on the prevailing thinking and language of economics. To put it another way, companies die because their managers focus on the economic activity of producing goods and services, and they forget that their organisation's true nature is that of a community of humans. The legal establishment, business educators and the financial community all join them in this mistake.'*²

His point is well made, but does not go far enough. In many companies it is not even any longer the case that top management focuses on producing goods and services; they focus instead on financial transactions such as capital restructuring, acquisitions and rights issues. Had their top teams focused to a greater extent on customers' needs and the quality of their goods or services, many failed companies might well have avoided disaster.

CIPD HR Profession Map

The CIPD launched its HR Profession Map in 2009, setting out what great HR looks like and what HR needs to do to deliver sustainable performance now and in the future. The Map recognises that it is not just about what you know and do (professional areas) but what is equally important is how you do it, that is, the underlying behaviour. The Map identifies eight behaviours of relevance for HR professionals. Two of the behaviours that resonate particularly with HR's stewardship role are courage to challenge and role model. For further details see cipd.co.uk/HR-Profession-Map/behaviours

Business success and employee commitment

Many top managers are either ignorant of the research findings which demonstrate the link between employee commitment and competitive success or, due to in-built mindsets, are highly sceptical of their validity. In a survey conducted by IBM in association with Towers Perrin UK, HR executives were asked to list the capabilities HR specialists would require in the twenty-first century. Top of the list, scoring 90%, was the ability to educate and influence the line. They were also asked to state whether they believed they possessed that ability. Only 8% replied in the affirmative. ³

A vitally important role at the strategic level for HR is precisely this ability to convince the top team (and the finance director in particular) that the human factor is critical to success and to present the research findings forcefully and with conviction.

A good example to take would be the work of Frederick Reichheld who, in his book *The Loyalty Effect*, showed the strength of the relationship between business success and the ability to build customer loyalty, and how this, in turn, is a function of employee loyalty. ⁴

Another is the research carried out by Pfeffer, which demonstrated that the combination of a number of powerful tools and policies of human resource management, acting as a total system, produce the highest levels of employee commitment and sustained company business success. ⁵

He extracted from various studies, related literature and personal observation and experience a set of seven dimensions that characterise most if not all of the human resources practices of companies producing profits through people.

These are:

- security of employment
- selective hiring
- training
- reduction in status differences
- sharing information
- self-managed teams
- pay for performance.

Pfeffer goes on to argue that ‘the real sources of competitive leverage’ are the culture and capabilities of the organisation that are derived from the way people are managed. This, he asserts, is a much more important source of sustained success than things such as having a large market share or a distinctive brand ‘because it is much more difficult to understand capability and systems of management practice than it is to copy strategy, technology or even global presence’.

Ian Wilson identified eight elements in what he calls the ‘new social contract’ between employees and the corporation:

- a vision and sense of shared purpose, beyond profit and shareholder value
- inspiring leadership
- empowerment of the workforce
- the customisation of work – tailoring job content, hours and compensation packages to meet individuals’ needs
- a climate of equity, respect and due process
- reduced volatility in employment patterns
- increasing employability
- first-rate on-site amenities and services. ⁶

Shaping the Future

The CIPD has just completed a two-year action research and engagement programme, Shaping the Future, looking at the drivers of sustainable, long-term performance (*Shaping the Future: What really makes the difference*, 2011). Tracking the progress of six organisations undertaking change programmes, as well as drawing insight from the 11,000 practitioners in the dedicated network through round-table events, polls and online discussions, the research uncovered eight themes for organisations to focus on in order to successfully implement change and achieve sustainability. These include shared purpose, leadership, locus of engagement, agility and capability-building. The report also presents ten new insights that will really make a difference to long-term performance. See cipd.co.uk/shapingthefuture for further details on this programme.

A leadership vacuum?

Today there are two reasons to be concerned about the quality of leadership in large organisations, both private and public. On the one hand there are concerns about competence in the sense of the ability to create a clear vision and to articulate it in such a way as to inspire and motivate. On the other hand, following recent cases of fraud and suspect share dealings, there are severe doubts about the integrity of leadership. All too often the top managers held up as role models for our young leaders of the future turn out to fallible.

'Chickenless heads'

Where top managers focus their attention primarily on financial transactions and relations with City institutions, they inevitably lose touch with the grassroots of the organisations they control. The result is the opposite of the term 'headless chickens'; instead, we have 'chickenless heads'. The term 'headless chickens' implies that, without clear leadership from the top, the organisation's employees run around in circles, accomplishing very little. The concept of the 'chickenless head' tells a story that is more common today. The organisation's rank and file employees may carry on doing a reasonably good job of pleasing its customers and producing quality goods and services, unhampered by the remoteness of top management, until, because of mismanagement of its financial affairs, it becomes bankrupt or is taken over. Companies rarely destroy shareholder value because their employees at all levels below the very top are not doing their jobs. When the same 'chickenless heads' who have brought about the company's collapse walk away with payoffs that represent huge sums in the eyes of the average worker, any remaining vestige of morale or loyalty is finally destroyed.

Stewardship

At Tomorrow's Company the concept of *stewardship* has been developed in recent years. Members of the board of a company and the public sector equivalents have a duty of stewardship in respect of the assets – human as well as financial – that have been entrusted to them.

Similarly, the institutions which invest on behalf of pension funds and savers have a stewardship role – one which reaches back to the beneficiaries and forward to the companies in which the funds are invested.

What is implied by this role? The key element is trust; a steward is one who can be trusted. Another is service; a steward is servant of those of whose assets they are custodian; service is placed above self-interest. Third, by its nature, the stewardship role is one which implies commitment over time and to the long-term well-being of the assets concerned; it is not, therefore, to be undertaken lightly.

Tomorrow's Company defines stewardship as 'the active and responsible management of entrusted resources now and in the longer term, so as to hand them on in better condition'.

In today's uncertain and depressed economic climate, one vital stewardship role that HR can play is to persuade top management to abstain from short-term knee-jerk reactions which can only damage the organisation's long-term prospects of success. Such reactions include large-scale redundancy programmes that result in loss of talent and experience as well as the erosion of morale, reducing employers' contributions to pension schemes, slashing training budgets, suspending graduate recruitment and other cost-cutting measures.

Actions such as downsizing cannot fix deep-seated problems of product acceptability, quality, service, process design or management style. The damage is compounded when the wrong people start leaving, and too much experience and expertise is lost (corporate Alzheimer's) or when the cut is too deep and those who remain suffer stress due to heavy workloads (corporate anorexia).

We argue that the CEO needs to be the 'Chief Talent Officer' – putting talent at the top of the corporate agenda and devoting significant amounts of time and energy to understanding talent-related issues. Successful leaders will be also mindful that they are simply looking after the business for a stage of its journey – as stewards of the company and its people. ⁷

In such cases a downward performance cycle can be triggered. Performance problems lead to downsizing, which in turn leads to employees reducing their efforts, spinning work out to make it last or leaving to find more secure employment. This in turn lowers performance further, leading to yet more redundancies and so the cycle continues.

Governance

A narrow view of corporate governance is that it is about board structures and procedures, compliance with company law, accountability to shareholders, correct reporting procedures, audit and remuneration committees and the conduct of annual general meetings. A broader perspective is that it is also about being clear about the company's purpose, taking into consideration the full set of relationships between a company and all its stakeholders and the issues that arise in the context of these relationships.

In cases where HR specialists are board members or trustees, they share fully in the fiduciary and other responsibilities of such bodies. This means in practice that they share responsibility for all aspects of the organisation's performance. Similarly, where HR directors are members of the top executive team they should acquire the broad range of knowledge in such areas as finance and strategy, which will enable them to discharge these responsibilities effectively:

- They must be fully aware of the environmental issues associated with the company's operations and the company's track record in dealing with these. This is particularly important with regard to any environmental issues that carry health and safety risks for employees or members of local communities.
- They must also be fully aware of the moral and legal aspects of the company's relationships with its customers or clients. For example, in past cases of mis-selling of pensions and other investments, to what extent were senior HR people aware of the practices being employed by their companies?
- In relation to any issue that causes doubts to be raised as to the legality or morality of the company's operations, the HR director must be prepared to challenge those responsible.
- They must, by their actions and words, make it clear to other members of top management that their role is not to be confined to specifically HR policies and practices.
- Lastly, and critically, they must use their expertise in matters of leadership, behaviour and culture to support the board in setting the tone for the organisation.

Building adaptive organisations

At the time of writing, given the uncertain global economic environment, the focus of business leaders is on relatively short-term measures related to maintaining levels of profitability or, in many cases, sheer survival. Some organisations will indeed fail, including some household names. The survivors, however, will need to refocus on longer-term issues and adapt to changes which are in fact more powerful and lasting than the recent collapse of the market system.

Increasingly, as concerns about the economy fade, the focus will be on the impact of organisations on society and on the environment. Organisations, in adapting to the challenges of the century's second decade, will need to redefine success, to question the values which underpin their actions and to accept new frameworks, whether based on regulatory action by governments or on self-regulation. This will lead to new challenges for business leaders, challenges which will test both their competence and their integrity. Old patterns of thinking and traditional mindsets will need to change. HR directors have a vital part to play in bringing this about.

Global companies can be a force for good and are uniquely placed to deliver the practical solutions that are urgently required to address these issues. We believe that the purpose of tomorrow's global company is 'to provide ever better goods and services in a way that is profitable, ethical and respects the environment, individuals and the communities in which it operates.' ⁸

'The adaptive organisation' is the theme for a series of articles that will be published by the CIPD and Tomorrow's Company during the course of the year.



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