

THE NEXT STEPS FORWARD TALENT IS THE KEY TO HR EFFECTIVENESS





HUMAN RESOURCES AS A STRATEGIC BUSINESS PARTNER

The human resources (HR) function has undergone significant changes over the past 15 years. Spurred by a growing awareness of the profound impact that HR performance has on a firm's ability to achieve corporate objectives, many organizations have sought to develop a strategic, rather than simply a transactional, function. These organizations have implemented new service delivery models, reengineered their HR processes, introduced automation, outsourced noncore activities and streamlined their HR organizations — all in an effort to better serve the business.

Yet despite these changes, most organizations today are still struggling to build an HR function that is a truly effective strategic business partner. Mercer's view, based on our extensive experience with client organizations around the world, is that this difficulty often lies with the talent within the HR organization. Even as all the other elements of HR function infrastructure — technology, processes, and organization — have been rethought and enhanced over the past decade, the people in HR and the skill sets they bring to the function have remained largely unchanged.

Many HR leaders recognize this impediment to HR effectiveness even as they struggle to address it. HR leaders who participated in Mercer's HR Transformation Study identified the skills and competencies of their HR staff as a leading barrier to — and as the second highest opportunity for improvement in — developing a more strategic HR function going forward. While these HR leaders increasingly view their function as strategic, their staff often lacks the skills to carry out this changing role or to make substantive business contributions.

HR TALENT — A CRITICAL COMPONENT OF A HIGH-PERFORMING HR FUNCTION

Just as the rest of the organization needs the right talent with the right skills in order to succeed, the HR function also depends on its talent to deliver its full value. After all, it is the people who ultimately determine whether the function has the capabilities to be a value-added strategic partner to the rest of the business or whether it remains primarily concerned with processing transactions.

Ironically, however, the HR function is generally busy developing talent and addressing talent issues for every other part of the business. This is true in boom times — when HR is working hard to attract and retain top talent — and in challenging times, when HR tends to be consumed with managing workforce costs and reducing or realigning workforce resources.

Mercer believes that an organization's HR operating model should flow directly from its business, human capital, and HR function strategies (see Figure 1). While many HR functions have better aligned other elements of the operating model — including processes, technology, and organization — with the company's business and human capital strategies, they continue to struggle to align the capabilities of their HR talent with these strategies.

Figure 1: Mercer’s HR Operating Model



In our work with clients, we are seeing more progressive organizations recognize the need to address HR skills, particularly before they make big changes such as creating service centers or establishing centers of expertise. These savvy organizations understand that, even with the right HR strategy and the right HR operating model in place, HR won't adequately serve the business if its talent doesn't have the necessary competencies.

'NEW' HR REQUIRES TALENT WITH NEW SKILLS AND CAPABILITIES

Today's HR function is expected to play a significantly different role in the business than it did even 10 years ago. Rather than looking to HR as an "order taker" or "firefighter," business leaders

today expect HR to develop and execute a people management strategy that flows from a deep understanding of the business's human capital needs. HR leaders participating in Mercer's Global HR Transformation Study, for example, said that the top demands on HR focused on acquiring and retaining key talent, driving cultural and behavioral change in the organization, and building leadership capability — a far cry from the transactional work that was the core of HR's mission just a short time ago.

HR's new role largely flows from changes in today's business environment. While technological prowess, access to capital, and marketing savvy have each been significant sources of competitive advantage in the past, companies today are increasingly seeing their people as their greatest source of competitive advantage. As a result, HR's ability to secure, develop, reward, engage, and

retain good people is a front-burner concern for most business leaders. Moreover, companies today face external human capital challenges that make this work even more formidable: the looming retirement of a large portion of the workforce, critical skill shortages within the workforce, and the generational diversity of the workforce, with different generations looking for different things from the employment relationship.

At the same time, organizations have made significant investments in HR technology and self-service applications that have freed HR staff from many of the data entry, customer service, and transactional tasks that characterized much of the function's work. Taken together, these changes have had a profound impact on the skills required of HR staff.

For example, one critical skill is the ability to think strategically about talent issues and how they relate to the needs of the business. HR staff members are also being called upon to use analytical skills to a much greater degree than was required in the past, such as to monitor progress toward workforce goals, forecast future talent needs, and measure the return on workforce investments. Project and vendor management skills are a third area of growing importance, especially as HR functions have taken advantage of outsourcing to become leaner and more strategic.

Yet in each of these critical areas, there is a wide gap between the needs of the function and the skills of its staff. HR leaders participating in Mercer's Global HR Transformation Study gave the lowest ratings to HR's leadership, talent management, and organizational development, and effectiveness skills — precisely those skills most needed by HR talent if the function is to contribute more effectively in the current environment.

BARRIERS TO 'UP-SKILLING' HR TALENT

Despite the awareness of the skills gap in HR, many organizations globally are having difficulty 'up-skilling' their HR talent, due to a number of key barriers.

LACK OF COMMITMENT TO HR CAREER DEVELOPMENT

Organizations we have talked with across the globe identify talent management as a key issue for the overall organization. Yet most fail to commit the resources necessary to develop and manage their HR professionals. Although they cite the lack of business-focused skills in HR as a barrier to HR effectiveness, few have implemented aggressive plans to 'skill up.' Creating an extensive development program within HR is time-consuming and requires a financial investment in some cases.

RELUCTANCE TO MAKE TOUGH CHOICES ABOUT EXISTING HR TALENT

HR talent also remains an impediment to HR effectiveness, because of the reluctance to replace staff members who do not have the skills necessary to support HR's new role in the business. Although replacing a large percentage of the current HR staff in an organization is likely not feasible, it is also unrealistic to imagine that targeted skills training alone will enable all existing talent to fulfill the requirements of the new jobs. In our work with numerous HR functions, we have found that the skills gap for some roles is just too wide to be closed through training alone. Those with good administrative skills, for example, cannot necessarily master the skills necessary for a business partner role, and we have worked with many companies that have had to turn to external labor pools to fill many of these positions.

CONTINUING TO BRING PEOPLE WITH THE WRONG SKILLS INTO HR

Along with the failure to develop HR professionals with competencies more aligned with the needs of today's HR function, companies also continue to bring in new hires who lack the necessary skills. While an individual's "people" skills or administrative skills may have made him or her a good candidate for HR in the past, these are no longer the competencies critical to HR effectiveness. Yet some companies continue to recruit and hire as if this were the case.

UNDERVALUING OF KEY BUSINESS SKILLS BY HR LEADERS

Another barrier to improving the skills of HR talent may be the attitude of HR leaders themselves, who sometimes fail to value key business skills in their HR staff. When HR leaders participating in Mercer's Global HR Transformation Study were asked what skill level (in each of 26 areas) will be required to meet future needs, 72% said an advanced level will be required in interpersonal skills, but only 49% said advanced levels will be required for business strategy skills and only 19% said the same of financial skills. We believe business strategy and finance-related skills are critical for HR professionals to succeed in the future at the same level as their strategic counterparts in operations, finance, sales, and other functional areas.

LACK OF PROFESSIONAL TRAINING AND CREDENTIALING

Educational programs designed to prepare people for careers in HR are still mainly geared toward the needs of personnel departments, rather than the requirements of today's HR functions. Moreover, in many regions of the world — including parts of Latin America, the Middle East, Africa, and Asia — professional bodies offering training in HR skills simply do not exist.

ADDRESSING ONLY PART OF THE TALENT PICTURE

Finally, when organizations do spend significant time and effort on developing HR talent, the focus tends to be more on developing core HR functional competencies. Typically, not enough is done to seed the leadership pipeline to prepare HR talent for future leadership roles. A good blend of leadership competencies and HR functional competencies is needed to address HR talent in a more comprehensive way.

HOW SHOULD COMPANIES TACKLE HR TALENT ISSUES?

Mercer recommends using a three-step process to address HR talent issues within your organization and to build the HR capability that your organization requires.

STEP 1: UNDERSTAND THE COMPANY'S REQUIRED HR SKILLS AND COMPETENCIES

The first step in increasing HR capability is to determine what the business needs from HR, both now and three to five years out. By knowing what HR needs to deliver to the business, the company can align HR roles with business requirements and identify the competencies that the staff needs and that HR leadership needs to support. The resulting competency model should describe effective HR performance for all HR professionals in the organization, defining both the skills mix and the required capability levels applicable to each HR role. The organization can then use the competency model to guide all talent management practices relating to HR — from selection and performance management to career development and succession planning.

MERCER'S BEST-PRACTICE HR COMPETENCY MODEL

Mercer has developed a proprietary best-practice HR competency model based on our view of what the business will need from the HR function of the future. This model identifies those competencies that we believe are essential to a high-performing HR function, grouping them into four categories: leadership, partnering, work-enabling, and functional. While one would expect to find some of these competencies in the traditional HR function, many are new and reflect the new demands that business leaders have of HR. Not every role requires every competency, of course, but we believe that most HR people will need to have at least some of the competencies described in each of the categories. The exception is the leadership competencies, which we would primarily expect HR leaders to exhibit.

Leadership Competencies

Within the Mercer HR competency model, we have identified a set of competencies critical to senior-level and leadership HR roles. Among the most critical competencies are:

- **Business acumen:** HR leaders must have a deep understanding of the business, how it measures its success, and how human capital supports the business strategy, in order to play a strategic role in that success. This competency is not about understanding the HR function, but about understanding the business.
- **Global focus:** While this competency will not be important to every business, it will be critical to those trying to take the next step in becoming global organizations and those already operating in a global environment. HR leaders must understand global HR issues and what is required of a global function if they are to support the company's successful expansion.

Partnering Competencies

The partnering competencies identified in our model are critical to so many roles within HR: to business partners, who are working directly with business leaders; to staff in centers of expertise, who provide business services through the business partners; and to service center staff, who must maintain customer focus and are responsible for relationship building. Partnering competencies focus on being a knowledgeable and trusted advisor and partner. Some of the key partnering competencies include:

- **Consulting:** This competency — the ability to diagnose problems, develop programs/interventions, and deliver HR solutions that are effective in addressing key business issues and are consistent with business strategies — is as important for the business partner as it is for the center of expertise.
- **Committed partner/personal credibility:** The need to influence and impact human capital-related business decisions is underscored by being recognized as a knowledgeable and trusted partner to management.

Work-enabling Competencies

The competencies we have grouped as work-enabling are those critical HR-related behavioral competencies that relate both to effective planning and execution. We believe that no matter how strategic a function is, without an emphasis on execution, credibility is lost. Some of the key competencies in this area include:

- **Courage:** Having the courage to challenge and to stand up for unpopular positions that keep organization values intact and will push the company forward to support decisions that are in the best interest of the organization and its talent.

- **Mental agility:** Identifying patterns or connections between situations that are not obviously related, and identifying key or underlying issues in complex situations, using creative, conceptual or inductive reasoning is key to the new HR function.

Functional/Technical Competencies

The last set of competencies relate to the functional work of the HR organization. They describe the more technical knowledge necessary for today’s HR professionals. Sample competencies in this area include:

- **HR measurement, assessment, and evaluation:** Applying knowledge of HR metrics — including activity measures and workforce and business outcome measures — to gauge the effectiveness and efficiency of human capital and HR programs will ensure that HR talent can communicate decisions, recommendations, and progress in a language that the business will understand and respect.
- **HR technology utilization:** This competency refers not to the ability to develop technologies but rather the ability to use existing HR technologies to achieve business objectives, such as optimizing service delivery or reducing costs or cycle times.

In addition, Mercer has developed a skills inventory that can be used in conjunction with the competency assessment to fully understand the level of HR functional skills of the HR staff.

STEP 2: ASSESS HR CAPABILITY

Once the company understands which particular competencies are required for which HR roles, the next step in building HR talent is to assess the capabilities of the individuals in the HR function against those competencies. An analysis of the results by individual and for the group overall will enable the company to target development efforts

toward key weak spots. The following alternatives can be assembled to support a comprehensive assessment:

- **Structured interviews** include planned questions to uncover key competencies and rating guidelines for scoring results. They primarily measure past experience, but situational questions are also used.
- **Employee surveys** measure employee perceptions of factors that impact engagement and organizational effectiveness. This data can then be used to understand the degree of engagement in a leader’s group, which can be used as measure of his or her performance.
- **Assessment centers** measure competencies and skills via simulated exercises. These usually include in-baskets, role plays, group exercises, and problem-solving scenarios.
- **Knowledge testing** measures factual knowledge, but can also measure the ability to apply knowledge in situations. This is most often used in conjunction with training problems.

Figure 2: Talent Assessment Alternatives



MERCER'S HR CAPABILITY BUILDER™

Mercer's HR Capability Builder™ is a consulting approach, with a supporting technology, that enables an organization to assess, place and develop the HR staff critical to support the organization. It answers the following questions:

- What HR competencies are required to support business goals, including the human capital priorities of the business?
- How do the skills of the current HR function align with the desired competencies?
- How can we close skill gaps overall in HR?
- How do we ensure that the right people are in the right jobs?

HR Capability Builder uses Mercer's best practice HR competency model as a basis to assess HR's current skill levels against what is required to best support the organization. Once the skill gaps are identified, Mercer partners with the HR organization to design and deliver a program to develop the competencies necessary to align HR with organizational goals, and to measure progress over time.

Figure 3: The HR Capability Builder Methodology Includes Five Key Components



- **Job simulation** measures competencies and skills. It is similar to an assessment center, but is conducted entirely in an online environment.
- **Multirater competency assessment** measures behavioral skills as demonstrated on the job and is usually based on a competency model. Results are reported by different roles and gaps between self-ratings and ratings by others are highlighted.
- **Group consensus meetings** consist of a group of people knowledgeable about an individual's capabilities and performance reaching a consensus. The available assessment data is shared with the group in order to inform dialogue.

STEP 3: DEVELOP HR TALENT

The goal of this critical step is to design and deliver a development program that will equip HR with the mindset and skills it needs to develop and execute the organization's human capital strategy. In creating this program, the company should use the results of the capability assessment completed in step 2 to identify key skill development priorities for individuals and for groups within the function. Then it can determine, based on these priorities, the content and delivery methods for training, as well as who should participate. Development options could include one-on-one and group coaching, large-scale seminars, specialized training programs, train the trainer sessions, e-learning, and other self-led development and training.

This commitment to development — especially when efforts are targeted toward the most critical skills given the company's business needs — will go a long way toward increasing the capabilities of HR talent and, therefore, the effectiveness of the HR function.

In addition to developing internal staff, organizations also need to consider supplementing their existing HR staff with external resources. Identifying key positions for external hires can fill critical gaps in current staff competencies, and so can moving

employees into HR from other parts of the organization. For example, people with deep analytical skills might be found in the finance department, and customer-focused competencies and training may exist in a service center. Finally, HR functions could tap outside advisors, such as vendors and consultants, to help fill critical skill gaps, and then transfer that knowledge to internal staff over time.

WHEN TO ADDRESS HR TALENT ISSUES

An organization can choose to address HR talent issues at any time, but there are certain business events that should be viewed as triggers for this kind of in-depth assessment and planning around HR talent. Whenever the broader organization is involved in a major business transaction, such as a significant change in strategy, merger or acquisition, or a major geographical expansion, the HR function should assess its talent needs and issues in light of the changing business needs. And whenever the HR function itself is directly affected by an outsourcing, restructuring, or transformation effort, HR talent needs to be a key topic of consideration.

CONCLUSION

The HR function of the future is achievable today — but only if organizations give the same attention to HR talent that they have given to all the other elements of HR infrastructure. By aligning HR roles and competencies to the company's overall workforce needs, assessing the skills and skill gaps within the function, and developing HR talent accordingly, organizations can eliminate a major impediment to HR effectiveness. The result is an HR function able to manage and develop the company's greatest asset — its workforce — so that the organization can execute its business strategy and achieve success.

A CASE IN POINT

USING MERCER'S HR CAPABILITY BUILDER DURING HR TRANSFORMATION

A transportation firm was in the midst of significantly transforming its HR organization, moving to a model comprised of a shared service center, centers of expertise, and business partners. Business leaders had characterized the old HR organization as too reactive, lacking an understanding of the business, and focused on transactions rather than services. While the company required much more from HR, the HR talent in the region tended to come from administrative job families and lacked deep technical expertise.

Called in to help define and develop the new HR operating model for the organization, Mercer first helped HR leaders identify the competencies required for the new function, such as learning agility, driving innovation, business acumen, and influences and networks, and then determined the frequency with which individuals in these roles were expected to exhibit the competencies. HR leadership then assessed all of the HR talent against those specific competencies and baseline

expectations. Individuals also completed a self-assessment to evaluate their performance against the newly defined competencies.

The results created two levels of insights: person-specific reports that individuals used to gain a clear understanding of the company's requirements and how they needed to improve, and aggregate reports that the organization used to inventory its core strengths and the areas in which it needed to build capability.

Based on the information generated through HR Capability Builder, the company created a development plan and coaching model for HR talent and also provided HR leadership with the insight required to make decisions about how to place HR talent who interviewed for new roles. Several months after the program began, business leaders commented on the marked improvement in the level of responsiveness and strategic focus from the organization as a whole.



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