

Business Models and HR

Logic or Fashion?

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Business Models and HR: Logic or Fashion?

Introduction

This paper explores the extent to which there is a link between business models and HR, in terms of structure, function and skills. It visits the following themes:

- the association between the underpinning strategy of the organisation, and the business model(s) it adopts in order to achieve its strategic objectives
- the implications of different strategic and business models for HR
- the delivery models adopted by HR, and the extent to which these are aligned with organisational strategy and business models
- the roles and skills required of practitioners in different HR delivery models
- whether revisions to HR delivery models are associated with business model change and arise from business needs...
- ...or whether changes to HR delivery models actually happen independently of the business, and owe more to trends and fashions within the HR profession than to business needs.

Organisational strategy

Private sector companies usually have an underlying strategy, or combination of strategies, that shapes their way of operating in the market. Examples are:

- **cost leadership** – aiming to be the cheapest available, and to appeal to customers via their pockets
- **quality** – providing a product or service that is known for its good and consistent quality and reliability, for which customers are prepared to pay more; often related to a strong brand to which customers will be loyal

- **innovation** – appealing to the market, especially ‘early adopters’, by constantly producing new or improved products or services, for which customers will be prepared to pay because of the new or enhanced features they offer
- **differentiation** – offering something different, perhaps even unique, that is unlike the competitors’ products and services; again, customers will pay more because they value the distinctive offering
- **niche** – operating only in a particular market or market segment, where the offering is known, understood and valued; not necessarily known at all to potential purchasers, unless they have an interest in the niche area
- **distinctive capabilities** – particularly relevant to companies providing a tailor-made product designed for the customer, such as a management consultancy or an advertising company; the value of the brand lies with the particular skills and strengths of its workforce, which are hard to imitate.

Often, these underpinning strategies will not be properly articulated to the workforce, but will be translated into shorter-term strategic objectives that are clearer and easier to grasp:

- ‘become the market leader’
- ‘bring two new products to market’
- ‘increase sales by 20 per cent’
- ‘successfully enter the US’
- ‘cut costs by 10 per cent while maintaining revenue at existing levels’
- ‘survive the current economic storm’
- ‘increase shareholder value’.

Textbook discussions about organisational strategy, of course, are easier to grasp than the reality. Public-sector organisations find it harder to adopt a single strategy, as they often have aims that might be seen as contradictory or multi-faceted. A government department, for example, might have an objective of controlling costs while providing an excellent service to the public, while a local authority might have several key objectives, such as improving services for the elderly, decreasing employee absence levels, maintaining Council Tax at its current level, raising standards in schools and increasing customer satisfaction with Social Services. Even in the private sector, IES research indicates a degree of ambiguity, as company websites make grandiose statements about environmental policies and corporate social responsibility

which may not always be in line with increasing shareholder value. However, both in public and private sector organisations, most chief executives would note that employees will be able to articulate why the organisation exists, what it does and, in outline at least, how it operates.

Business model

While the underpinning strategy of the organisation tends to be relatively stable, the business model is much more likely to change in response to market conditions and tactical shifts to gain business advantage. In practice, the business model concept is quite slippery and hard to grasp. The term 'business model' has been variously, and not always helpfully, defined:

- the organisation's logic for gaining competitive advantage in the current business climate
- how the organisation defines, attracts, and adds value to customers
- value propositions that are worked out with stakeholders
- an explicit set of financial relationships required for the organisation to be profitable.

The assumption behind the concept of the 'business model' is that, even with a stable strategy, private sector companies need to change the ways in which they operate in the market to maintain competitive advantage; sometimes this change is small and so frequent that it is almost continual (Linder and Cantrell, 2001), while at other times a major shift may be needed. In the public sector, too, the business model can change in response to government imperatives and public demand, sometimes in small ways and other times quite drastically.

Business model change in practice

The following examples are manifestations of business model change. They do not usually signal a change in the overall strategy and purpose of the organisation, but rather a changed way of delivering what the organisation does:

- the merger of two government departments, to deliver existing services to the public in a more streamlined, cost-effective and efficient way
- downsizing, to shed excess capacity and resources so that the company is competitive in cost terms with its rivals

- outsourcing support functions, to concentrate on the core business
- moving manufacturing operations abroad, to cut costs (*eg* the pay bill), or to increase efficiency (*eg* by positioning manufacturing near the source of supply of raw materials)
- ceasing to sell certain product lines, which may result in the closure of long-standing plants or service operations
- re-organising health service delivery into specialist community, acute and mental health trusts, instead of delivering all services to the local population under the aegis of a single trust
- re-structuring along product lines instead of geographical locations, or vice versa
- adopting project working and matrix management instead of a more traditional hierarchical structure
- re-locating to a new site to take advantage of cheaper business rates and rents and/or an improved labour market supply.

Business model changes often have a major impact on employees, who could find themselves made redundant, working for a new employer or manager, expected to move elsewhere, or asked to adopt a new way of working. Change management is, of course, an established industry, offering support in minimising the negative impact on the workforce by preparing them for change and equipping them to cope with new ways of doing things. Some people thrive on change and are happiest in an environment which is constantly moving; others are easily unsettled by even small changes. No matter how well it is managed, and how much the company gains, business model change will result in a degree of damage; some employees, who lose their jobs, or are unhappy in their new positions, or see their colleagues disadvantaged, will feel that the psychological contract between them and their employer has been damaged. Large organisations, however, report that change is now such a way of life that employees are becoming cynical and inured to its effects.

Business model change is theoretically an investment in the future, aimed at helping the organisation maintain or improve its position. However, the effort does not always pay off and there is always an element of risk. A recent report commissioned by the Chartered Institute for Personnel and Development (CIPD) suggests that business model change often does not fulfil its objective of increased efficiency and/or effectiveness. One in three major reorganisations fail to achieve their objectives, 40 per cent are not completed on budget, and 60 per cent are not completed on time

(Whittington *et al.*, 2005). The reasons are complex and varied, but appear to boil down to two main strands (which in the most unfortunate situations may both apply): either the planned change was actually not the right one in the first place, or its implementation was mismanaged.

What should this mean for HR?

All the theory suggests that HR, in terms of its skills and the way in which it is organised to deliver its services, should align with the organisation's strategy, and be adaptable in response to its current business model(s). A company that is competitive due to its strategy of innovation, for example, requires employees who are creative, are prepared to take risks, and who can tolerate a high degree of ambiguity, change and unpredictability. This, in turn, implies HR policies that:

- invest in employees' skills development
- encourage close interaction and co-operation between groups of employees, probably via project working
- support performance management systems that encourage experimentation and risk rather than focus short term targets
- foster broad career paths rather than strict grade hierarchies
- have reward systems that recognise success and are perceived to be equitable internally.

An appropriate HR delivery model for such a company would probably involve practitioners being very close to the business and its employees, having an excellent understanding of the skills and competencies required, being flexible in application of systems and interpretation of rules, and open to suggestions for improvement.

By contrast, a company that has a strategy of cost leadership is likely to employ a high percentage of people who are relatively unskilled, and who will be expected to carry out mostly routine and predictable tasks in a fairly stable environment; the focus is likely to be short term. This environment will have implications for people management and the HR function:

- fixed and explicit job descriptions
- narrowly designed jobs and career paths, possibly fairly hierarchical, that encourage efficiency
- short-term, results-oriented performance management systems

- reward systems that pay considerable attention to external market rates.

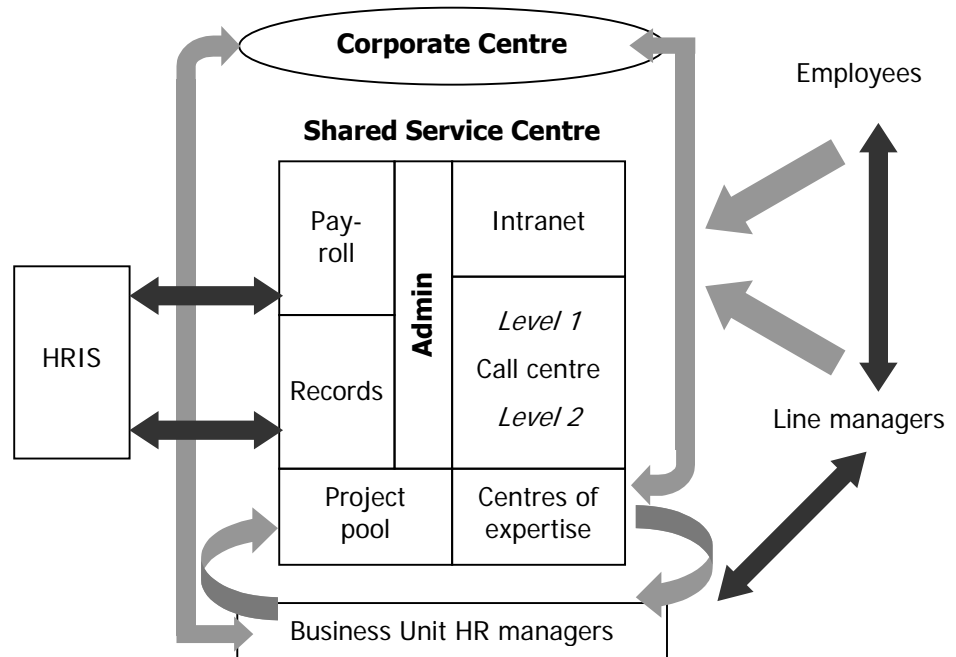
The HR delivery model in such an organisation is often centrally based and expected to operate at low cost to the organisation, as it will be seen as an overhead. It will be mainly concerned with the application of fixed systems and rules, and procedures will be laid down in writing and applied consistently. Employee development will be concerned more with training for the current job than with investing in employees for the future.

So much for the theory – but what actually happens in the real world?

HR delivery models in practice

Many HR functions have seen major change in recent years, with new delivery models being adopted. A traditional HR function typically incorporated recruitment, employee relations, workforce information and planning, training and development, policies and procedures, advice to employees and line managers, welfare, and perhaps payroll, all under one umbrella. Usually, all these functions were the ultimate responsibility of one HR director, although the location of HR delivery varied, depending on the degree of centralisation or decentralisation. This HR delivery model has not disappeared, and can still be found, for example, in small to medium-sized

Figure 0.1: A new HR model



Source: IES 2005

organisations – where several different types of HR expertise are often found in a single individual. A large organisation, however, whether private or public sector, is more likely to have a delivery model containing some or all of the features represented in Figure 0.1. This ‘new’ model adopts different delivery styles according to the type of activity being undertaken.

- Strategic issues – company HR policies, long term planning, major recruitment and retention decisions, change management, perhaps graduate programmes and talent pool management, competency frameworks, employer branding – are typically handled within the corporate centre, close to the chief executive, and clearly bear the corporate stamp.
- Day-to-day administration, processing and advice is often delivered by operatives working in a service centre, who might be very remote, physically, from the people they are servicing.
- Line managers and employees are expected to be largely self-sufficient, because of the presence of many policies and procedures on the company’s intranet; the intranet will also usually allow employees to maintain their own computerised personnel records. This expectation of self-sufficiency is not confined to large organisations.
- Some organisations have created people named variously ‘HR experts’, ‘internal HR consultants’ or ‘HR project managers’ – professionals whose skills are available to the whole organisation, and who are expected to have a good understanding of their area of expertise and of emerging HR issues in the external world. Centres of expertise are often a fixed resource, while consultancy pools are more flexible.
- Often, business units have their own HR managers, who aim to fill the role of ‘business partner’ – people who use their understanding of the business, the workforce and the external labour market to add value and give a competitive edge.
- Training and learning are behaving very differently in different organisations. In many they are an integral function but in some they appear to be detaching themselves from mainstream HR and becoming a separate function. Training and learning’s influence varies but can be considerable, especially if they manage graduate, talent and management development programmes.

A further layer of complexity is added when looking at the way in which HR service provision (basically, anything other than the HR strategic corporate centre) is perceived by the

board. Some organisations would see HR as an integrated service provider – clearly part of the business. Others may see it as an opportunity, and encourage HR to become an income-generating business unit – one that manages other organisations' transactional HR. However, many organisations still see HR as a cost or an overhead, an attribute which can lead to the function being outsourced. Some companies outsource all non-strategic activity, while others may do this only in part (*eg* might outsource recruitment and payroll, but not advice). An alternative to outsourcing, perhaps particularly for global companies, is reducing costs by off-shoring.

HR roles

Although job titles and labels vary, there is a reasonable measure of agreement about the broad HR roles in existence today. HR people, and HR publications, spend a lot of time discussing them.

- The business partner needs, above all else, to have a thorough understanding of how the business operates and how to acquire and develop people with the right skill, competencies and attitudes; the business partner works directly with line managers rather than advising from a distance, and should also be adept at change management in order to anticipate and respond to changes in the business model. Ulrich's business partner role is being extended in some organisations into a 'strategic partner', although this latter role also encompasses internal consultants (Ulrich and Brockbank, 2005).
- Internal HR consultants bring their skills to particular projects or issues that may require diagnosis, facilitation, planning or implementing. Unlike external consultants, they also have a good understanding of the business and its aims, although they are likely to move around to different parts of the organisation so will not always have the detailed knowledge of the business partner.
- HR practitioners deal with day-to-day transactions and advice provision in many different areas of HR – such as recruitment, training, employee relations, HR records and payroll. In large organisations, this role, particularly the advisory aspect – is often situated in a service centre. It is a particularly important role because the overall reputation of HR often rests on the efficiency and effectiveness of day-to-day HR activity; line managers and employees are more likely to come into frequent contact with practitioners than with any other HR role. There is a view that the 'champion' or 'advocate' role (Ulrich, 1997

and Ulrich and Brockbank, 2005) is under threat, due partly to HR practitioners' wish to shed the traditional routine aspects of HR and become more business aligned, and partly to the physical removal of many day-to-day activities to call centres, which removes the face-to-face contact (Francis and Keegan, 2005).

- HR experts have always existed, for example in training and development, coaching, workforce information and planning, employee relations, reward and benefits and organisational development. Newer expertise areas include work process design and talent pool development and management. The HR expert role equates to Ulrich and Brockbank's 'functional expert'. In many large organisations these experts are being organised into a central team or teams, and are regarded as a resource for the rest of the organisation. The HR expert is expected to scan the external environment and be aware of any developments and research in his or her field that might benefit the organisation.
- Corporate centre practitioners are usually senior people, such as HR directors or business/functional HR heads, who are responsible for overall direction and policy; they equate to Ulrich and Brockbank's 'HR leader'.

HR skills

Another thing that the HR profession spends a lot of time discussing is the skills required for carrying out particular HR roles, and the changing skills required by HR over time. Respondents to the recent CIPD Careers in HR survey (2005) nominated the following as the top five attributes needed to succeed in HR:

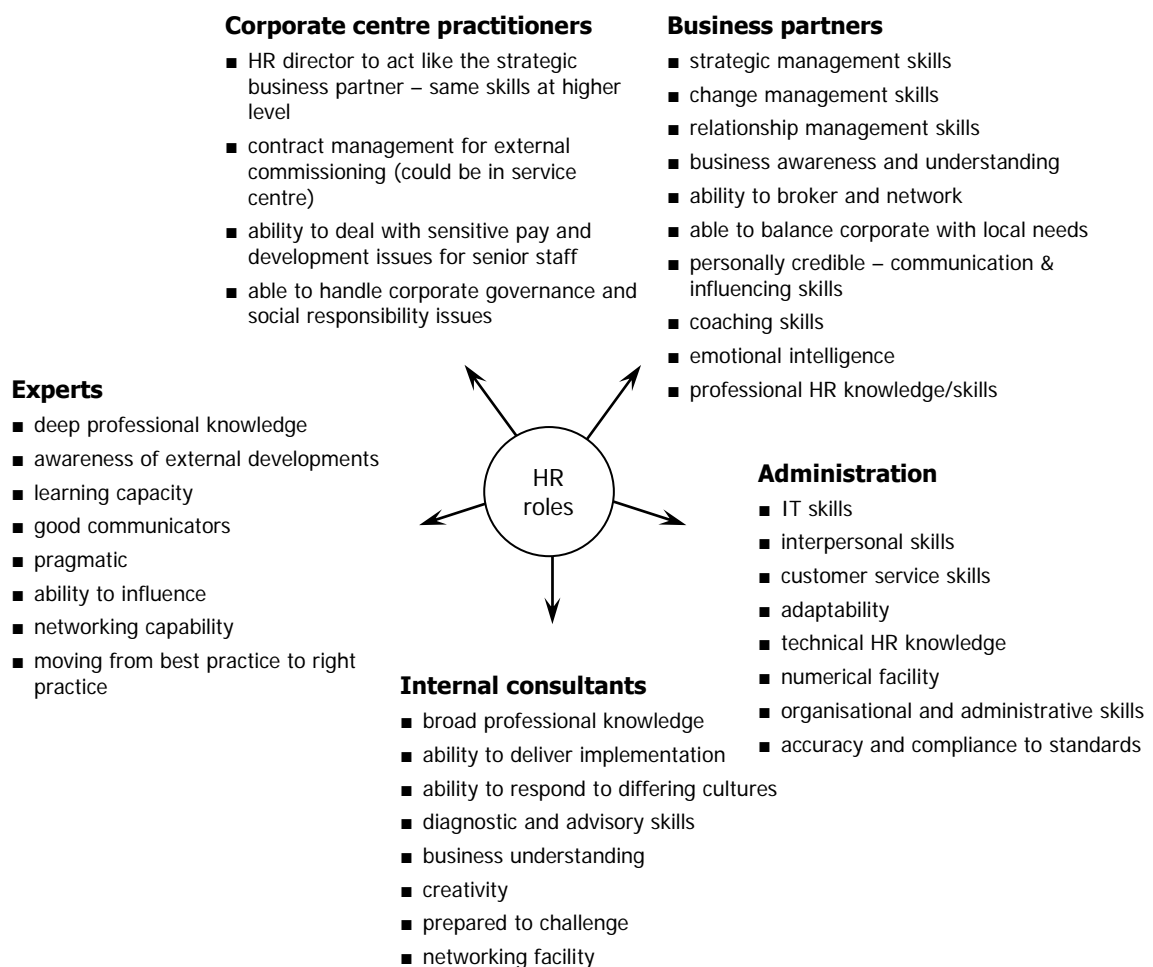
- personal drive
- generalist experience
- influencing skills
- business awareness
- strategic thinking.

They felt that certain skills were now much more important than in the past, namely business awareness, IT literacy, networking and numeracy/financial awareness. It is interesting to note the importance of 'high level' aspects in the top five attributes, and to reflect that this perhaps is a function of the aspirations of respondents to the survey. Employees working in these respondents' organisations might have a different view of what constitutes success in HR; they might perhaps put a higher value on their payslip being accurate, or

on having HR procedures clearly explained to them, or by being able to rely on the advice of a friendly and accessible HR practitioner if they are having difficulties with their manager.

When analysing the skills required for particular HR roles, there is also a good measure of agreement among HR practitioners. Figure 2 shows the attributes or skills linked to each major role of business partner, administrator, internal consultant, expert and corporate centre practitioner. In practice, the picture is often less clear than this representation would suggest, in that the descriptions in each 'role' are not mutually exclusive. It is also worth pointing out that in many small to medium-sized organisations, HR practitioners are expected to combine several or even all of these roles. In such organisations, the role of 'employee advocate' can sometimes still be found. One-third of the HR practitioners who responded to the 2005 CIPD Careers in HR survey were from organisations with fewer than 250 employees.

Figure 2: HR roles and skills



Source: IES, 2006

Tying the strands together?

Theoretically, organisational strategy should dictate both the HR delivery model adopted by the organisation and the type of individual recruited to work in HR. HR practitioners should also be aware of – perhaps even contribute to decisions about – changes to the organisation’s business model, which will require them to adapt the way that HR is delivered. In turn, the roles needed to make the HR delivery model work, and the skills required to fulfil those roles, should be clearly related to what the organisation does and how it does it. But is this happening in practice?

IES’ experience, based partly on a review of the evidence and partly on frequent contact with HR practitioners in member and client organisations, is that HR change appears to be driven by a combination of organisational imperative and pressure from within the profession.

- Organisations – even those that are not necessarily underpinned by a cost leadership strategy – appear to be very attracted by the cost savings, efficiency gains and corporate ‘stamping’ that are supposed to be made from streamlining HR into a service centre, and bringing HR experts together into centrally based expertise teams. There is also a natural tendency to want to be seen to be at the forefront of new developments (or at least not to be too far behind them); currently, re-engineering the HR function is happening in almost every large organisation, regardless of sector, so it takes a very confident organisation not to join in.
- The HR profession is still in the process of shedding its traditional welfare image (even though, ironically, the presence of a welfare function makes employees feel more valued by the organisation, and is therefore likely to increase engagement levels). The profession also appears to feel ambiguous about the employee advocate role – valued by employees, and the reason why many people came into HR in the first place – because of anxieties about whether it is sufficiently ‘strategic’. One of the reasons why the HR business partner role is particularly favoured by the profession is because of its image of adding value and competitive edge, which is useful to a function that still feels the need to justify its existence. This is sensible both from the HR and the business viewpoint, but only if the organisational culture and way of working lends itself to the role; trying to impose it on bewildered managers, who are actually looking for day-to-day operational support, is unlikely to succeed.

When IES started to look at the business model/ HR delivery/ HR skills issue, we did so because there was so much member interest in the way that HR was changing, both in structure and roles. However, our attempt to launch some original research failed because we could not find organisations to participate actively. Everyone we approached felt that its HR function was either in a state of upheaval or flux, or about to enter into such a state; even those that had been through major re-engineering felt that it was too soon to assess the impact. This suggests that it may be some time before any general judgement can be made about the appropriateness of the new HR delivery models that are being introduced, and the relevance and effectiveness of the associated HR roles. It would be reassuring to think that in a few years' time, individual organisations will be seeking to evaluate the changes they have made, and assess whether they have brought about improved business performance or whether following the latest HR trend has actually been counter-cultural and counter-productive. But by then, perhaps, we will be debating another set of new HR models and roles.

References and Further Reading

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... and look out for the forthcoming CIPD report on the HR Career Paths research.