

“A critical component of any winning business is an HR function that improves business results. I highly recommend this book to HR and business leaders everywhere.”

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COPENHAGEN, DENMARK

“Got business? This book does. By asking (and answering) the tough questions about HR relevance for line managers, shareholders, and customers, readers will clearly understand the why, how, and what of HR transformation.”

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ADVISORY PEOPLE AND CHANGE, PwC

“Wow, they have done it! Many HR shops need transformation but don’t have the answers. This book is the roadmap, answers the questions, provides the rationale, and describes how HR transformations should unfold. Read it, but better yet—do it!”

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COAUTHOR OF *THE DIFFERENTIATED WORKFORCE*

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“A thoughtful and practical guide that will help leaders navigate some of the most important decisions about building the HR organization of the future.”

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COAUTHOR OF *INVESTING IN PEOPLE* AND *BEYOND HR*

“Two bangs for your hard-earned buck. First, a very strong summary of the key tenets of the most important HR thinking. Second, highly practical practical examples of what to do and—even more importantly—what NOT to do when embarking upon transformation.”

—REG BULL, FORMER CHIEF HR OFFICER, LG ELECTRONICS, SEOUL,
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“Dave Ulrich and his colleagues have, over the past two decades, fundamentally changed the way we view HR. This work will change the way we *think* about HR and what we *do* with it as we build lasting, competitive organizations in a complex environment.”

—RALPH CHRISTENSEN, AUTHOR OF *ROADMAP TO STRATEGIC HR* AND
HEAD OF HR, LDS CHURCH

“This practical, thoughtful, well-researched book provides priceless insights on the most pressing issue: how to effectively leverage people to deliver value amidst turmoil. In an economy anxious to weed out the weak, no HR executive can afford to miss this book.”

—BILL CONATY, RETIRED SENIOR VP HR, GE, CONATY CONSULTING LLC

“*HR Transformation* is refreshing. Ulrich, et al., have given us a clear vision of where the HR function ought to go next. The big ideas are presented in a straightforward way to ensure HR is pointed in the right direction long after you’ve put down the book.”

—DAVID CREELMAN, CEO, CREELMAN RESEARCH

“The authors nail the seminal question in the first pages when they state that the biggest challenge for HR professionals is to ‘help their respective organizations succeed.’ Frankly, most leaders don’t care about HR, nor should they if HR doesn’t add value.”

—JAC FITZ-ENZ, CEO OF HUMAN CAPITAL SOURCE,
AUTHOR OF *THE ROI OF HUMAN CAPITAL*

“Based on knowledge, experience, research, and wisdom, the authors have produced an incredibly practical volume. The four case studies add to the richness and usefulness.”

—FRED K. FOULKES, DIRECTOR, HR POLICY INSTITUTE,
BOSTON UNIVERSITY

“This is an indispensable handbook for the HR leader looking to help the business succeed, a chronicle of the silent revolution taking place in some of the world’s leading HR functions, with systematic steps to transform the function and create real value.”

—DIANE J. GHERSON, VICE PRESIDENT HR, GLOBAL BUSINESS SERVICES
AND RECRUITMENT, IBM

“Powerful, practical answers to the critical why, what, and how questions that fuel any high-impact HR transformation! A must-have map for any executive in turbulent times.”

—HAL GREGERSEN, PROFESSOR OF LEADERSHIP, INSEAD, AND
COAUTHOR OF *IT STARTS WITH ONE*

“A must-read for any HR leader looking to drive value and contribution to the business! This book is a practical guide for instituting complete organizational transformation, balancing theory, practice, and application in a no-nonsense, action-oriented way.”

—LINDA HLAVAC, SENIOR VP, HUMAN RESOURCES, LEXISNEXIS, US

“Good business books give you ideas; great books tell you what to do with them. *HR Transformation* integrates critical ideas with practical tools to answer the ‘so what do I actually do?’ question. Above all it starts where HR needs to start: with the business.”

—NICK HOLLEY, DIRECTOR OF THE HR CENTRE OF EXCELLENCE,
HENLEY BUSINESS SCHOOL

“If more candidates for the largest HR positions in the world ‘had the horses’ to live up to the promise of the function outlined in this book, my job would be a lot easier. Thankfully, there is an increasing number of great HR leaders who get this stuff.”

—HAROLD E JOHNSON, KORN/FERRY INTERNATIONAL,
MANAGING DIRECTOR, CLIENT DEVELOPMENT

“It’s clear that five good thinkers spent a great deal of time debating the issues raised in this book, and then collaborated with colleagues to gather essential feedback. This is a great guide with excellent case studies that make the theory come to life.”

—BEVERLY KAYE, CEO/FOUNDER, CSI, AND
COAUTHOR OF *LOVE ’EM OR LOSE ’EM*

“There has never been a better time for HR professionals to help business leaders. A great, compelling read that delivers an integrated, aligned, and innovative approach to transforming HR and thereby transforming the business.”

—STEPHEN KELLY, GROUP HR DIRECTOR, LOGICA

“In the past, these authors have changed the way people think about the roles, goals, and even the *raison d’être* of HR. Here, building on their previous work, they offer valuable, practical advice on transforming HR to bring maximum value to stakeholders.”

—STEVE KERR, AUTHOR OF *REWARD SYSTEMS* AND
FORMER CLO OF GOLDMAN SACHS AND GE

“This book is a must read for every HR professional. Its premise—that HR transformation is not about doing HR better, but rather building business success—is an appropriate challenge and wake up call for our function.”

—BOB LANDIS, SENIOR VP OF PERSONNEL AND ORGANIZATION,
MARS CHOCOLATE

“*HR Transformation* has it right! It provides a great approach to use in transforming HR. Useful case studies as well as great ‘how to do it’ guidance.”

—EDWARD E. LAWLER, AUTHOR OF *ACHIEVING EXCELLENCE IN
HUMAN RESOURCES MANAGEMENT*

“In these turbulent times we live in, *HR Transformation* has arrived just in time. Human resources is being called upon to contribute to the business like never before and the RBL Group has provided a proven, practical roadmap to success.”

—KEITH LAWRENCE, DIRECTOR HUMAN RESOURCES, P&G

“A distinctive guide for 21st-century HR leadership. *HR Transformation* shows how HR can help organizations succeed, combining a positive vision with practical tools, and truly raises the bar higher for all HR professionals.”

—JOHN LYNCH, SENIOR VP, HUMAN RESOURCES, GE

“This book starts the journey to truly upgrade the HR profession. Against a backdrop of increased complexity, *HR Transformation* highlights the importance of HR connecting with business line managers, customers, and investors.”

—TONY MCCARTHY, CHIEF OF PEOPLE AND ORGANISATIONAL EFFECTIVENESS, BRITISH AIRWAYS

“In every profession, 20 percent of the people in that profession produce 80 percent of the great work. Reading this book will help move you into the 20 percent category for HR.”

—DEBBIE MCGRATH, CEO, HR.COM

“This book finally gives clarity to what ‘HR transformation’ really means. The core message: HR exists to grow the business! This is a primer for anyone serious about making HR relevant in today’s business.”

—PAUL MCKINNON, HEAD OF HR, CITIGROUP

“What a great contribution to HR thinking and performance! Not only does *HR Transformation* provide a practical and insightful step-by-step guide to HR redesign, it challenges us to rethink who we are, what we do, and why we do it. Essential reading.”

—HEATHER MILES, GENERAL MANAGER, GROUP PEOPLE, WESTPAC BANKING CORPORATION

“A very insightful and practical handbook. It is a must for CEOs and business and HR managers who want to transform HR to maximize the tangible business results from their HR investments. I will buy several copies for the Nokia HR team.”

—HALLSTEIN MOERK, EXECUTIVE VP OF HR, NOKIA

“Dave Ulrich has been a pioneer in leading HR practitioners to think, act, and be increasingly progressive in how we add value. He and his colleagues are now providing us a blueprint to transform HR.”

—MOHEET NAGRATH, GLOBAL HUMAN RESOURCES OFFICER, THE PROCTER & GAMBLE COMPANY

“Turbulent economic times call for an enhanced focus on HR results. A healthy paranoia that makes us strive for ‘the little extra’ in the attempt not to be left behind will be the key to excellence in the coming years.”

—SANNE JUUL NIELSEN, MANAGING DIRECTOR,
DANISH TECHNOLOGICAL INSTITUTE, C&T

“Transformations have always happened through those who exemplify character, credibility, and capability. This book captures these very well and emphasizes that successful transformation is judged by business strategy to shape competitive capability.”

—K. RAMKUMAR, CHIEF HUMAN RESOURCES OFFICER,
ICICI BANK, MUMBAI

“This is the guide leaders have been searching for—a clearly articulated model, candid cases, and tools ready for application. Critics have been calling for HR transformation for years. This is the first book that provides the what, how, and who to make it happen.”

—NANCY A. REARDON, SENIOR VP AND CHIEF HR AND
COMMUNICATIONS OFFICER, CAMPBELL SOUP COMPANY

“This book is an invaluable roadmap for any HR leader or CEO looking to transform the contribution and effectiveness of HR. Clarify an organization’s unique identity and capabilities to unlock the true opportunity for HR to drive improved business results.”

—SUSIE ROBINSON, SENIOR VP HR, DHL SUPPLY CHAIN, UK IRELAND,
EEMEA, AND EUROPE

“This book identifies the challenges facing HR and provides practical ways to meet those challenges. To add value and succeed HR must be aligned around the business strategy. It sounds simple yet so many HR professionals find it hard to do.”

—NEIL RODEN, GROUP DIRECTOR, HUMAN RESOURCES,
ROYAL BANK OF SCOTLAND

“A timely and relevant message to HR professionals, educators, and business leaders that should be taken seriously now. If it isn’t, HR will be left in the back room.”

—JUDY ROSENBLUM, A FOUNDER OF DUKE CORPORATE EDUCATION

“*HR Transformation* is a call to action for HR professionals and line managers everywhere. The practical advice and tools offered in this book will help leaders assess how well they are leveraging their organization’s most important asset: people.”

—MATT SCHUYLER, CHIEF HR OFFICER, CAPITAL ONE

“*HR Transformation* is not just a handbook but a manifesto for deliberating altering the DNA of the HR function, its mission, and, importantly, what it is charged with delivering. The book is a timely and very worthwhile read for any HR executive.”

—DENNIS W. SHULER, EXECUTIVE VP AND CHIEF HR OFFICER,
THE WALT DISNEY COMPANY

“Practical knowledge that human resources professionals can put to use immediately. Given the importance and relevance of strategic HR, the perspective here is spot-on, and the information provided is transferable and can be applied in a wide range of industries.”

—JILL SMART, HEAD OF HR, ACCENTURE

“The authors brilliantly lay out the business case for transforming HR from an administrative department to strategic executioner. A great book for all executives.”

—MARK R. THOMAS, VP, HR AND OD,
GREATER BALTIMORE MEDICAL CENTER

“Just when we believe we’ve arrived, these authors lead us to clearly see that there’s yet another level to reach and an order to go with it. Going beyond theory, this book provides a practical and proven process for transforming HR.”

—DEAN WEATHERFORD, ADVISOR, ABU DHABI INVESTMENT AUTHORITY

“Dave Ulrich and his colleagues have conducted more research on HR competencies and have worked with more HR functions in guiding HR transformations than anyone else in the world. This is a must-read.

—PATRICK M. WRIGHT, W. J. CONATY GE PROFESSOR OF STRATEGIC HR,
ILR, CORNELL UNIVERSITY

“Insightful and practical! A must-read for HR and business leaders in emerging economies who strive to manage and develop talent for hyper business growth.”

—ARTHUR YEUNG, ASSOCIATE DEAN OF CHINA EUROPE INTERNATIONAL
BUSINESS SCHOOL



Transformation

Building Human Resources
from the Outside In

DAVE ULRICH JUSTIN ALLEN
WAYNE BROCKBANK JON YOUNGER MARK NYMAN



New York Chicago San Francisco Lisbon London Madrid Mexico City
Milan New Delhi San Juan Seoul Singapore Sydney Toronto

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A HANDBOOK FOR HR TRANSFORMATION

INTRODUCTION TO HR TRANSFORMATION

1

A few years ago, we sat with a dozen senior human resources executives and academic colleagues, talking about how HR departments should respond to increased expectations given constantly changing and challenging business conditions. We listened as the executives described the business challenges they had faced and how they had transformed the way they work. While our academic colleagues toiled to conceptualize the theory to study their new processes, we realized that we had participated directly or indirectly in the HR transformation with almost all of these executives and with others in a wide range of industries. In many cases, we had experienced firsthand their efforts to contribute to their business. We had helped them discover ways to reshape HR to meet these increased expectations. We had learned with them what worked and what did not work. In short, we had the privilege of working with them to develop the implicit theory, logic, and processes of HR transformation.

Sources (Where This Book Comes From)

This book synthesizes and summarizes the lessons we have learned about HR transformation. We have learned these lessons not in isolation but by working with thoughtful and innovative HR executives who have helped their organizations and the HR profession make meaningful progress in contributing to the performance of their companies. We have learned these lessons both from successes—where the transformation delivered value—and from failures—where we did not make the progress we intended. We hope this book captures both the theory (ideas, rationale, and approaches) and the practices (tools, processes, and actions) for creating a successful HR transformation. Transfor-

mation theory draws from change literatures found in sociology, psychology, anthropology, organizational development, systems theory, high-performing teams, and economics. These disciplines teach ways to approach both large-scale and personal change. Transformation theory and practice come as we have applied these ideas in dozens of organizations. Theory without practice is conjecture and is usually irrelevant. Practice without theory is idiosyncratic and unsustainable. We hope to combine theory and practice so that those charged with and affected by HR transformation can make sustainable progress.

Audience (Who Should Read This)

HR professionals: The ideas and tools in this book are targeted primarily to HR professionals. Senior human resources executives face increased accountability for making sure that HR practices and functions align with and drive business results. To fulfill their HR leadership role, they need to be active participants in the process of setting business strategy. They can then set direction for transformation, design a process that focuses on HR results, engage people in the process, execute to ensure transformation happens, and make sure it endures. HR professionals should also be aware of the principles of HR transformation. HR professionals who continually complain about lack of access to business leaders will never gain access. In contrast, HR professionals who understand the transformation principles we present and then implement them will be in a much better position to add significant value.

Line managers: A second important audience for this book is line managers. We find increasing numbers of line managers who believe that issues like talent, organizational capability development, strategy execution, and leadership are the keys to their business success. They increasingly look to HR for thought leadership, insightful recommendations, and practical processes for these issues. If and when they understand the principles of HR transformation, they can be more confident that HR will add value to business success and help them reach their goals.

Staff functions: A third audience for this book is made up of professionals and leaders of other staff functions, including information technology, finance, and legal, like HR, are challenged to deliver value. We are finding that principles of HR transformation can readily be adapted to these functions so that these professionals can also successfully transform current processes and practices to help their business meet the challenges in an increasingly difficult environment.

Perspective (Why Our Approach Is Different)

A successful HR transformation increases the value human resources adds to the business. This is a simple statement and one that is easy to gloss over, but it reflects an approach to transformation that is not always practiced. In workshops with HR professionals, we often begin with the general question, “What is the biggest challenge you face in your job today?” As we go around the room, the challenges range from doing HR practices better (hiring people, training leaders, building incentive compensation) to relating to business leaders (having a voice at the table, getting buy-in) to managing the increased personal demands of the HR job (managing time, feeling overwhelmed with so much to do). As heads nod in affirmation of the inevitable and obvious challenges facing HR professionals, we then say that these answers are wrong. Silence ensues.

Simply stated, we propose that the biggest challenge for HR professionals today is to help their respective organizations succeed.

In businesses, promoting success may mean reducing costs, increasing market share, growing in global markets, or innovating new products or services. In government agencies or nonprofit organizations, it may mean delivering services, achieving externally imposed goals, meeting constituent needs, or operating with reduced budgets. Our point is that HR professionals often focus internally on the function of HR rather than externally on what customers and investors need HR to deliver. If HR professionals are to truly serve as business partners, then their goals must be the goals

of the business. Transforming HR professionals into business partners isn't an end in and of itself; it's the *means* to a strategic, business-oriented end. Granted, the activities of HR are important—we do recognize that when we say focusing on these HR activities is wrong, we overstate the position to make a point.

Our point is that HR should begin from the outside in. We should be at least as worried about the outcomes of our activities as about the activities themselves. Thus, we ask people to add two simple words—*so that*—to their biggest challenge at work. The “so that” query shifts from a focus on what we do to what we deliver, from the activities we perform to the value that these activities create.

Likewise, an HR transformation should begin with a clear understanding of the business context because the setting in which you do business offers the rationale for the HR transformation you will do. Basic supply-demand logic asserts that if supply is high for any given product or service but demand is zero, then its value is zero. If what we do on the inside does not create value on the outside, in the ability of the company to attract, serve, and retain customers and investors, its value is zero.

This logic has many practical implications. For example, many HR leaders launching an HR transformation have an all-hands meeting to share the vision and goals of the new HR organization. We strongly suggest that this event begin with a detailed discussion about the business. In one case, a new head of HR in the airline industry spent the first two hours reviewing fuel costs, load factors, customer satisfaction indexes, regulatory changes, equipment age, and competitive positioning. As we sat in the back of the room, we heard a number of HR professionals whispering to each other, “When are we going to get to HR?” In fact, he was defining the agenda for HR transformation by focusing on the business first. In monthly staff meetings, in performance reviews, and in casual hallway conversations, when we begin our business conversations by talking about the business, it sends a message: HR transformation is not about doing HR; it is about building business success.


Common Pitfalls (Detailers to Watch Out For)

With our focus on business success in mind, it is easier to see some predictable and common mistakes often made when starting an HR transformation:

- *Action before rationale.* Some companies begin an HR transformation by doing things in human resources such as implementing e-HR, restructuring the HR function, or designing new HR practices. These HR investments are then defined as transformational. If these actions are not tied to a business rationale and rooted in the business context, however, they are not transformational and are unlikely to be sustained. HR transformation needs to be grounded in the context of business demands.
- *HR in isolation.* At one company, we worked with HR leaders who had set aside time in July (because this was a slower time for HR) and drafted a strategy about what the HR department was doing and which HR practices would be developed. Meanwhile, the line managers drafted their business strategy in the fall to focus attention on the next year. The result was painful misalignment. When an HR strategy is drafted in isolation from the business strategy, both suffer as stand-alone documents that probably won't be sustained. HR transformation needs to be aligned with business transformation. It needs to be done in a way that focuses on adding value to the business rather than simply optimizing HR as a function.
- *HR in increments.* Some companies design an innovative talent management, performance management, or total rewards process and declare it an HR transformation. These piecemeal efforts are only part of an HR transformation. HR practices need to be integrated with each other around key business results if they are to have lasting value.
- *HR by individual fiat.* Some companies invest in an HR transformation because of the whims of an individual leader or a desire for more personal or functional influence. These individually sponsored initiatives probably won't be transformational. HR transformation needs to be connected to the overall success of the organization, not just an individual champion.

- *Placing HR structure before business strategy.* Occasionally HR departments believe that reorganizing human resources is the essence of HR transformation. They may spend considerable time establishing service centers and centers of expertise or hiring a league of HR business partners, and then declare that they have transformed HR. HR transformation can only be complete as it helps implement the business strategy and drives business results.
- *Efficiency equals transformation.* We are finding more and more HR departments that equate efficiency improvements with HR transformation; for example, a major global pharmaceutical company recently announced that its creation of a shared service center constituted transformation. A leading consumer products company described self-service as its HR transformation. Efficiency improvements can and usually are key elements of transformation, but efficiency alone does not make for transformational change.

We call these derailers viruses, because they infect and can cripple the process of transformation. When identified and confronted, they can be treated and overcome.

<p>TOOL 1.1</p>	<p><i>Full Virus List</i></p>
	<p>In our work on managing change, we have identified more than 30 common viruses—common reasons why change does not proceed as intended. Download the full list of organizational viruses and learn more about virus busting.</p> <p>► <i>Go to www.TransformHR.com</i></p>

Our Definition of HR Transformation

A true HR transformation is an integrated, aligned, innovative, and business-focused approach to redefining how HR work is done within an organization so that it helps the organization deliver on promises made to customers,

investors, and other stakeholders. This work begins by being very clear about the rationale for doing HR transformation. The rationale for HR transformation is too often from inside the company (say, when a senior leader complains about HR practices, structure, or people), whereas the rationale should actually come from outside the company.

A Model for Transforming HR

We propose a four-phase model for HR transformation to ensure that HR drives business success and avoids the common pitfalls of such efforts. This model (see Figure 1.1) addresses four simple questions about HR transformation:

- Phase 1: Build the business case. (Why do transformation?) HR transformation begins with a clear rationale for why transformation matters. This is addressed in Chapter 2, in terms of knowing the business context and building a case for change.
- Phase 2: Define the outcomes. (What are the outcomes of transformation?) This phase clarifies the expected outcomes from the transformation. What should happen because we invest in HR transformation? Answers to this question are addressed in Chapter 3, which defines the outcomes of HR transformation as the capabilities of a firm or the intangibles that an investor values.
- Phase 3: Redesign HR. (How do we do HR transformation?) HR transformation requires change in HR strategy around departments, practices, and people. Chapters 4, 5, and 6 focus on how to change HR departments, people, and practices.
- Phase 4: Engage line managers and others. (Who should be part of the HR transformation?) HR transformation requires that many people participate in defining and delivering the transformation. Who is involved is discussed in Chapter 7. This chapter focuses on transferring ownership to line management and on strategies for building HR's capability to create sustained change.

Finally, in Chapter 8, we summarize these phases with a set of milestones, each with outcomes and activities that can be performed to successfully accomplish transformation.

While we list these four phases sequentially, in reality they occur concurrently. For example, while knowledge of business conditions has to frame HR transformation (phase 1), having the right HR transformation team (phase 4) is critical to initiating HR transformation. The formation of the HR transformation team is critical to the entire process.

Figure 1.1 Model for HR Transformation



Our recommendation in using this model is that it needs to be adapted, not adopted. We believe that the issues raised in each of the four steps are important and should be considered in ways that make sense for your organization. It is clearly dangerous to simply adopt a model, regardless of its source, whether a successful competitor, an academic, or a consultant, rather than to adapt it. How would you tailor these steps to your situation? How would you cook a meal that works for you? How would you improvise based on the recipe? This book offers some recipes for HR transformation. To make HR transformation work in your organization, you will have to adapt these ingredients and improvise your own original HR transformation recipe. Chapter 8 suggests how to go about doing the transformation.

To flesh out the principles and tools for HR transformation, we have divided the book into two parts. In Part I, we propose the four-step HR Transformation Model and present principles and tools for how to design and deliver a HR transformation.

Part II includes four case studies from organizations that have recently embarked on transformation journeys. They provide examples of how they have combined different transformation ingredients to achieve results that have had an impact in their organizations. Chapter 9 presents HR transformation at Flextronics; Chapter 10 discusses Pfizer; Chapter 11, Intel; and Chapter 12, Takeda. We are grateful to these organizations for their willingness to share their experiences and knowledge with us all.

We hope these case studies help enliven the theories and steps we outline in Part I and give readers a sense of the possibilities they can achieve in their own organizations.

Tools for Transformation

In keeping with the goals of the HR Leadership Series, we provide a toolbox in the Appendix to support you as you design and deliver your organization's

HR transformation journey. We also provide a short, carefully selected list of books and articles that may prove helpful to you or your transformation team in designing the transformation. You'll also find biographies of all the contributors who have helped make this book a success.

TOOL 1.2	<i>HR Transformation Model Overview</i>
	Watch a video of Dave Ulrich introducing the HR transformation model. Learn as he grounds this theory in reality with examples of how companies have implemented each phase of the model.
	▶ <i>Go to www.TransformHR.com</i>

Phase 1:
BUSINESS CONTEXT

