

The Business Partner Model: past & future perspectives

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The informal business partner model has existed for well over 100 years when effective staff support functions, including HR, contributed to business results. Formalizing how HR professionals create more value as “business partners” has been of increased interest in the last 10-15 years. Given the emerging importance of HR as a contributor to business success, we suggest that it might be useful to pause and reflect on what we have learned in the past decade about the relevance of the business partner model and on the challenges that lie ahead.

Looking back: Lessons learned

Since we have been instrumental in defining the business partner model and since there have been some discussions about it in recent HR media, we would like to review nine learnings about HR in the business partner role.

First, the business partner model is not unique to HR; all staff functions are trying to find ways to deliver more value to either top-line growth and to bottom-line profitability. The requirement for greater business performance has put all support functions under a microscope. If they are not delivering definitive and sustainable value, they have been given the mandate to change, be eliminated or be outsourced. Information systems, finance, legal, marketing, R&D, and HR are all under scrutiny and pressure to create greater value for their companies. This is especially true of transaction and administrative work that can be standardized, automated, or outsourced.

Second, the intent of the business partner model is to help HR professionals integrate more thoroughly into business processes and to align their day-to-day work with business outcomes. This topic has been approached from several perspectives. For example, we have talked about focusing more on deliverables (what the business requires to win) than doables (what HR activities occur). Instead of measuring process (e.g. how many leaders received 40

hours of training), business partners are encouraged to measure results (e.g. the impact of the training on business performance). This approach focuses on HR’s role in the creation and maintenance of the capabilities that an organization must have in order to deliver value to its customers, shareholders, employees and communities.

Third, being a business partner may be achieved in many HR roles and job categories. HR professionals often work in one of four positions in a company.

1. *Corporate HR*: As business partners, corporate HR professionals define corporate wide initiatives, represent the company to external stakeholders, meet the unique demands of senior (and visible) leaders, leverage cross unit synergy, and govern the HR function.
2. *Embedded HR*: As business partners, embedded HR professionals work as HR generalists within organization units (business, function, or geographic). They collaborate with line leaders to ensure that their organizations deliver value to stakeholders by defining and delivering competitive strategies. They help shape the business strategy, conduct organizational diagnoses to determine which capabilities are most critical, design and deliver HR practices to accomplish strategy, coach business leaders to behave congruently with strategy, and manage the strategy development process.
3. *HR specialists*: As business partners, HR specialists work in centers of expertise where they provide technical insights on HR issues such as staffing, leadership development, rewards, communication, organization development, benefits, and so forth. They deliver value when their recommended HR practices are on the forefront of their respective areas of expertise and when they create new practices that add value beyond that of their competitors. They add additional value when they share lessons learned across organization units.

4. Service centers: As business partners, HR professionals who work in service centers add value by building or managing technology-based e-HR systems that enable employees to manage their relationship with the firm. They govern activities such as processing benefit claims and payrolls and by answering employee queries. These individuals may work inside or outside the company. They deliver value to all stakeholders by reducing costs of processing employee information and by providing accurate and timely services.

Sometimes, one of these roles is uniquely defined as “business partnering” when, in fact, each of the above roles is a partner to the business as they work to create value for employees, customers, shareholders, communities, and management.

Fourth, business success is more dependent today than ever on “softer” organizational agendas such as:

Talent. HR professionals are centrally involved in providing the right people with the right skills in the right job at the right time. The “war” for talent rages and will likely continue in an increasingly global knowledge economy.

Organization capabilities. HR professionals partner with line managers to identify and create organization capabilities such as speed-to-market, innovation, leadership, collaboration, fast change, and culture management. These less tangible business activities increasingly have impact on shareholder value and, therefore, are top of mind for CEO’s and general managers.

Effective HR professionals not only work with business leaders to draft strategies, they also focus and collaborate on how to make strategies happen. Talent and organization issues become the mechanisms to best deliver a strategy. Business leaders are increasingly attuned to the importance of talent and organization as a way to turn aspirations into actions and strategic intent into business results as they coordinate closely with their HR professionals.

Fifth, as talent and organization issues increase in business relevance, HR professionals may help respond by being architects, designers, and facilitators. General Managers ultimately are accountable and responsible for talent and organization issues. Just as they turn to senior staff

specialists in marketing, finance and IT to frame the intellectual agenda and processes for these activities, so likewise do they turn to competent and business focused HR professionals to provide intellectual and process leadership for people and organizational issues. Effective HR business partners are those who respond to these general management challenges. The business partner model focuses on the issues that general managers need help with delivering business results. Because of the changing nature of business, the requirements of the business partner model are more pressing than ever before.

Sixth, there is concern that some HR professionals cannot perform the work of a business partner and cannot link their day-to-day work to business results. Our research shows that the HR profession as a whole is quickly moving to add greater value through a more strategic focus. We have shown that high performing HR professionals have greater business knowledge than do low performing HR professionals. Thus, the business partner model is empirically supported.

But, also empirically supported is that some HR professionals are not able to live up to the new expectations. This dynamic is true for almost all change efforts. In any change there is almost a 20-60-20 grouping of those involved. The top 20% of individuals asked to change are already doing the work that the change requires. The lower 20% will never get there. With training, coaching, and support, the other 60% can make the move. Occasionally, some pundits and researchers selectively report either extreme, the 20% who either can or cannot make the change. Those who want to find failure focus their reporting on the bottom 20%; those who want to find success focus on the top 20%. Likewise, some leaders like to spend time with the successful 20% and claim they caused it when they did not. Leaders often feel forced to spend time with the bottom 20% and try to ensure universal acceptance when they cannot. They should spend time with the middle 60% and work to inform, motivate, and move them to be more successful. The same is true for HR professionals.

As is true for all support functions, it is undoubtedly the case that some HR professionals may never become business partners. They are mired in the past administrative HR roles where conceptually or practically they cannot connect their work to business results. Other HR professionals are natural business partners, seeking first and

foremost to deliver business value through the work that they do. Most are somewhere in between. We see the majority of those in between moving towards rather than away from business relevance. If one looks at the content of HR conferences over the last 20 years, it would be clear that a shift is occurring in what HR professionals want and need to know. A decade ago there was a clamor to “get to the table” and to become part of the business. Today, many effective HR professionals are already at the table and they need to know what to do when they are there. Being at the table poses a new set of challenges in language and logic of being an HR professional. For example, historically many HR professionals use the term “customer” to refer to internal customer. At the strategy table, the “customer” is generally the external retailer or end user. When HR professionals are at the table, the question “what do we need to do to make our customers happy” has a different meaning from that of HR’s traditional meaning. As HR professionals assume the business partner role, the standards for HR success shift along with the expectations of their language and logic.

Seventh, being a business partner requires HR professionals to have new knowledge and skills. Traditionally, HR professionals have tended to focus on negotiating and managing terms and conditions of work and facilitating administrative transactions. The required HR skills focused on administrative issues such as policy setting and administration, union negotiation, and managing employee transactions. Today, the business partner model requires HR professionals to also connect their work directly to the business. Some HR professionals lack these skills. If they fail to develop these skills, their ability to function as a business partner is diminished. This strongly supports the business partner model. Our research indicates that as HR professionals acquire the skills and knowledge necessary to be a business partner, they add significant value to financial and customer business results. Likewise our research shows that those that do not make the transition in knowledge and skills are less likely to have business impact. When HR professionals are business partners, business success follows. By way of metaphor, if a person cannot work the remote for the new electronic gadget, we should not blame the gadget, but should teach the user how better to use the gadget.

Eighth, the inevitable failures in the application of the business partner model may be due to several factors:

1. As indicated above, 20% of HR professionals will probably never be able to adapt to the full business partner role. Asking HR professionals who have focused on policies and transactions to do talent and organization audits and massive change efforts may be too great a shift for some.
2. Some may not make the shift to business partners because of personal interest that deter them from engaging in the business partner role. Their interests and abilities may focus them on the details of administrative detail rather than embracing the larger and more complicated perspective of the business as a whole.
3. Some HR professionals may desire to be business partners but simply do not know how to proceed. Such individuals need to understand the frameworks, logic, knowledge, and skills that are necessary for them to grow into the business partner role. Substantial empirical evidence shows that HR professionals who are provided exposure to such information can quickly apply that information in adding greater value to the business. For example, BAE Systems undertook a serious commitment to enhance the competencies of its HR professionals. As a result of the developmental program, HR’s perceived impact on business performance increased dramatically (the percent of line managers rating HR as four or five, out of five, in business effectiveness increased 120%).
4. A particular firm’s business conditions may not require talent and organization as keys to success. There may be some cases where an organization’s success does not depend on individual abilities or organizational capabilities. For example, a company may have a monopoly, may be protected from competitive pressures and may find that business performance is dictated primarily by the maintenance of the monopolistic protection. Under such conditions, internal dynamics have relatively less to do with business success than the maintenance of the monopoly. Under such conditions HR professionals who push for alignment, integration, and innovation in talent and organization are less likely to contribute to business success. In addition, our recent empirical work together with our colleagues, Alejandro Sioli and Arthur Yeung, shows that HR is most closely associated with business performance under conditions of high change and has substantially less

influence under conditions of low change. So, HR's impact on business may vary by business setting.

5. Some line managers have trouble either accepting the importance of talent and organization and/or accepting HR professionals as significant contributors to these agendas. This may be due to their having a limited perspective on the changing nature of business or due to past bad experiences of a specific HR professional. Research by a number of consulting firms shows that senior level executives are increasingly focusing on issues such as strategy execution, leadership, talent, and change...all HR agendas. Therefore, managers often want and need what effective HR professionals can help them deliver.

Ninth, there are really few other options. When someone said to us that the business partner model was not working, we asked, "What would you suggest?" Two responses were forthcoming. First, "Some HR professionals do not know the business well enough to be able to function as business partners." Second, "Some HR professionals are too enmeshed in transactional administrative work to be able to function as business partners." Both of these problems, have direct and obvious solutions. The solution to the first response is that HR professionals need to learn the business from the outside in. They must know it well enough not only to do better HR work but also to be able to contribute to the strategic decision making processes of the senior management team. The solution to the second response is that much of the administrative work will need to be outsourced or digitalized for electronic processing.

The reality is that the HR professionals must evolve into being the best thinkers in the company about the human and organization side of the business. The nature of business is dramatically changing. Changes are occurring in virtually every element of the social, political, and economic environments that impact business. We have documented these changes in detail in other writing. They include technology, globalization, communications, regulations, competitiveness, demographics, shareholder demands, capital markets, customer requirements, community demands, tight labor market for key talent, and transitions to a service economy. Under such conditions, the human side of the business emerges as a key source of competitive advantage. Therefore, specialists in the logic, research, and processes of human and organization

optimization become central to business success. These specialists should reside in the HR department as business partners.

Looking forward: Challenges ahead

As we look forward, we need clear thinking, effective practices and insightful research. There are many excellent thinkers who continue to examine how HR professionals can deliver value to the business. Even within the last decade, the business partner model has evolved. Many of the critics of the model look at today's problems through yesterday's solutions and wonder why they don't work. This is like trying to run today's software on yesterday's computers. Of course, it won't work. The HR business partner model in the 1990's has changed in recent years to adapt to today's business challenges.

Many researchers have done good work on examining HR professionals as business partners. It requires more than looking inside one company and how HR operates and it requires looking at HR's evolution over time. We have worked to do some of this research on a global scale for over 20 years. We know empirically what it takes to be an effective HR professional who contributes to business performance.

Our firm, The RBL Group, in conjunction with the University of Michigan and a variety of HR professional associations from around the world, has studied the competencies and agendas of HR professionals as business partners for over 20 years. During this time we have gathered data from over 45,000 participants. We recently completed the fifth round of this on-going global study of HR professionals. In this iteration, over 10,000 participants, including just under 5,000 business executives provided a clear picture of what business leaders expect from their HR business partners. Our analysis of the data has focused on three questions:

- What are the competencies of HR professionals?
- What HR competencies are most closely associated with individual performance?
- What competencies differentiate HR professionals in high performing firms from those in low performing firms?

Based on our in-depth work with specific companies over the last 25 years and our large scale empirical research over 20 years, we are comfortable projecting five trends that will continue to evolve the HR field and how it delivers value to business.

First, over the last 20 years, we have both anecdotally and empirically seen steady progress in the HR field as it has moved toward greater strategic understanding and relevance. We anticipate that this progress will continue. They will continue to increase their knowledge of their companies' wealth creating activities. They will become more knowledgeable about internal operations such as finance, information systems, marketing, production, sales, service and distribution. At the same time they will increase their knowledge of critical external realities such as customer requirements, supplier relations, competitive market structures, domestic and international regulatory issues, globalization, and the requirements of capital markets. With this foundation in business knowledge, they will bring to strategy discussions their personal visions for the future of the business. They will work with their management teams to formulate unique business strategies; they will help facilitate those processes; and they will be active contributors to the strategy development discussions. They will then formulate the organizational capabilities that support and implement the business strategy and serve as the long-term sources of competitive advantage. They will continually innovate to develop HR practices, policies, and processes that link directly into the business strategy and that create measurable business results.

Second, companies will continue to require fewer HR professionals to do transactional administrative work. Newly emerging information and communication technologies will continue to be applied to improve the efficiency of HR administrative work such as payroll, benefits administration, entry level staffing and employee record keeping. Technological advancements will directly facilitate greater transaction processing at lower costs and will indirectly promote efficiencies by allowing the transfer to transactional work to internal service centers or to external outsourcing firms. Some HR activities will be centralized to reduce redundancies, to optimize natural synergies, and to leverage economies of scale. Such will be the case especially in companies in which their portfolios consist of highly related businesses. As companies continu-

ally grapple with the challenges of focusing on the most important wealth creating activities of the firm, it will undoubtedly be the case some nice-to-have but strategically unnecessary HR activities will be eliminated. Those HR professionals who remain will be expected to add greater value by functioning as business partners.

Third, as business partners, HR professionals will increase the trend of being more focused on key external constituents. Our recent research shows that HR departments that focus on external as well as internal stakeholders are more significantly associated with business performance. HR professionals will increasingly focus their work on creating value for external customers. They will do this by directly involving customers in the design of HR practices such as performance measurement, reward allocation, training, recruitment and promotions. They will also provide linkages to external customers by continually conceptualizing and creating the organizational capabilities that influence the buying habits of external customers; this is what we have called "the HR wallet test".

HR professionals will likewise become more attuned to the requirements of capital markets. The recent burgeoning research in finance and economics on "intangible assets" is emphasizing the increasing importance of human capital assets and HR practices that create and sustain those assets. Empirical evidence has clearly shown the investment community is accounting for practices such as succession planning, leadership development, corporate culture, and executive compensation as considerations in buy or sell decisions. Companies that are able to create a credible leadership brand are more likely to enjoy P/E ratios above that of their competitors. As business partners, effective HR professionals play a central role in defining, creating, and sustaining the leadership brand that is valued by the capital markets. Top companies realize an intangible premium in their stock price from the perceptions of the capital markets that they have strong leaders, a solid leadership bench, and the ability to resource their growth prospects. We have suggested that the new ROI for HR is return on intangibles.

As HR professionals account for customer and owner requirements in the design and delivery of organizational capability and related HR practices, they will do so with greater awareness of competitors. They will recognize that forward looking and innovative HR practices have

relatively little value unless they create greater value than do their dominant competitors. We have seen this most dramatically in the evolution of the field of change management. In the past it was necessary and sufficient for HR professionals to have high levels of knowledge and skill in the tools and practices of change management. Our recent research now indicates that the mandate for speed is as important as the mandate for change; that is, how well change is managed is centrally determined by how fast change occurs relative to the competition. Internal measures of change must be viewed from the perspective of change relative to external competition.

A final emerging trend in HR's external focus is the role of HR in representing companies to their communities and in accounting for community requirements in their companies' value proposition. The mandate for greater corporate social responsibility (CSR) originated primarily in Europe. The CSR mandate appears to be quickly taking root in North America, China, India, and many countries with emerging economies. For the first time in our 20 years of empirical research in HR practices, we have found a substantial increase in HR's role relative to social and political stakeholders from local communities. Concerns over global warming, air and water pollution, local employment regulations, ethical treatment of indigenous populations, endangered species and land utilization have moved up the list of corporate priorities. HR departments are increasingly given the mandate to work with local communities in addressing these complex, difficult and important issues.

Fourth, as HR professionals become more effective as business partners, they will become more balanced in their approaches to their work. In the most recent round of our competency research, we found that effective HR professionals function in six roles. These are as follows:

1. *Credible activists* earn a reputation for business value through their consistent delivery and proactive stance. They build relationships of trust based on business knowledge and they have a point of view not just on HR issues, but on business issues.
2. *Strategy architects* contribute to the development and execution of winning strategies. They actively participate in clarifying strategy, crafting strategic frameworks that communicate inside to employees and out-

side to key stakeholders, designing and delivering HR practices, ensuring that leader behaviors are consistent with the strategy, and facilitating the process of crafting strategy.

3. *Culture and change stewards* support the organization in identifying and facilitating important changes that improve the capabilities of the organization's ability to compete and grow. They help make change happen by turning what is known into what is done and they build new patterns or organization cultures that link external firm identity to internal employee actions.
4. *Talent managers and organizational designers* provide important support and counsel in building both individual competencies and organization capability. They understand, diagnose, audit, and improve both talent and organization.
5. *Operational executors* do the operational work of HR both effectively and cost-efficiently. They know how to design and use information systems to both standardize and customize HR policies. They also manage external vendors when appropriate to ensure better, faster, and cheaper HR delivery.
6. *Business allies* demonstrate a firm grasp on how the organization operates, makes money, and competes. They pass a business literacy test and have the ability to present and discuss business issues.

Our analyses show that credible activists has a primary impact on personal and business results and that the next three above roles have roughly equal impact on business performance. Therefore, HR professionals must ensure that they have a balanced approach to their business contributions. They must contribute to the strategy formulation process; they must create corporate cultures and manage change to execute the strategy; they must create and implement talent management practices and design organizations that create and sustain the desired culture. If HR professionals fail to function in any of the above roles, they significantly detract from their contributions as business partners.

Fifth, as business partners, HR professionals (as in other key functional areas) will be expected to the greatest extent possible to base their activities on solid empirical

research. This is certainly the expectations that exist for finance, marketing, R&D, and manufacturing. It is also the case for HR. The challenge is that some research that is currently being done leads to inaccurate and misleading findings. A recent well publicized set of research findings by a UK consulting firm were used to support the conjecture that the business partner model has failed. This reminds us of Mark Twain's famous comment: "Reports of my death are greatly exaggerated." Journalists citing the research have compounded the errors by sensationalizing the conjectures of the research.

The research claims that the business partner model is not working. The claims are based on information from 479 people, half of whom are from highly regulated companies, not-for-profit organizations, or consultancies. Thus these findings tell us little about firms in the private sector to which they are attempting to generalize their findings. 161 people answered a specific question about the effectiveness of the business partner model. Of these 161 people, 42 said the model was not working well. One problem is that we don't know who these 42 people are. Are they from HR consulting firms who want to replace HR in their business partner role? Are they from government agencies or highly regulated organizations where they have a monopoly position and HR is not as relevant? Or, are they from not-for-profit organizations, where donations not competitiveness is the dominant logic? Are they HR professionals or line managers? At what level? Drawing large conclusions based on 42 people is misleading and does the HR field no great service.

In the future, the HR profession will conduct research that focuses on HR issues that are associated with business results. Dozens of scholars in universities and consulting firms continue to move forward the body research that helps to define the key issues in HR's value added. In the future, research will continue to be done in rigorous and relevant ways. Since best HR practices are emerging from all parts of the world, HR research will increasingly be done on a global scale. Information will be gathered from large numbers of participants from companies of various sizes and industries. Research will focus on the practices and competencies that result in individual and company performance. The reported conclusions will stick close to the empirical data on which they are based. The research will also report what we still have yet to learn as well as what we have learned.

By way of summary

Many HR professionals are doing exceptional HR work. We are continually amazed at thousands of hard working HR professionals and leaders who are serving and being recognized as business partners by their company executives. From ING in Hong Kong, to ICICI and TATA in India, ADIA in the United Arab Emirates, to MTN in South Africa, to DHL and BAE Systems in the UK and to Textron, GE and United Technologies in the United States and in thousands of other companies around the world, HR professionals are making enormous progress towards delivering value as business partners.

In the future, the ways in which HR business partners will serve as business partners continue to morph. The bar has been raised on HR and some HR professionals will make the grade while others will not. There are emerging business issues where HR can and will contribute value. The future for HR is filled with both challenges and opportunities. As we look to the future, HR professionals as business partners will continue to deliver value and help businesses manage the enormously difficult and exciting challenges of the 21st century.