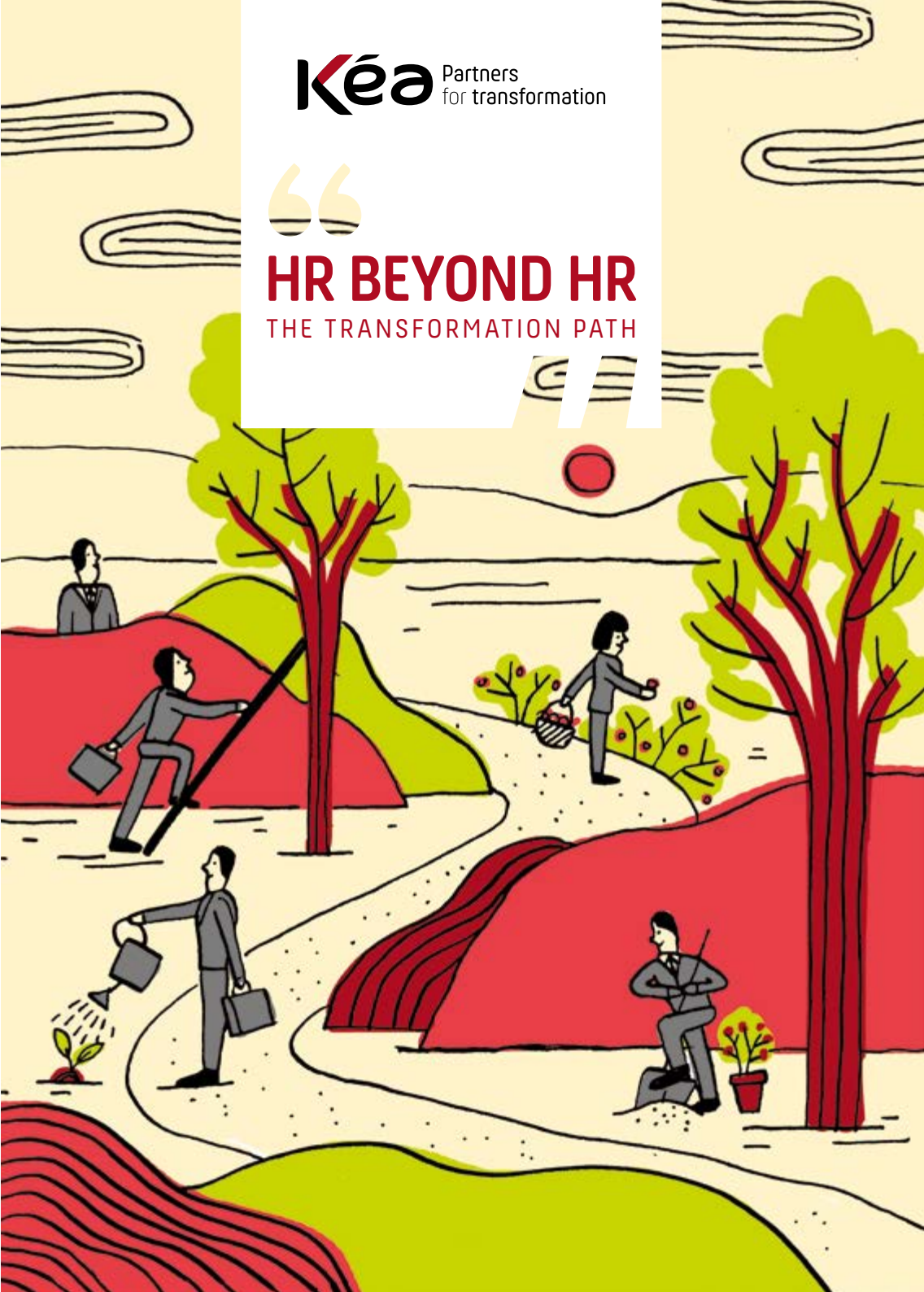
Kéa Partners for transformation

HR BEYOND HR

THE TRANSFORMATION PATH



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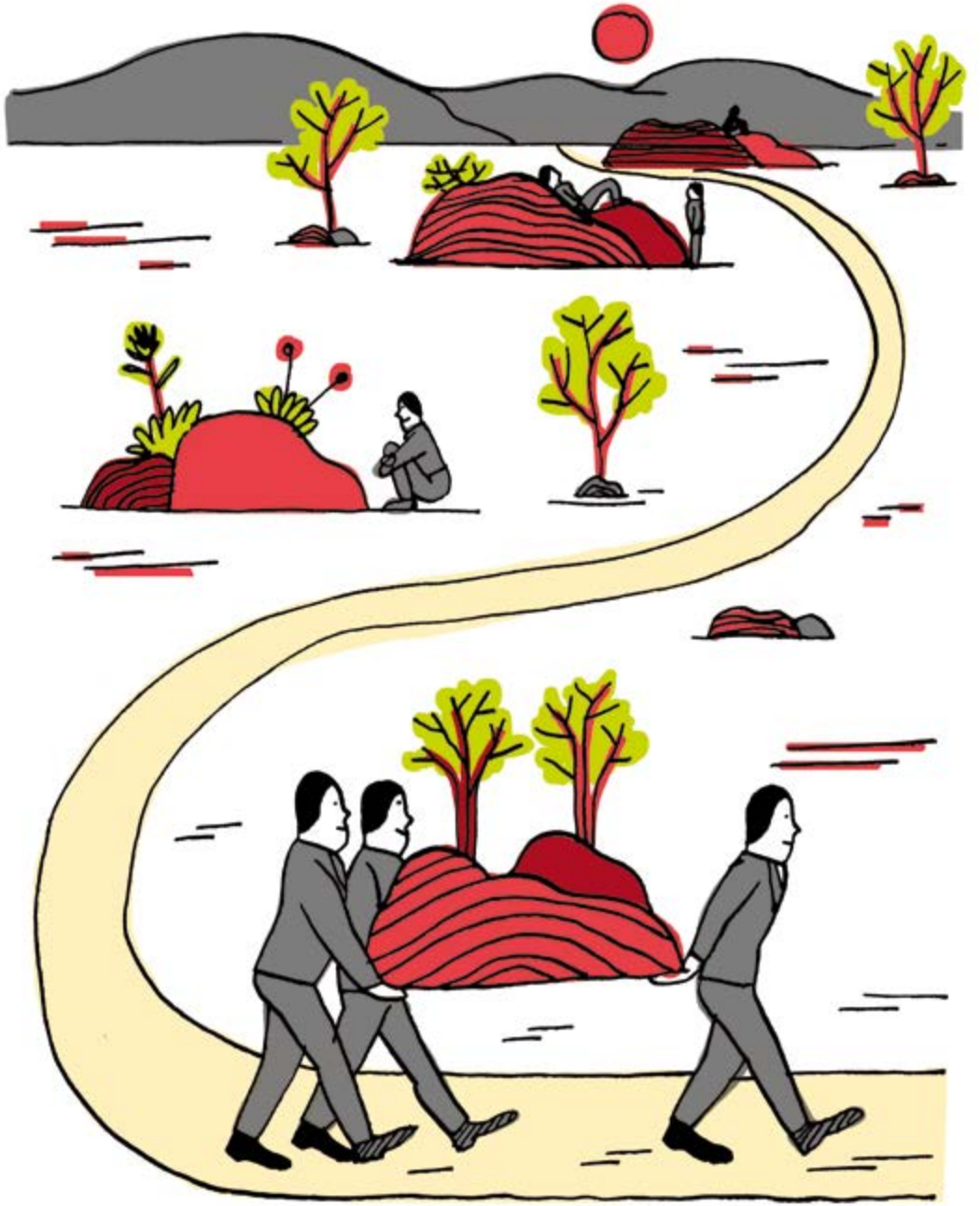
Quart d'heure d'avance

October 2016



EXECUTIVE SUMMARY

A call for Human Resources Directors to lead transformation!

Considering the potentially deep impacts that transformation entails on employees engagement, culture and behaviours; considering deriving psychosocial risks linked to change process - our view is that the HRD should take a predominant role in the transformation process.

This relies on the fact that engaging key stakeholders and primarily the employees is the preliminary necessary condition to the implementation of sustainable change.

The purpose of this white paper is to share a model enabling Human Resources Directors (HRDs) to deal with transformation and change. This means to overcome first the contradictions that the HRD function is currently facing in a context where transformational factors are expected to affect more and more companies and, deriving, the social body itself.

Based on this model, a qualitative research has been undertaken to determine the perception of the HRD function by its stakeholders, as well as their expectations.

The conclusion shows the path HRDs must take for transformation.

RESEARCH PROTOCOL

PRELIMINARY REMARKS

We shall here take Human Resources Director to mean the person leading the HR community of any given company – the topmost post of the HR Department. For the sake of simplicity, we will thereafter make use of the abbreviation HRD to stand for Human Resources Director (the function).

Considering the frequent use of the terms "change" and "transformation", we deem it wise to clarify our understanding of these words as they are used here.
> "Change" is the generic word applied to any kind of change: programmatic, adaptive, on a short time frame (going from one point A to another point B) or change understood as a permanent state;
> "Transformation" is used here to characterise a view of the process of change. This process is ongoing. In fact, Transformation is a never-ending process. It affects many facets of the company business model: culture, organisation, vision, capabilities... In line with its business vision (internal factors) and under the pressure of external factors, the company periodically reviews its organisational components.
We have taken for our organisational referential those companies operating in the private or semi-private sectors. This does not imply that the concept could not work in the public sector or in non-profit organisations. The fact is just that we did not research these two sectoral avenues.

Other terms we wish to define, as we take them here:
"Executive Committee (ExCo)" and "Board". We take ExCo to be the top management committee whereas "Board" refers to the supervisory instance composed of shareholders' representatives.

THE RESEARCH IN A NUTSHELL

The qualitative and cross-sectoral research and results are based on 20 in-depth interviews of Managing Directors, National Trade Unions leaders, HRD team members, Board members, external consultants who act as key HR function stakeholders and HRDs themselves.

The wide range of sectors represented include: transport, luxury, insurance, banks, FMCGs... and companies operating within French or international markets. Respective company size ranges from 3,000 to 200,000 employees.
Each interview was structured around an identical open-questions questionnaire. Feedbacks were recorded, then analysed and rigorously coded to allocate the content across the activities described within the HRD quadrants as coding appeared to be the most flexible and effective method to capture each item under review whenever it cropped up in the interview process. The research was part of an academic work developed under the joint aegis of Oxford University and HEC Executive Education.

Our findings are also based on a quantitative survey conducted by Opinion Way (research institute) in 2014 with 109 Managing Directors and Human Resources Directors. This survey aimed at qualifying the current perception of the HR function.

Companies and organisations involved in the research:

AIG / AIR FRANCE / BULL / CFDT / DIRIGEANTS & PARTENAIRES / DOCAPOST
ENJEUX & DIRIGEANTS ASSOCIÉS / FO / GUERLAIN / HEINEKEN / HSBC
INSTITUT SUPÉRIEUR DU TRAVAIL / KORDA & PARTNERS / LA POSTE
LOUIS VUITTON / NORBERT DENTRESSANGLE / PETIT BATEAU / STEF

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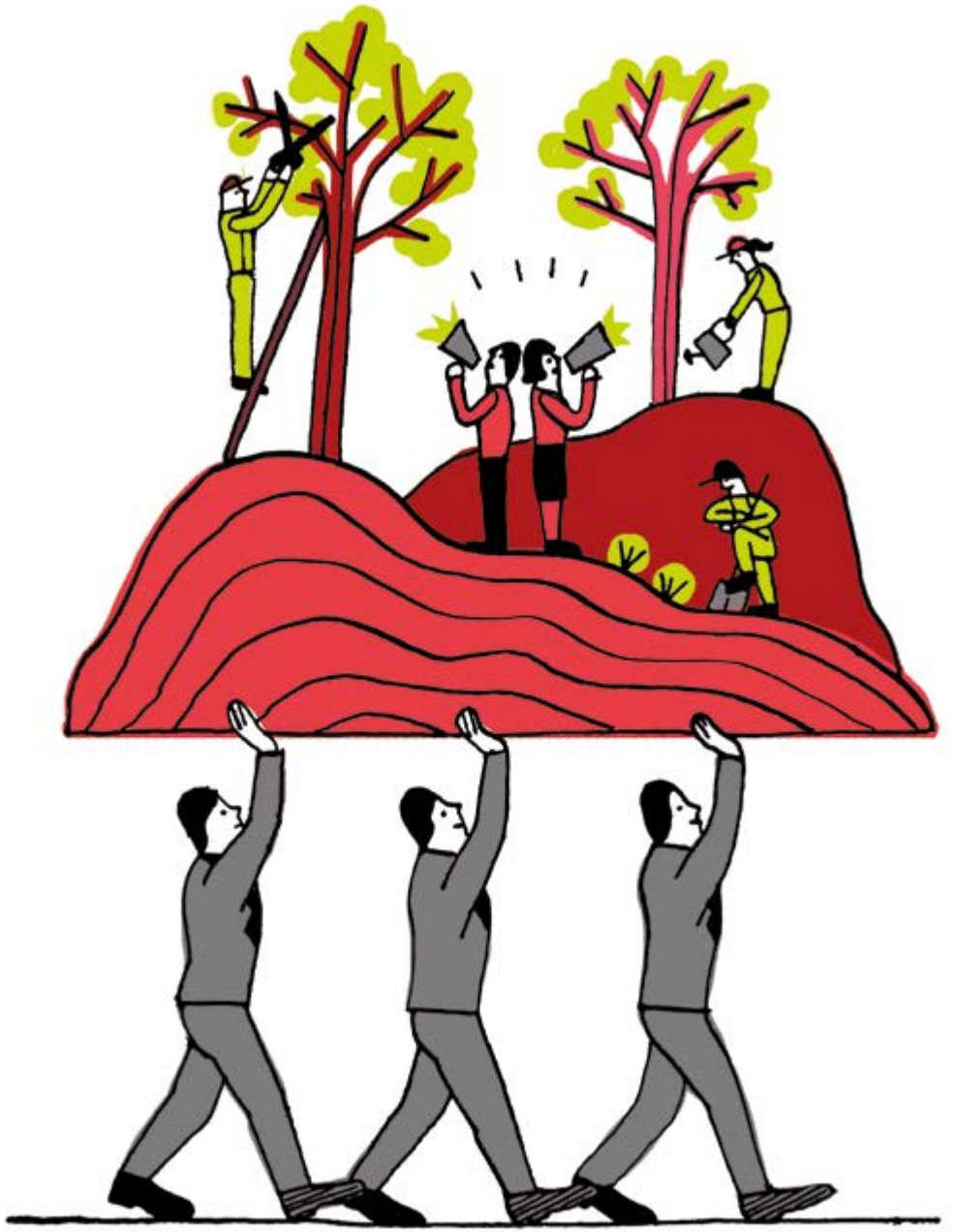


01

DEEP CHANGES IN PARADIGMS ARE CURRENTLY AT WORK... BUT WHERE ARE HRDs?

At Kea our core expertise is to help our clients deal with transformation and to find ways to make changes sustainable.
And this become more and more critical at a time when deep changes of paradigms are currently at work: disruptive business models, globalisation, new cultural trends, digitalisation, environmental and social responsibility…

They reshape the organisations by erasing boundaries between internal and external, by creating the need for new competences and new leadership modes, by bringing the necessity to deal with multiple stakeholders. Horizontality and transversal networks are balancing verticality and chain of command. New forms of contractual relations are emerging - for example:
Uber self-employed drivers…

It is becoming increasingly obvious[1] that change impact is so intense on companies that it is no longer possible to engage a transformation program which would address on the one hand strategy, (vision, business models, structure...) and, on the other hand would leave out the human and cultural dimension (behaviours, values, leadership, working systems, rituals,…). These two have to be treated as integral parts of a whole.

[1] A failure rate as high as 70% is recorded concerning the implementation of transformation programs that do not take into account the human and cultural factors (Mc Kinsey Quaterly Transformation Executive Survey – 2008)

They deeply impact the social body…
All these changes are deeply impacting the social body of the company, potentially creating fear and anxiety around issues such as employee status, employment security, sense of belonging, autonomy… so today one of the critical challenge is how to engage the entire community in the transformation to ensure it is sustainable in the long run.

…But where is the HRD?
Our big surprise since we help our clients around the world in their transformation programs is to find out that most of the HRDs are not involved as a primary contributor: what is left to them is to handle the social consequences of the change decided. It means usually to find the best way to manage the restructuring plan with the unions! And "please do it quick and without social unrest!" As we know that the lasting success of any transformation relies on the commitment of the social body… Who else could better make it happen than the HRD?

One of the reasons why the HR is not fully in the picture relies in its institutional role. He is locked up in inherent tensions between the core priorities of the institution (necessary alignments required towards the achievement of financial results) and the social body, which is far from being unified but rather split into multiple groups themselves fraught with specific and often conflicting interests and contradictory requirements: trade unions versus shareholders, employees versus managers, subsidiaries versus corporate, vertical chain of command versus transversal functions, Z generation versus senior employees…

The crucial issue now upstream of any transformative process is how to transform HR to enable this function to overcome these contradictory requirements and conflicting relationships so that the institution might, as a whole, succeed in its transformation. The critical challenge and the Gordian knot lie here, within HR.

02

RATHER THAN DENY THE PARADOXES THE HRD IS CONFRONTED TO, BUILD ON THEM!

As key interfaces and partners of the various groups composing the social fabric of the institution, HRDs are in the eye of the storm and confronted to two kinds of paradoxes.

ORGANISATIONAL PARADOXES:

> How to ensure transversal organisational consistency, whilst preserving the agility of the business units, to enable them to meet local markets requirements?

> How to build a strong identity around common values, whilst ensuring sufficient flexibility within the framework, to incorporate different or local cultures resulting from new company acquisitions?

> How to accommodate the frame for the necessary enhancement of people's competences and capabilities, required to sustain the long-term success of the change process, whilst reacting positively to the inescapable short-term pressure, required to deliver expected financial results?

> How to deal with the sometimes paradoxical injunctions of the various company stakeholders: employees, board, team members, directors - for example the request of the Board to downsize, with a quick return on spending, whereas employees are expecting job stability or at least a generous redundancy payment?

BEHAVIOURAL PARADOXES:

> How to be the positive culture bearer and, in different audiences, to stand up to point out the contradictions between the displayed values and the real way the organisation is functioning?

> How to be a trustworthy adviser to managers while also acting as the top dog with regards to career development, salary increases and, even sometimes, necessary dismissals?

> How to *"get to the balcony"* to build a common and integrated vision of all organisational components and, at the same time, *"go to the dancefloor"* - to ensure the highly critical proximity with individuals within the closed circle of the top managers of the company as well as at shop-floor level?

The model of the HRD as a transformation agent

Based on the above paradoxes, the purpose is to shape the HRD's role in a systemic approach such that the HR function is not restrictively aligned with one single stakeholder, the institution or the shareholders. To follow Gareth Morgan's statement[2]: *"The first step of managing paradoxes rests in recognising that both dimensions of the contradictions that accompany change usually have a merit."* The question is therefore: How to overcome the paradoxes of the HR function, horizontally and vertically, to create something new from these contradictions?

In our approach, the two types of paradoxes identified become the two axes of the HRD model.

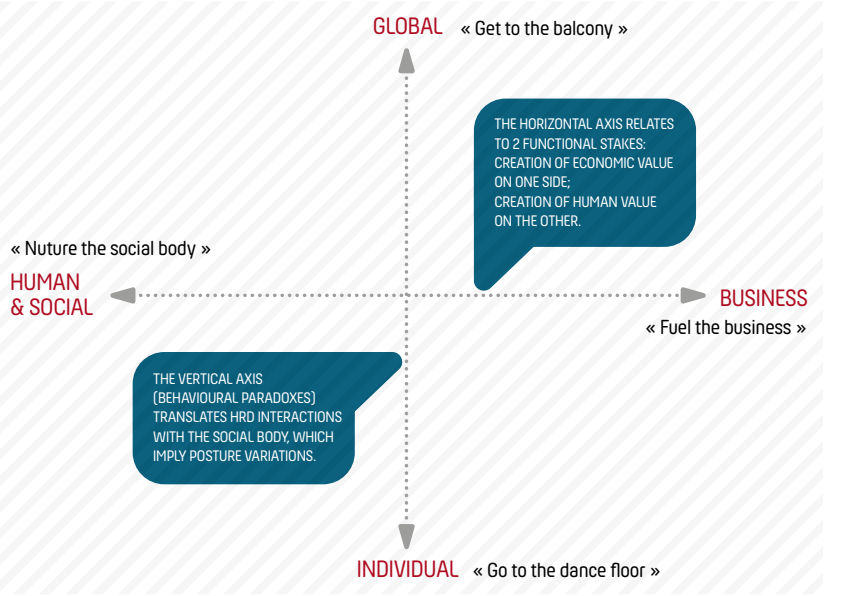
THE HORIZONTAL AXIS: ORGANISATIONAL PARADOXES

This axis is that of the functional stakes with, on one side, the creation of economic value and, on the other side, the creation of human capital value.

THE VERTICAL AXIS: BEHAVIOURAL PARADOXES

This axis refers to the interaction of the HRD with the social body, which requires different postures, ranging from proximity to individuals to influencing the overall organisation going through interactions with teams, on sites, across business units and divisions…

[2] Images of Organization - Gareth Morgan - Updated edition Sage / 2006.



The part above the horizontal axis areas defines the strategic field (interface between Human/Business and Global). Below the horizontal axis lie operations and tactics (interface between Human/Business and Teams/Individuals).
To the left of the vertical axis lies the field of the HRD as an expert. To the right lies the field of the HRD as a generalist.

Four roles or quadrants come out clearly at the intersections of the axes

The HRD as capabilities and change strategist

Creating the conditions for the required transformation by:
> measuring where the company stands as regards the 3 organisational "capital" domains: culture, organisation, people;
> analysing the gap with the capabilities required by vision and business strategy;
> profiling how to make a competitive advantage out of the 3 Capital domains;
> architecting the transformation path.

The HRD as strategic HR expert

Focusing on the development of competences and the control of behaviours. Our view is that behaviour and competences should be approached through a much more systemic way by:
> leveraging various HR levers and ensuring full consistency between them;
> reshaping the culture and features of the organisation to develop its capacity to be a "learning organisation";
> taking into account a broader scope of stakeholders' expectations as opposed to the business needs only.

The HRD as HR operations pilot

Focusing on execution, tactics and transactional activities.
This refers to the field of:
> labour relations;
> HR processes and administration;
> managing day to day positive relations dynamics between employees, managers, and the HR function through exemplarity and organisational justice.

The HRD as governance advisor

Acting in the closed circles of top executives and governance by:
> going out the HR expert comfort zone;
> taking when necessary the posture of employees' champion within the managing team;
> advising the team, the peers and the CEO on their managerial issues.

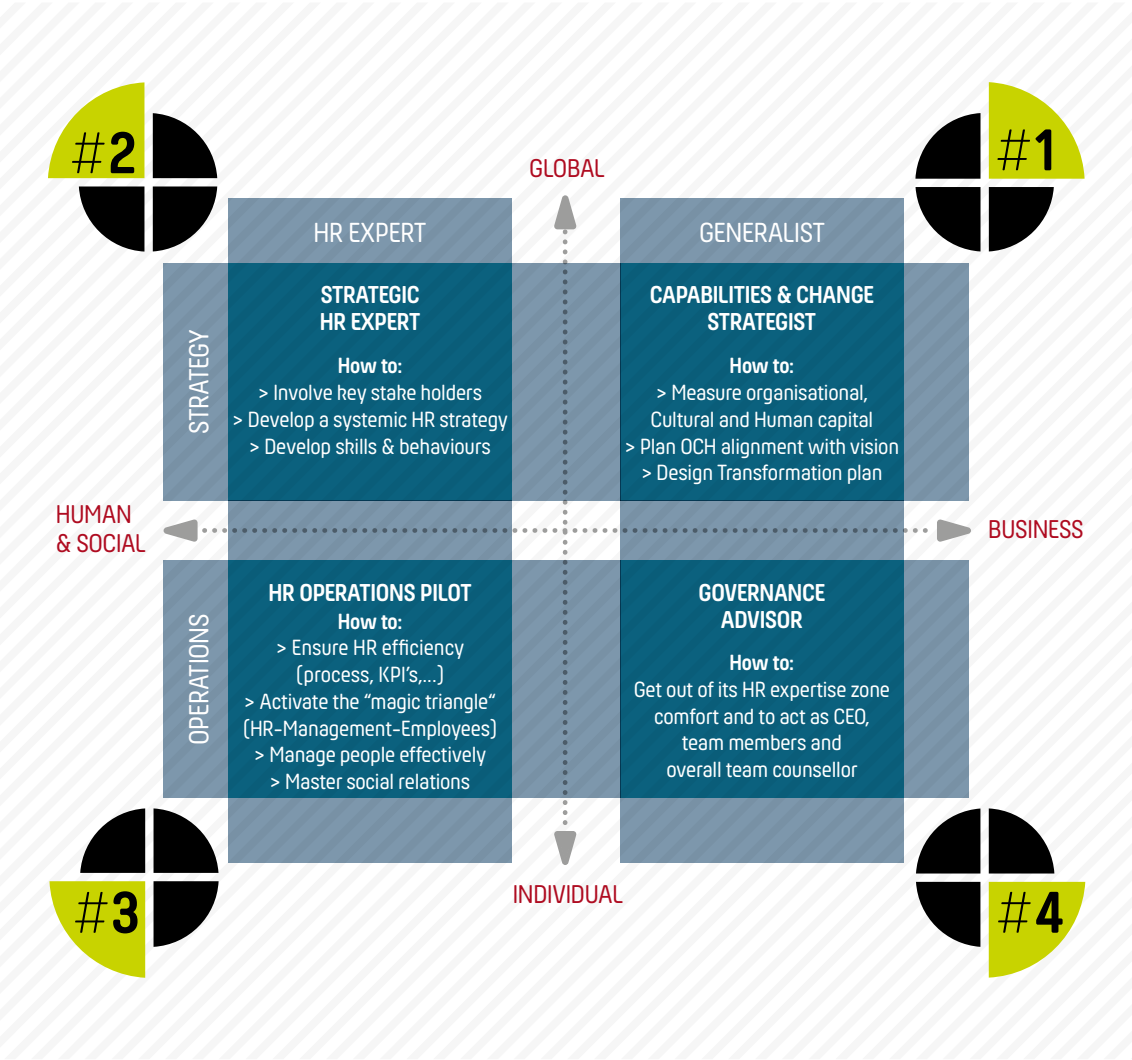
THE OUTLINES OF THE FOUR QUADRANTS

#1 CAPABILITIES & CHANGE STRATEGIST

#2 STRATEGIC HR EXPERT

#3 HR OPERATIONS PILOT

#4 GOVERNANCE ADVISOR

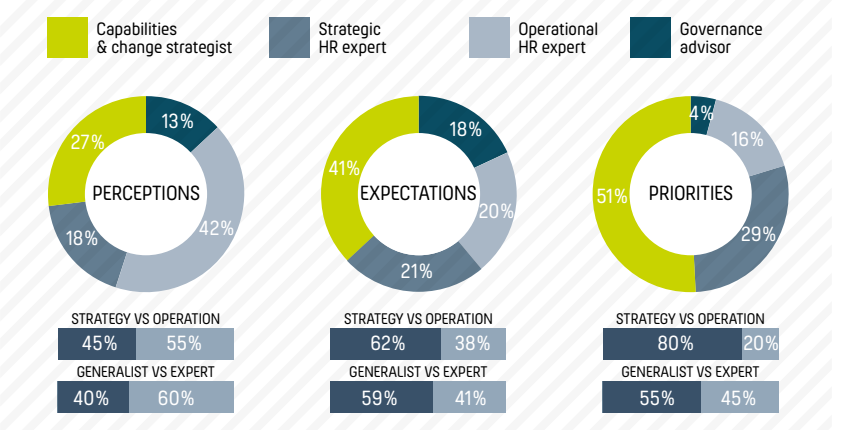


What research told us

What do we learn from the research on the four quadrants?

Each quadrant is the sum of more detailed HR activities. For example, the HRD as capabilities and change strategist quadrant is composed of activities such as organisation, culture, employee engagement, transformation management. The number of times an activity has been quoted by the stakeholders interviewed sets the weight of each activity and, consequently, the weight of the quadrant to which HR activities have been allocated.

In the following table, we compare stakeholders' current perceptions with their expectations and with the key priorities they express regarding the HRD's roles.



The shift between perceptions of the HRD's role and expectations is really significant!

Strategy vs operation: the 2 quadrants related to the HRD's strategic roles (capabilities and change strategist & strategic HR expert) move up from 45% to respectively 62% and 80%, at the expense of the 2 quadrants related to operations (HR operations pilot & governance advisor).

Generalist vs expert: same trend but to a lesser extent. The "generalists" quadrants (capabilities and change strategist & governance advisor) move up from 40% to respectively 59% and 55%, the "experts" quadrants down from 60% to 41% and 45%.

It means that the HRD is, clearly, not yet perceived as a business partner. However, the stakeholders' expectations to see the HRD move in the generalist and strategic areas are very high.

Inside this shift, if we consider the detailed HR activities, we can identify:

> a permanent feature: talent and social relations ranked always at level 1 or 2 for role perceptions, expectations and priorities;

> some significant changes: transformation management rank moves up from the 6th scale (perceptions) to the 2nd (priorities) and comes at par with social relations, employee engagement - from the 4th to the 2nd rank.

Results on transformation management and employee engagement strongly correlate with the fact that transformation is seen by the stakeholders surveyed as the biggest business challenge they have to face. It means also that they are expecting HRDs to play a key role in this area, especially through their capacity to engage the social body.

03

FOCUS ON THE FOUR HRD ROLES

> THE HRD AS CAPABILITIES AND CHANGE STRATEGIST
> THE HRD AS STRATEGIC HR EXPERT
> THE HRD AS HR OPERATIONS PILOT
> THE HRD AS GOVERNANCE ADVISOR

CAPABILITIES AND CHANGE STRATEGIST

What is this role about?

In this capability strategist role the HRD should be able to translate the vision into required and distinctive capabilities, measure the gap with the existing situation and design the change strategy to implement new requirements.

Acting as a capability strategist

> The organisational capital advantage

This covers the "hard" dimension of the organisation: structure, key business and support processes, allocation of roles and responsibilities, governance principles, division of work, collaborative systems, functional communities, the optimal use of digital technologies… The competitive advantage results from having better ways of organising the work and of functioning than competitors. This field is therefore close to what Peter Boxall and John Purcell[3] defined as organisational advantage "a function of hard to imitate, highly evolved processes within the firm".

> The cultural capital advantage

This covers the soft dimension of the organisation (the culture and its components and artefacts: values, leadership style, social relations, rituals, level of engagement…). This concept of cultural advantage is behind Richard Barett's approach[4] when he correlates culture entropy level and engagement level showing clear link between low cultural entropy level, high engagement rate and shareholders' returns.

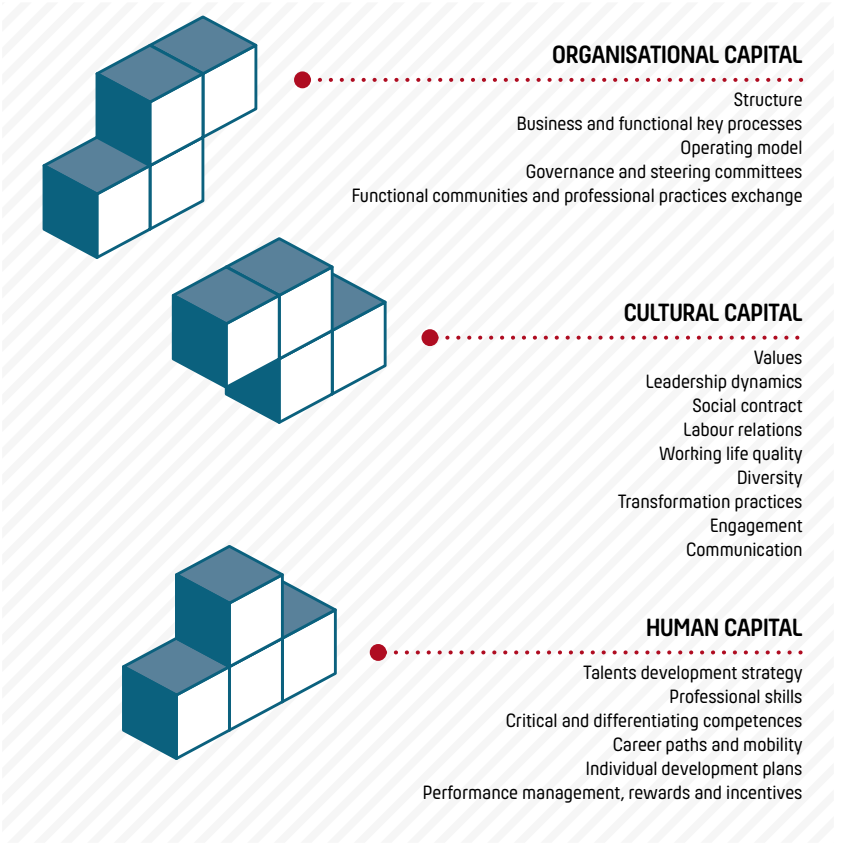
A cultural capital that makes it possible to "unleash the valuable leadership talents and time that would otherwise be expended in coordinating work and controlling employee efforts to achieve organisational outcomes" provides a competitive edge.

> The human capital advantage

This is understood as the set of differentiated expertise and talents, having better people than competitors - with knowledge, experience, education, personality and behaviour as a third source of competitive advantage.

[3] Strategy and human resources management - Peter Boxall and John Purcell - Palgrave Macmillan - 2011
[4] Cf. https://www.valuescentre.com/about/richard-barrett - The values driven organization – Routledge - 2013

3 KINDS OF COMPETITIVE ADVANTAGES



Acting as a change/transformation agent

Once the desired Organisational, Cultural and Human Capital are defined, the HRD is going to advise on the way to go there, and on the required change/transformation strategy, positioning the cursor between adaptive approach and a more top-down approach, all this depending on the number and the magnitude of the changes necessary.

› Incremental change

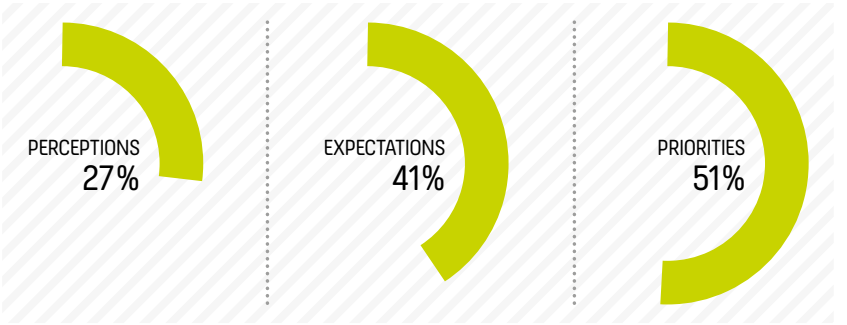
An incremental change is limited to a specific area. For example: a multinational opening business in a new country but in the frame of already existing product lines and company expertise might call for the usual use of the chain of command and of company experts.

› Global change

A more global change might request a much deeper level of change as it is not only about alignment between a strategic intent and capabilities but it is also about defining the vision and the business model at the same time. Global change is where collaborative processes and ability to engage people are key levers. For example: a multinational pharmaceutical company forced by new social regulations to move into the production of generic medicines and therefore bound to reinvent its business model.

One of the HRD's critical inputs will be to create the appropriate conditions conducive to effective and sustainable transformation by acting not only directly on the objects of the transformation: new structure, new business model, new systems… but also on the soft levers which will allow transformation to happen: culture, managerial style, symbolic acts.

QUADRANT RESULTS "THE HRD AS CAPABILITIES AND CHANGE STRATEGIST"



KEA CONCLUDES

The weight related to the role of the HRD as capability and change strategist makes a significant shift from perceptions to expectations and priorities, showing great expectations from the stakeholders' sample:

• engagement, culture and organisational transformation appear to be the activities with the highest expectations, which confirms the relevance of our model.

• for interviewees who consider transformation as the number one business issue (75%), their expectations regarding the capability and change strategist role of the HRD move up to 55%, and transformation becomes the first priority among the 17 HRD activities across the quadrants.

Those results confirm our conviction: disruptive transformations are currently at work and HRDs are expected to help executives to cope with.

BUSINESS CASE

Key player of the French retail sector, this company faced a continuous drop in store traffic, average basket weight and, consequently in margin, while operating costs were on the rise.

How did the HRD engage a collaborative approach to a customer satisfaction program?

The HRD, jointly with the Director of Operations, set out to identify, assess and implement new ways of enhancing customer satisfaction, productivity and employee development. Kea came in to identify common principles to be applied to this end... A thorough methodology termed "laboratory" was applied, as a first experimental step. The objective was to engage local management of 10 stores to act as facilitators of staff brainstorming sessions to generate ideas and apply these on the floor, all in a spirit of consensus. 50 stores thereafter applied "laboratory" method. The target is to extend the application of the program to 100 stores annually. This program is still in its early stages. However it is to be noted that the response is promising and already showing positive results with regards to:

> managerial style conducive to initiatives;
> working flexibility;
> increased employees engagement;
> traffic growth in stores.

A win-win game for all stakeholders: customers, employees and shareholders!

STRATEGIC HR EXPERT

What is this role about?

We have seen that, as capabilities and change strategist, the HRD is invited to permanently make the link between all organisational, cultural and human capital requirements and the business strategy. This quadrant is about deepening the approach related to human capital matters (competences and behaviours).

Usual HR strategies:

Usual HR strategies intend to leverage competences and to guide towards appropriate behaviours by playing within a closed HR system linking skills, behaviours and people management practices.

> Controlling behaviour: identifying the behaviours requested by the business strategy and then guiding people towards those expected behaviours through various HR levers, which could be financial or non-financial incentives, behavioural-based assessment, developmental training...

> Developing competences and talents: defining what are the requested transversal and professional competences and developing competences and talents through recruitment, retention tools, training, job or project exposure, career moves, assessment process…

Those HR strategies are built on one single input, which is the business and financial requirements set by one kind of stakeholder: the shareholders – as translated by the Board to the company's ExCo.

Our proposed approach is twofold

1/ Extending HR strategic levers beyond HR domains

The intent is to approach the human capital development in a systemic way - looking also at how organisation and culture could leverage or slow down people development and contribution.

> Behaviours: is the organisational capital (structure, systems, roles and responsibility allocation between corporate and subsidiaries, processes...) allowing cooperation across functional borders to speed up innovation? Is it favouring or limiting the level of autonomy required to be able to respond rapidly to local market requirements?

> Competences: does the culture and its components and artefacts (values, leadership style, ways of functioning, rituals...) allow for double learning loops? What about defensive routines? How are mistakes and failures treated - are they taken as opportunities for learning and growth or do they lead to punishment, even dismissal?

2 / Broadening the strategic inputs of the HRD by including key stakeholders

The second idea is to rely not only on the business requirements to define the required HR behaviours and competences but to take also into account people expectations both as individuals and as members of various communities inside the company.

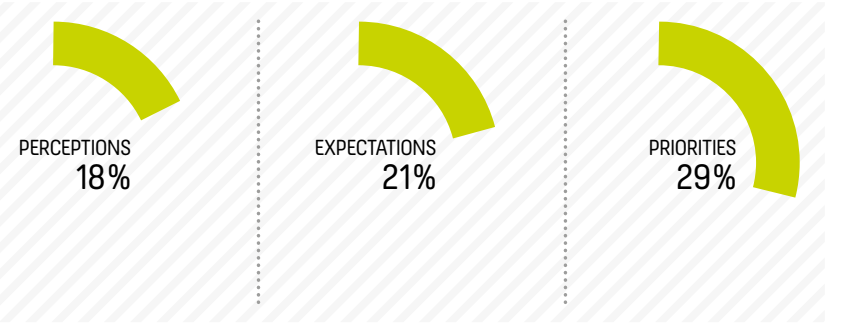
Employees are not a single body with common features and aligned expectations. They are a compound composed of various groups with sometimes conflicting expectations and interests: team members, top management, intermediate managers, younger staff – the famous Y generation! – and senior people, employee representatives, transversal professional communities; vertical business units, external communities such as students who are, potentially, future employees…

Of course, the HR strategy cannot possibly satisfy all stakeholders' potentially conflicting requirements and requests. But at least, this strategy can give due consideration to respective interests and expectations (all the more if there is potential for conflict). Arbitration amongst conflicting stakeholders' expectations could be facilitated by the use of R.K. Mitchell, B.R. Eagle, D.J. Wood criteria : power, legitimacy, urgency.

Therefore, the HR policy can be adjusted, as the management can appreciate to what extent building on some of these expectations could leverage the overall company strategic objectives and increase people contribution.

[5] Towards a theory of stakeholder identification and salience - R.K. Mitchell, B.R. Eagle, D.J. Wood
The academy of management review 1997

QUADRANT RESULTS "THE HRD AS STRATEGIC HR EXPERT"



KEA CONCLUDES

Obviously, it is not in this quadrant that the upward move is the strongest: HRDs are recognized as being already quite busy with matters related to talents – which is indeed clearly the most significant proportion of this quadrant. In the HR agenda, talents are ranked as a top priority for the years to come, especially for international companies which expand in territories where the big issue is to find, train and retain skilled work force.

In those times of disruptive transformations and business models reshaping, talents and capabilities are naturally a crucial matter. New skills are required, such as reverse logistics, UX designer, community manager, open innovation specialist... How to develop those new skills? What is the training process? What is the best recruitment strategy?

Meanwhile, to be focused on new skills does not mean that core competencies are less important. On the contrary! In the large companies, it is true that «high pots» and their career path development have been the main subject of concern for many years. But today, "craft pots" – in other words, people holding key professional know-how – are more and more seen as "backbones" to be preserved and developed.

All those reasons explain why talents remain the number 2 identified concern and the 1st priority of most interviewees.

BUSINESS CASE

A worldwide company of the fast moving consumer goods (FMCGs).

How to take into account employees expectations on top of business requirements in the HR strategic plan?

This worldwide company, one of the leaders in its category, decided to launch a project aiming at defining the mutual commitment between the HR function, management and employees regarding to four key domains. Of these four, one named “Grow further” was about People Development.

They shaped and carried out an employee survey to figure out where they stood vis a vis these commitments. Based on the results they launched 200 local and global initiatives.
The diagram here shows how the results were translated into an initiative “Develop career together”, complementary to the one answering the business needs, “Capabilities for acceleration”. Both became part of the HR strategic plan.

GROW FURTHER

“My future career opportunities are promising.“
only a 30% positive response is recorded.

Employee aspirations thereafter defined come out under 2 axes.

WE WOULD LIKE MORE CLARITY ON CAREERS AND MOBILITY.

DEVELOP CAREER TOGETHER

Install a transparent career management & professional development dynamics

> Communicate mobility rules to all employees

> Provide career counseling at all levels

> Empower employees to be proactive in their career

> Define career development options based on Group and local realities

WE WOULD LIKE TO BE SURE THAT WE ARE DEVELOPING THE RIGHT CAPABILITIES FOR THE FUTURE.

CAPABILITIES FOR ACCELERATION

Top-down : secure business strategic plan (capabilities planning)

Bottom-up : increase local subsidiaries capabilities to attract and develop talent

> Deploy further Talent Factory approach for local subs

> Identifiy & reinforce functions and expertise critical for Strategic Plan

> Set up Métier committee for Industrial & R&D

> Strengthen our capacity to teach the way to operate HR, Finance, Marketing... through blended learning, in emerging markets

HR OPERATIONS PILOT

What is this role about?

Here, we are in the area of transactional and operational tasks, i.e. those usually accomplished within a less than one-year time horizon.

The HRD's operational expertise covers three main activities:

1/ Operational efficiency

> all activities related to key HR processes and systems in all facets of the supply chain of talents: employer branding, sourcing, selection, recruitment, integration, development, performance management (target setting, evaluation, reward…), mobility, managing out, etc.
> the management and the facilitation of the HR community (governance, meetings, KPI's, reporting, HR people development…)
> the follow up and the management of all KPI's related to the HR field across the business (labour cost, staff number, training days, accident rate, absenteeism)
> HRIS and digital tools enabling information sharing, decision making processes and transactional processes.

2/ Social relations

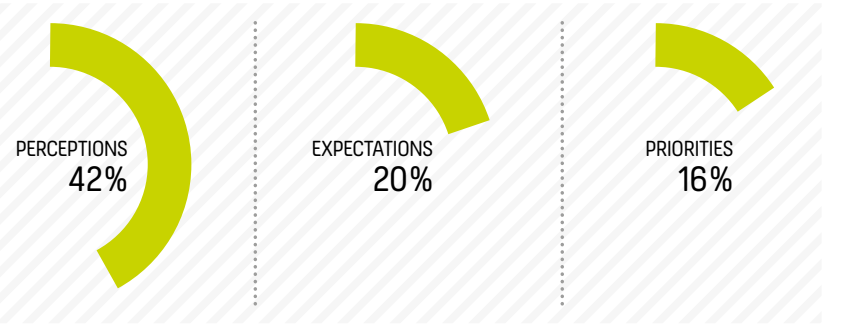
It encompasses the way the social body is collectively engaged and the way the connection between and within the various categories of employees is organised:
> social climate, working and safety conditions, physical layout of offices and factories;
> the way communication flows all around the place (bottom up, top down, meetings, digital support...);
> collective events such as rituals and celebrations;
> induction process;
> employee involvement in the decision making process: do people have, or not, their say on what is going on at the shop floor…?
> the management of the relationships with employee representative bodies (local work council, Worldwide or European work councils, trade unions inside and outside the company…). It could be about "routine meetings" (annual negotiation round, yearly work council meeting...). It also includes management of social conflicts and crisis management such as can be expected in the case of the announcement and the implementation of a restructuring plan through a legal procedure…

3/ Managing the tricky triangular relationship between the HRD, managers and employees

This is usually not explicitly covered but it is key. It is how the HR function manages to play its role towards employees with the proper alignment and alliance with management. This crucial role addresses the following areas:
> efficiently playing a role of HR support for people management; acting as a co-pilot - and NOT as a substitution pilot for managers' roles;
> leader's ownership of the team members' management, their commitment and development;
> embodiment of company values and exemplarity;
> organisational justice (as perceived by employees);
> employee development process and employees own attitude regarding their own role: consumers or actors?

It has also to be addressed by creating a rewarding employee's experience through:
> digital tools (HRIS, intranet website, dedicated applications for employees, provision of efficient and user friendly digital tools to manage customer relationship;
> working organisation (empowerment, professional exposure and on the job learning opportunities…);
> career perspective through appealing career paths;
> works station ergonomics, physical premises design, working conditions.

QUADRANT RESULT "THE HRD AS HR OPERATIONS PILOT"



KEA CONCLUDES

This quadrant points to the dramatic shift expected by HRDs' stakeholders. The HRDs are definitely expected to move from a focus on operational issues to a much broader and strategic role. However, looking into detailed figures, it appears that "social relations" remains the 1st (expectations) and the 2nd activity (priorities) amongst all activities across the quadrants. Managing Directors seek HRDs with an expertise in the social field, especially when reorganisation, transformation, restructuring are at the top of the agenda.

To be noted: if the HR function is not delivering the right, expected level of quality in the operational areas, it will never receive the necessary attention when intending to move on to more strategic quadrants. In that respect, Managing Directors are currently rather critical regarding the perceived quality and efficiency of HR operational delivery: to the question "Do HR processes deliver the expected performance?", only 10% state a clear "Yes" – which is the lowest satisfaction rate registered amongst 24 other questions determining their perception of HRDs.

BUSINESS CASE

A highly capital-intensive international corporation in the transport sector has to drastically decrease its structural costs by 20%. This was required to better compete with new entrants in this market which were inventing a new low cost business model.

Labour unions had always been strong stakeholders of the company's strategic choices. But the arrival of a new management team and the stiffening of the majority union's position on the economic challenges to face, was at risk of compromising the ability to implement the required savings. It could have led to an endless social conflict and severe company losses.
Convinced that only a totally new approach could lead to an agreement, the HRD negotiated with the majority to agree on a method where they could really become partners in the transformation to come.
The ambition was to get, at the end of the negotiation process, an agreement on 200 Mions € savings, most of it coming from payroll reduction. The proposed method has allowed to identify 400 Mions € potential savings amongst which the stakeholders in the negotiation process have chosen 200 Mions €.

3 key success factors could be underlined:

Same game, same rules

> working together (Management/Union) to identify technically robust and plausible solutions;
> full transparency and access to all required information to create the trust required for an agreement;
> no taboo: all ideas, even breaking with past trends and habits have been explored to rethink deeply the working patterns within the company;
> rigorous split between the investigation of solutions and the negotiation process in order to analyse calmly various options without being disrupted by the unavoidable negotiation postures.

A « taskforce » organisation

> a team composed at parity with fully dedicated managers chosen by the company and with trade union members;
> all required means (HR, finance…) were available to instruct the various explored options and to help all stakeholders in this process;
> a unique and specific area for the team in order to create team rituals;
> a fast working pace to create a sense of urgency (8 weeks).

A weekly steering process based on

> one steering committee focusing on the working efforts: follow up of the work progress, sharing tasks amongst the various contributors;
> another steering committee focusing on the results: progress made on the business case, planning gains in time, management of the impacts on employment.

At the end of the 8 working weeks, management and unions started the negotiation on the basis of the co-constructed options. The discussion was about what saving levers to select and not how to value them. A final agreement has been reached and validated by a referendum across the company.

GOVERNANCE ADVISOR

What is this role about?

At the intersection of the "dancefloor" and the business, we find, for HRDs, the closest "ecosystem" within which they interact: the ExCo team they belong to; the above level (Board) and the level below (ExCo's directors' reports). This is where HRDs are gaining or losing their credibility and this is also where they could have the most impactful role.

The HRD Governance advisory function covers 4 roles:

1. Being the employees' voice

No one hesitates to say that one of the roles of customer relations directors is to be the voice of the customer within the team. But who says about HRDs that they are the voice of the people? And if HRDs are not taking this role who is going to replace them? Financial Directors? Of course not!

So this is all about ensuring that people-related matters are properly taken into account at the big table.

2. Acting as CEO's advisor

The alliance of the CEO and the HRD is of primary importance. The HRD's position is not hierarchical; nothing significant can be achieved if the HRD doesn't get the appropriate support from the managing director who has the hierarchical authority on the top managers. The CEO's position is hard to bear. At the crossroads of stakeholders' and employees' expectations, he is ultimately responsible for making the vital decisions. Therefore, the HRD's ability to listen and understand, to mirror the CEO's concerns and to advise him on potential options is key – even more so when the HRD is involved in governance committees, such as nominations and remuneration committee or ethic committee.

3. Acting as advisor to ExCo members

The alliance with the CEO should not be exclusive. Regarding ExCo members, it is not enough to ask them to implement what the HR function is developing in terms of new initiatives, or to make them aware of the multiple constraints of the labour code: it is all about figuring out how to help them in their specific issues and reflecting on what managerial issues they are facing and on how to cope with it.

4. Acting as team advisor

The HRD should help the ExCo answer the following questions:

Is the ExCo team functioning in an efficient way? Is the share of voice between support and line functions properly balanced? What is the decision process, how is the agenda set, on what key processes is the ExCo involved and what is the added value? Once the meeting is closed, how does each ExCo member reflect on what has been discussed and decided - does each pass on the message in a consistent manner to the managerial community…? Do ExCo members themselves exemplify and act upon the values that are published on every office notice board as being those of the company? Are they perceived as a single coherent team working towards a unified goal or common objectives or are they seen as a collection of individuals playing their own personal games?

Why is it important?
Because top management appears to be a key lever of employee engagement as shown by numerous engagement surveys, exemplarity is indeed of critical importance: top management style deeply shapes the way the overall organisation functions.

Why is it legitimate?
The HRD has a transversal position, which allows a "more" neutral role vis-à-vis ExCo members, which means that HRD can avoid being directly involved in "territorial power struggles".
The HRD is supposed and expected to be, inter alia, an expert in team dynamics and managerial issues.

QUADRANT RESULT "THE HRD AS GOVERNANCE ADVISOR"

KEA CONCLUDES

The low rate "4%" allocated to the quadrant regarding HRD's priorities came as a surprise, it is not consistent with the increase in terms of expectations versus perceptions (from 13% to 18%).

"*If you had 3 key priorities to set for your HRD what would they be?*" This was the question asked at the end of the interview.

This probably led participants to prioritize fields with a more visible impact rather than this one which is solely about the behaviour and interactions of the HRD in the narrow field of governance. Both in current perception and expectations we see an equal distribution between counselling the CEO and the others governance stakeholders especially the ExCo members.
According to the CEOs we have interviewed, counselling appears to mean two different things:

> *"I require your advice face to face, in the secret of my cabinet, and then I lead the show with my ExCo team",*
> *"I expect you to play "the tail that waggles the dog" regardins ExCo members and to lead the conversation around our team dynamics".*

This last point shows the positive aspects as follows:

From time to time, the CEO can take on the role of an observer which allows him to get a better understanding of the group dynamics. This is only possible when there exists a close cooperation and confidence between the HRD and the CEO.

However, there is also a major disadvantage: being themselves members of ExCo, HRDs are in the role of judging and taking a side. An alternative for the HRD is to initiate the working process but to let an external help to facilitate the Exco dynamics. In this configuration he will contribute to the discussion as a peer among the others.

BUSINESS CASE

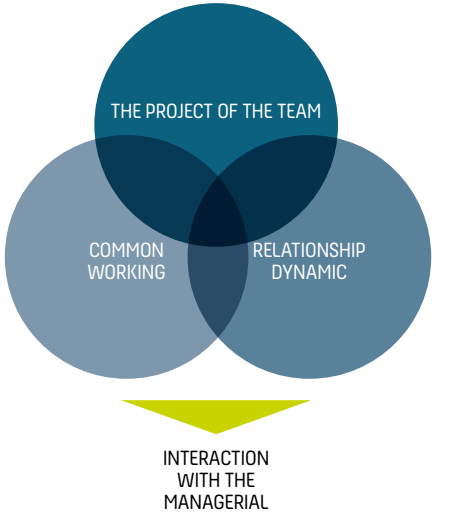
This is a family-owned consumer goods company, with international operations in 36 different countries, employing 12,000 staff and generating at this time a 2.5 billions € turnover.

The company's governance was about to change as the former CEO was bound for retirement, to be replaced by a family shareholder. This happened at a time when cash flow was going down and the debt was going up, this mainly as a result of a big investment in IT and of a big acquisition of a well-known consumer goods brand. Operating profit was also squeezed by a dramatic increase in raw material costs and indirect costs.

One of the options was to reshape the top structure to bring in higher responsibility on cash flow management between commercial units and factories at a country level. That required reviewing regional organisation to allow a better overlap between sourcing and commercial units. A small group of ExCo members, among which the HRD, redesigned the overall organisation, defined the key organisational principles and the macro structure layout. This was articulated by the HRD and presented by him to the Nominations and Remuneration Committee and then to the Strategic Committee, composed of both family shareholders and independent board members. The organisation was approved and announced by the new chairman.

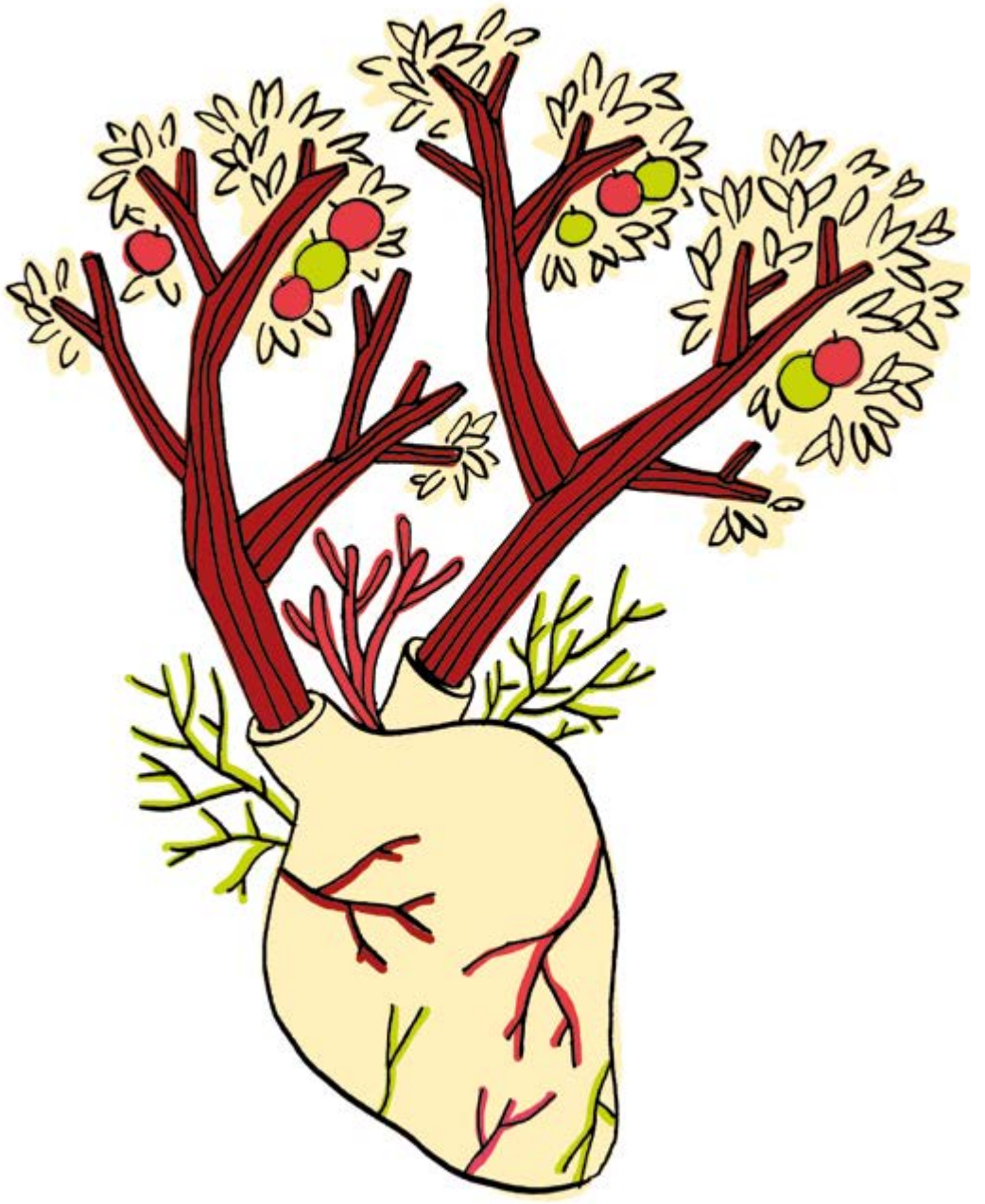
The HRD organised external input to work on the working processes, the detailed structure and the indirect-costs reduction within the frame of the new organisational set up. In this program, 60 direct reports to the ExCo were involved, with the purpose to build commitment for the implementation phase. A 30 million Euros saving was identified.

One year later, following HRD's advice, the chairman decided initiate a program to work on the functioning of the Executive Committee to increase cooperation and working efficiency across the team members. Four areas were addressed.



Amongst other benefits, this enabled:

> clarification of the topics and the key people and business processes on which the ExCo should debate and decide;
> clarification of the interaction of supporting and operational functions within the team;
> team members understanding the reasons why their counterparts were behaving in a certain manner (behavioural preferences approach), and thereby improved the trust level amongst the team;
> improvement in timeliness and consistency, concerning the way ExCo communicated, via direct reports, the key decisions right after the ExCo meeting.



04

$H^2 + V^2 =$
THE HRD'S
TARGET BEHAVIOURS!

Handling the described roles requires acting according to adequate posture and behaviours

To mirror the two poles of each axis: “Get to the balcony”/“Go to the dancefloor”; “Human & Social/ Business” we have designed the behaviours to be associated with 2 sets of personal attributes: “H2+V2”.

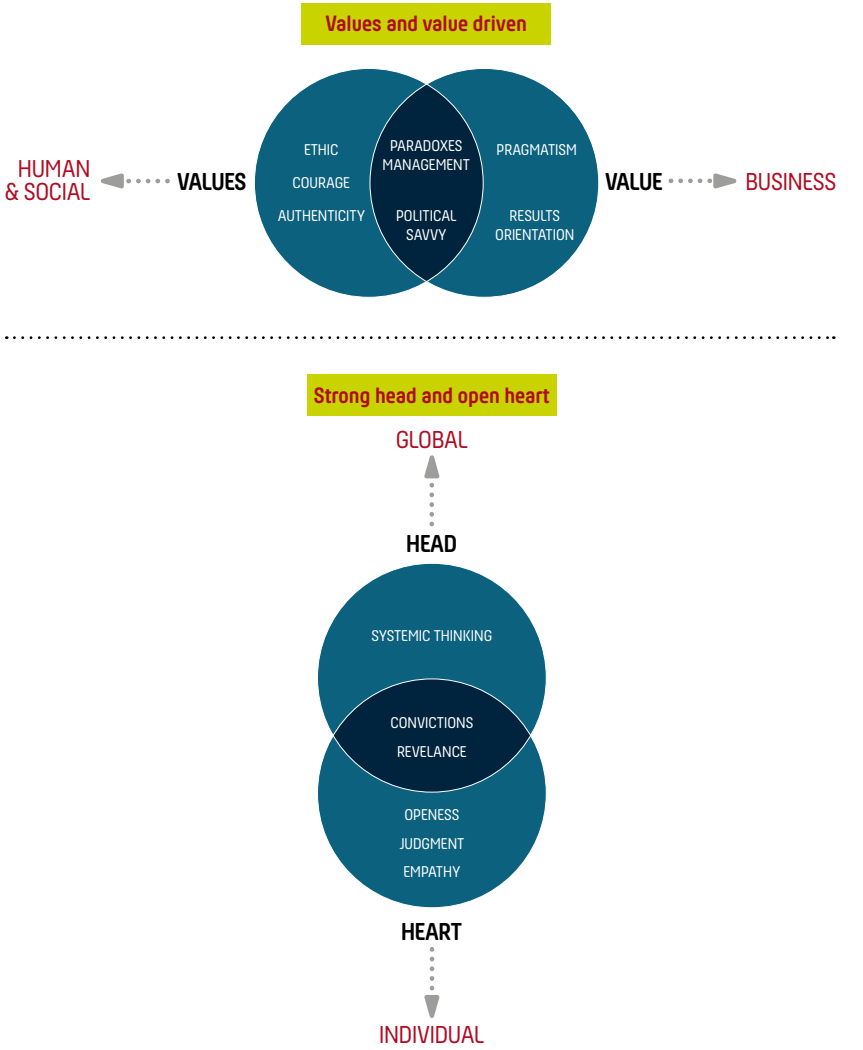
H² is about social posture, questioning the ability to be in the link (*Heart*) while visualising and understanding the entire organisation, its components and their connections (*Head*). This refers to the vertical axis.

V² describes the HRD’s energy to create economic value (*Value*) and to behave according to human values (*Values*). This refers to the horizontal axis.
Inside each circle we draw personal qualities and aptitudes and, at the intersection of each circle, those qualities which are common to both.

The wording *“Open Heart”* is directly inspired by an article from R.A. Heifetz and M. Linsky[6] where they associate to the description of five challenges in leading adaptive change three qualities under the Open Heart umbrella concept: innocence, curiosity, compassion.

The terms *“Value”* and *“Values”* has been inspired by an article from Patrick M. Wright and Scott A. Snell[7] where they point out that HRDs should have a deep knowledge of the business in order to be able to stand up for values and convictions in the board room.

[6] “Leading with an Open Heart” - Ronald A. Heifetz et Mark Linsky - Leader to leader #26 - Fall 2002
[7] “Partner or Guardian - HR’s challenge in balancing value and values...” - Patrick M. Wright and Scott A. Snell, Cornell University – working paper - 2004



What does research reveal regarding the HRD's perceived attributes?

To the open question: *"What overall image do you of have about the HRD?"*, we have broken down results in 3 categories:

> POSITIVE: when it was a positive appreciation. For example: "Good level", "They (HRDs) asked good questions", "Hats off to the artist!", "Able to speak well about the business";

> NEGATIVE: in cases of negative appreciation: "Disastrous", "Heavy", "Complicated", "A nightmare!", "HRDs don't pilot employee engagement", "If you don't need anything, ask the HRD";

> NEUTRAL: when it more of a factual or non-commital appreciation neither positive nor negative: "They have a complicated job", "I have a balanced view", "They are asked to do difficult things";

Through to this first step we identified 101 positive answers (22%), 316 negative answers (69%) and 41 (9%) neutral.

A deeper analysis of these shows that the HRD in the organisation is perceived to be:

The normative spoilsport
Peer: "Each time you propose something new - the answer is no!… Don't even think about it!"
MD: "HR are highly dominated by the social regulations …They complain about it but at the same time they like it!"

Inefficient and powerless
Consultant: "It is not efficient, it is heavy, it takes them a hell of a lot of time to answer to our questions…"
MD: "You know what was said about the HRD in my previous company: If you don't need anything ask the HRD!"

More technician than strategist
Peer: "A lot of managers see HR as a function which should execute without being allowed any influential and challenging role."
Consultant: "It is a function which is not inhabited by strategists but by technicians who are in the how and not on the why."

Guardian of false appearances or guardian of the human dimension?
Trade Union leader: "The HRD went across like a minister… they smiled to him, the store was clean... but he didn't see anything"
Third party: "They have to take responsibility for false promises, values which are on the billboard but which aren't lived (by the top management), so they do what they can…"
Consultant: "An executive explained to me that he was 55 years old, his wife was depressed. He had just heard that his young 14 year-old son suffered from an incurable disease and nevertheless they (the HR function) dismissed him."

Some HRDs' stakeholders explained the reason for such a bad image…

The bad guy of the movie

MD: "When it comes to recruiting my managers are present. When it comes to firing it becomes the exclusive 'privilege' of the HRD."

Peer: "When there is a problem it is never the failure of management it is always the HRD's responsibility."

The paradoxes bearer

Consultant: "The HRD bears the organisational paradoxes: it is difficult to follow a straight line."

MD: "We are asking HRDs to be aligned with the institution, and at the same time we might say that they are not listening properly to the social body."

MD: "In fact the HRD must be very skillful in his management style. He has to soften whatever management will, at a given time, insist on. He is the Yang of the Yin, and the Yin of the Yang of the manager."

Strong expectations

MD: "The HRD is expected to 'rise to the next level of the game' to meet strong expectations and to become the facilitator of the joint economic and human project, taking up a dual posture: At the balcony and on the field too".

MD: "The two most important decisions I take on a daily basis are: where I put the money and who I am recruiting - those are the two most important decisions."

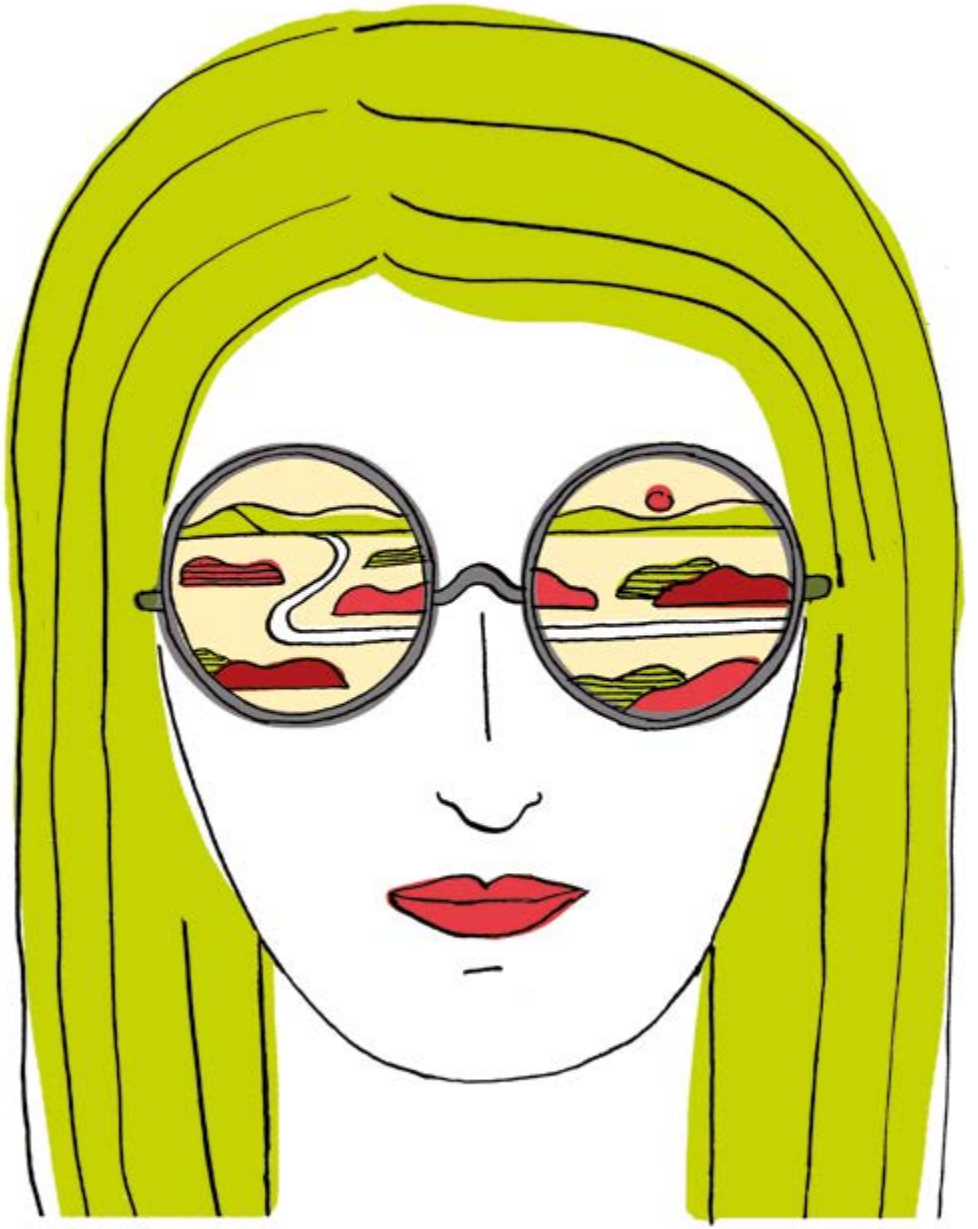
HRD (speaking of his chairman): "My chairman states quite often: this company will only grow if every employee grows."

MD: "For me, there are three strategic functions: marketing, finance and HR."

Third party: "Operating at a strategic level and being close to operational managers, helping them to implement the strategy; and to respond to social and human stakes…"

Third party: The HRD has to state to the Board: "I am the guardian of the long term - you will win globally only if you realise that in a company we also have to integrate long-term dimension."

MD: "Facilitating the functioning of an ExCo, yes, absolutely, because it is their field…"



05

HRDs SHOULD TRANSFORM THEMSELVES FIRST!

Are the HRDs ready to play this role of transformation agent? In most of the cases, we have to acknowledge that the answer is no. That is why the HR function should first initiate its own transformation.

How?

> By defining where the HRDs want to position the function and its strategic and operational contribution across the quadrants.
> By listening to the perceptions and expectations of their stakeholders, by choosing and ranking the stakeholders who count: MD, Board, peers, employee representatives, functional communities… And by constructing their tactical approaches regarding the positioning they want to get in the organisation.
> By being clear on the business agenda and by identifying on what outcomes they should deliver and how to increase their overall capacity to deliver.

It is all about ending up with a situation where the HRDs will know better where they are expected to be, by their counterparts, and to define with these the road map of the function in an interactive manner. In other words it will be about applying the magic formula:

(STAKEHOLDERS' EXPECTATIONS) **X** (BUSINESS AGENDA) **X** (RH AMBITION)
= RH TRANSFORMATION CARD

CASE STUDY

Reshaping the positioning of the HR function of a worldwide leader in the pharmaceutical industry.

What was the issue?

This Group has industrial, research and commercial set-ups in numerous countries and across the five continents, employing several thousands of employees. It has built its international growth by copy pasting its French operational style to non-French countries, especially in the area of HR. In fact, the founder of this company, which was built from scratch, was acting as the real HRD.

The death of the charismatic founder, the decrease of market share in the key markets, the lack of openness to other industry practices led the ExCo to engage a multiannual transformation program. The HRD had, at the same time, to develop its agility on HR operational processes such as recruitment, to professionalise its practices (talents, C&B…), to shift from a control-minded posture to a supportive posture and to support the overall transformation program.

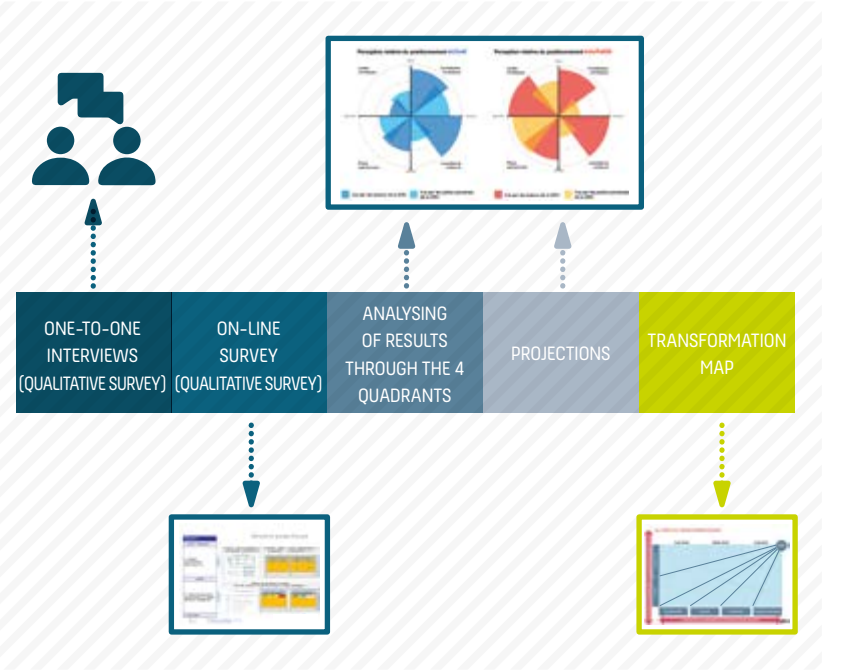
What have we done?

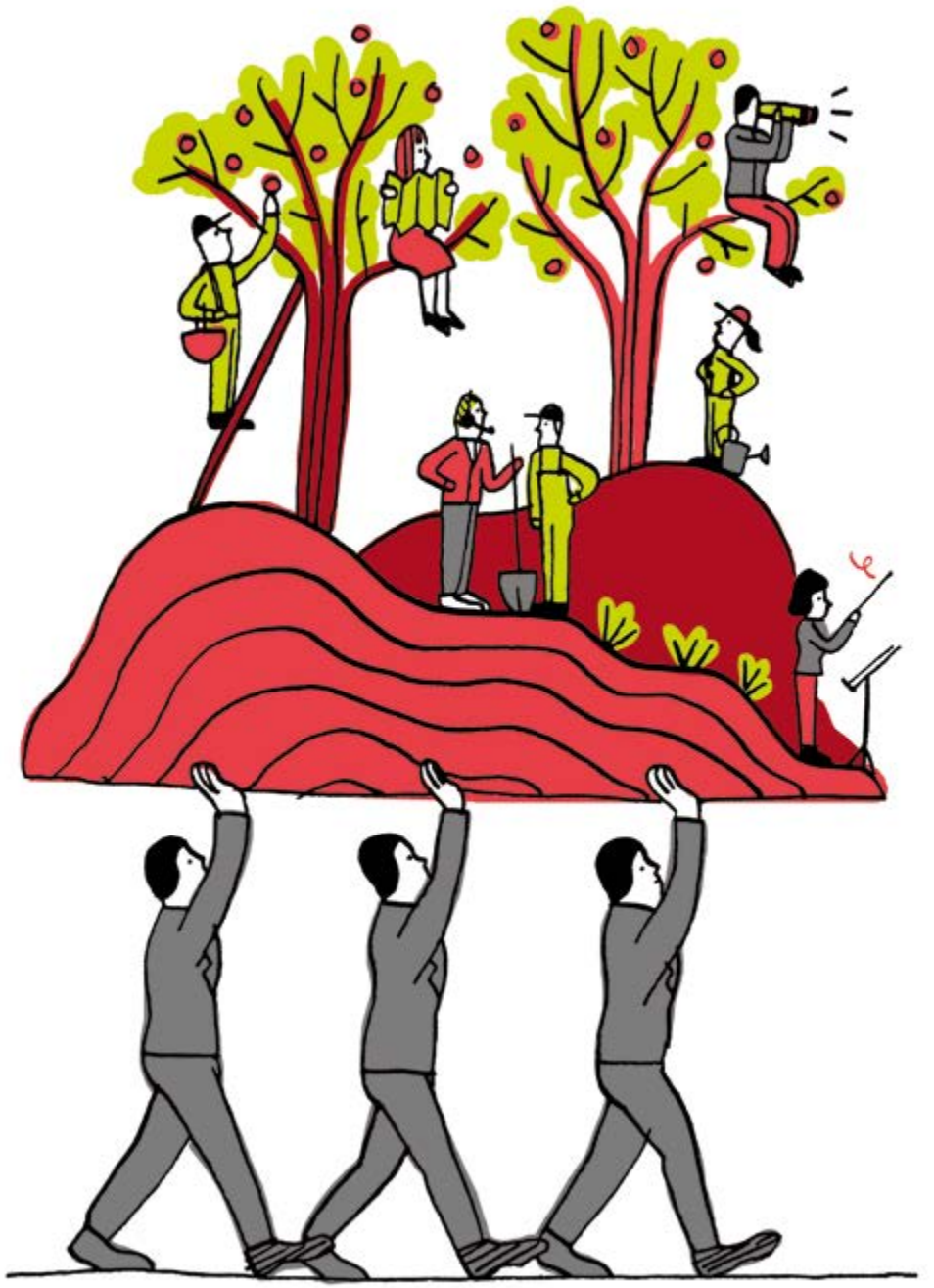
1. Holding qualitative interviews with all ExCo members, some country-managing directors and the 25 key HRDs.

2. Building the quantitative survey and launching it to capture the perception and expectations of 60 participants regarding HR practices and roles across 5 countries.

3. Analysing the interviews and survey outcomes.

4. Building up the ambition within the HR team:
> Sharing the quantitative and qualitative results
- How did the HR function look like?
- Where did HRDs and stakeholders want HRDs to be across the quadrants?
> Choosing where to play
- Defining the key development priorities regarding HRDs' capacities
- Projecting the transformation map accordingly





06

KEY TAKE-AWAYS

If we agree that transformation is the company's capability to permanently improve its competitive position within an increasingly complex and uncertain world, it is impossible to think about a transformation process which would address separately or consecutively the strategic dimension (structure, process, economic model…) and the cultural and human side (behaviours, values, social relation, leadership…).

Transformation is therefore consubstantial to the HRDs' role in their ability to create the conditions for transformation (prepare the ground) and to ensure its sustainability by involving employees in a co-construction process.
That will not take employees as the object of the transformation but turn them into the actors, even the architects, of it all.

The key HRDs' transformation abilities,
as summarize across the four quadrants:

Get to the balcony

> Enlightening and developing the right metric enabling the diagnosis of organisational and human capabilities and the measurement of gaps and potentialities.
> Acting on the "warm" dimension and the indirect levers of the transformation: culture, values, leadership style…
> Designing transformation strategies enabling employees involvement from day one.
> Ensuring consistency between leadership mode and displayed values versus the business strategy to be implemented.

Go to the dancefloor

> Establishing an explicit social contract between team members, team leaders and the company in order to guarantee daily organisational justice and managerial exemplarity.
> Leading transformation by engaging relevant external and internal stakeholders in the process.
> Breaking silos and exploring new links across transversal communities.
> Promoting subsidiarity to let ideas, initiatives and reverse leaders emerge.
> Reflecting to management team the way the team should function concerning the leadership of the transformation program and engaging the team's transformation plan.

That is the way the HRDs will contribute to the sustainability and success of their company's transformation in a world of complex interactions. Leaving a downstream role - where they have to deal with the consequences of the transformation - they will act at the upstream level, putting people at the heart of the transformation process.

the authors

Patrick, Thibaut and Wilfrid are team members of the Kea's transformation, management and human resources practice.

PATRICK LONGUECHAUD, Senior Advisor

Patrick has hold various HR executive roles in FMCG's companies (Unilever, Yves Rocher, Bel) in the field of human resources and organisation (factory, subsidiary, group) in France and abroad. Group HR Director for 14 years, Patrick has orchestrated major international transformation and efficiency programs (talent development in both mature and emerging markets, industrial restructuring, large reorganisations aiming at global alignment and local empowerment). Patrick joined Kea in 2013. Today, he helps top executives to deal with significant HR, cultural and managerial transformation projects, quite often in disruptive situations.

THIBAUT COURNARIE, Director

Thibaut started his professional life in banking services. Having been bank manager during a couple of years, he chose the consulting career and joined Kea in 2006. Management and human resources issues are his favourite matters and major skills. Appointed Director in 2006, he is today in charge of "mix-organisation", the Kea's concept aimed at developing companies' performance through employees' empowerment and self-organisations.

WILFRID LEGENDRE, Senior Partner

During his 20-year consulting life, Wilfrid has been involved in complex projects with critical human issues: multiannual transformation programs with deep social impacts, change strategies, management of the companies' relationship with stakeholders (managers, employees, unionists, elected representatives...), management chain alignment... More specifically, he is charge of the Kea's development work on management, human resources and "sociodynamics" matters.

T. COURNARIE P. LONGUECHAUD W. LEGENDRE

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