It's the Mortar, not the Bricks:

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How to Bring Your HR Structure to Life
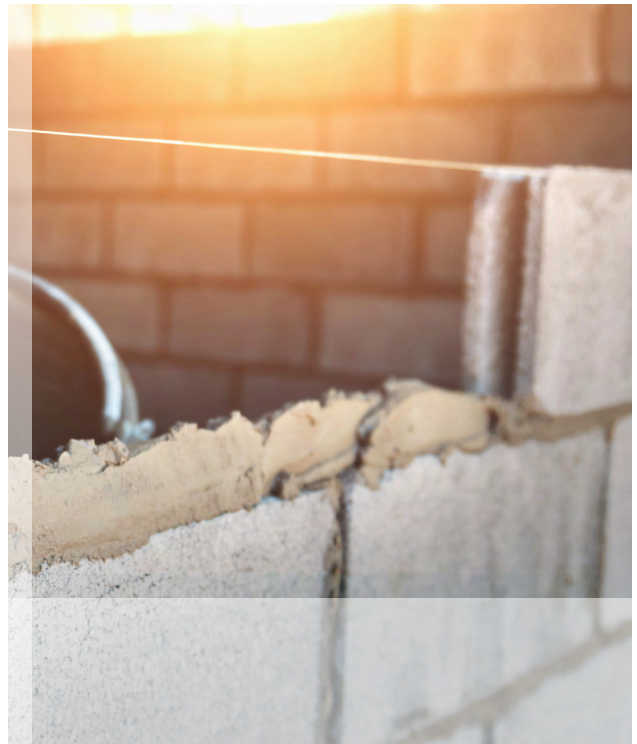
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by Marc Effron, Talent Strategy Group

Few HR groups have escaped the restructuring wave that's washed across the function over the past 15 years. By responding to calls for greater efficiency and more meaningful business impact, HR teams have been restructured to reduce costs and focus on fewer, more value-adding activities.

These restructured HR groups typically shifted to an organization design featuring three components – business partners, centers of excellence and shared services. These elements were inspired by Dave Ulrich's 1997 book *Human Resource Champions*[1], which described a world of HR that was foreign to most organizations at that time. While Ulrich's model has advanced since the book was published, the HR organization design implied by that model remains. We call this three-part design the New Standard model since it's become the default design for thousands of HR organizations.

The New Standard model has three, now familiar, operating groups within the HR function:

- **Strategic Business Partner:** Senior level HR leaders who are responsible to develop and implement people strategy, advise their clients on key people issues and broker COE services as needed.

- **Centers of Excellence (or Expertise):** Deep specialists in HR functions including Talent Acquisition, Talent Management, Compensation, Diversity & Inclusion, Data Analytics, among others. Their primary client is the HRBP and they provide advice and services in their areas of expertise.

- **Shared Service Center:** Key resources for more transactional HR interactions including basic and intermediate-level questions about pay, benefits, recruiting, employee relations, and HR policy and processes.

Despite these recent changes, we already hear calls to abandon the New Standard so that HR can adapt

to a new world of work, respond to unique populations in the workforce and dramatically increase its influence on the business. We find those arguments fall short on facts, including those that claim:

- **It's the gig economy:** The gig economy falls into the same category as the "workplace generations are fundamentally different" category – concepts with intuitive headlines but few facts to support them. The U.S. Bureau of Labor Statistics reported that the gig economy isn't any more potent a force now than it was 15 years ago. They found that the number of workers in non-traditional work arrangements hasn't changed since 2005. Yes, there is Uber, Lyft and TaskRabbit now, but unless your business is the gig economy then your HR structure doesn't need to change because of it.[2]

- **The workplace is fundamentally different:** We're now mixing five generations in the workplace, employees want more purpose and a larger voice, there's #MeToo, etc. Proponents of Holocracy and similar ideas say that these changes call for a rejection of hierarchy and a fundamentally new way of getting work done.[3] These are all realities in some workplaces but there's no evidence that these challenges can't be addressed with the New Standard model.

- T**here's a crisis of engagement:** Engagement numbers are either dropping or at an all-time low, according to many commentators, and HR must restructure to respond to this new challenge in managing employees.[4] As we detailed in our article "The Myth of Low Engagement," there's simply no truth to these claims. Global engagement numbers are in-fact near an all-time high. A recent meta-analysis in the *Journal of Applied Psychology* supports this fact by showing that affective commitment to work (a reasonable substitute for engagement) hasn't meaningfully changed in 30 years.[5]

The State of HR Organization Design

The lack of a compelling reason to change HR structure likely explains the near-identical HR models offered by the leading consulting firms. Their designs include:
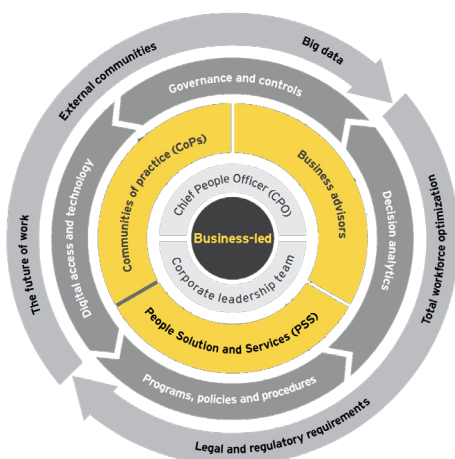

Figure 1: EY Business-led HR model

EY's model includes Communities of Practice (COE), People Solutions and Services (Shared Services) and Business Advisors (HRBPs).

They bolster the model with an array of other elements which make it more comprehensive but also more confusing to understand how the model can be applied.
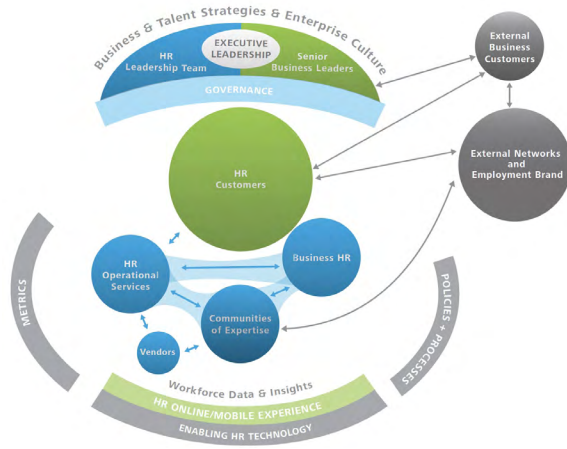
Figure 2: Deloitte High Impact HR model

Deloitte lists three model elements that correspond to the New Standard: HR Operations Services (Shared Services), Communities of Expertise (COE) and Business HR (HRBP).

Similar to EY's model, Deloitte's effort to be comprehensive in their graphic leads to some confusion about how the 15 elements interact.

Figure 3: KPMG model based on Treacy and Wiersema's framework

KPMG argues that HR structure should be organized around the company's strategic driver and they use Treacy and Wiersema's Value Disciplines framework of Customer Intimacy, Operational Excellence or Product Leadership as those drivers.

KPMG's HR Architecture Implications feel more like tactical choices within an HR strategy that have no impact on structure. The Treacy and Wiersema framework presents a theory for how companies can win in the marketplace but it's challenging to understand the specific links to HR structure.
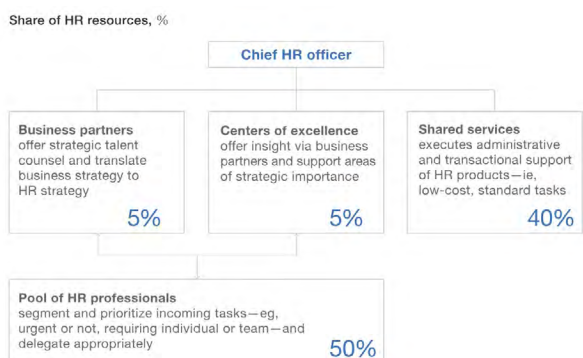

Figure 4: McKinsey Agile and Talent Value Leader model

McKinsey's model calls for creating Talent Value Leaders (supercharged HRBPs) and putting analytics at the core of the HR structure model. Their structure has a team of interchangeable HR resources who would be dynamically deployed based on incoming needs.

In a highly sophisticated HR environment with 75th percentile HR leaders and operations, the model has potential. Most organizations are nowhere near the maturity level needed to execute this model. There is significant risk for inefficient use of resources and the appearance of an HR personnel "slush fund" in the pool.
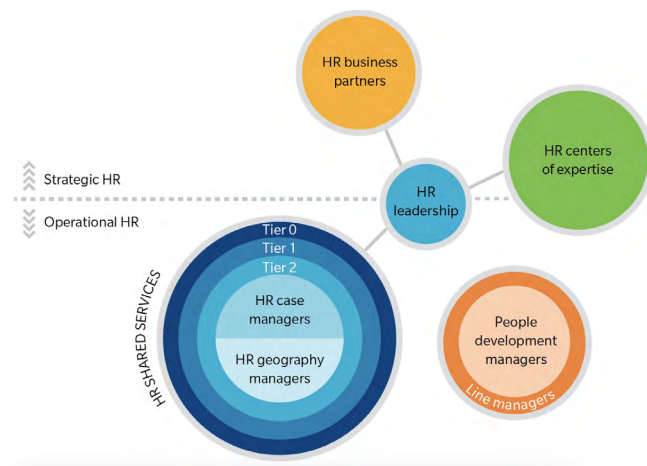

Figure 5: Mercer Next Generation HR model

The Mercer model also retains the core elements of the New Standard but adds in People Development Managers whose job is to coach managers through review and development tasks. They sit outside of the HR function.

The People Development Managers are not accountable to HR nor is there a way suggested for them to work with HR. This model calls for adding resources because managers aren't doing their jobs, rather than holding them accountable to develop their team.
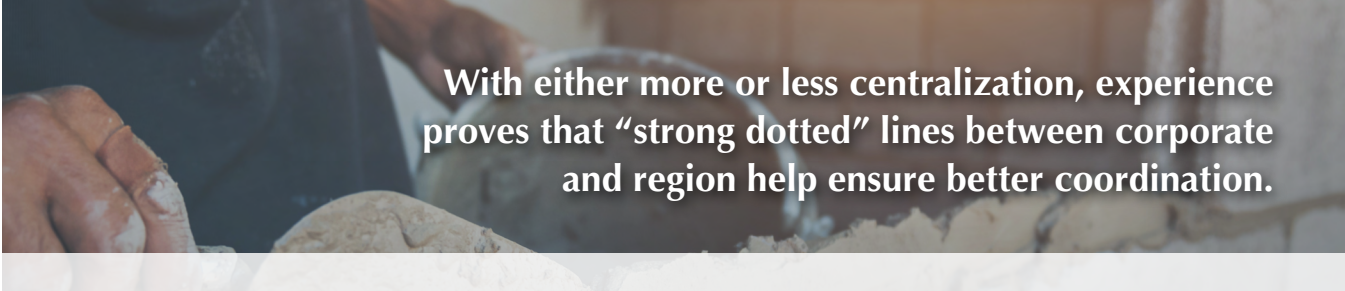
The striking consistency in these approaches to existing HR design suggests that the debate around design is largely settled and HR should now focus on what enables the success of its structure.

What Really Matters: Mortar not Bricks

We find that the question of how to operate HR effectively is often missing from the discussion about HR design. While HR design provides the "bricks" that frame the structure, it's the mortar that holds the bricks together and ensures a stable and supportive foundation. There are two areas where great quality mortar helps ensure that your new HR design delivers the expected results.

How HR Operates: Most proposed HR design models seriously underemphasize the enabling factors of the structure – the balance of power, organizational accountability and role clarity – in the success of HR. These design and alignment choices enable a strong structure and include:
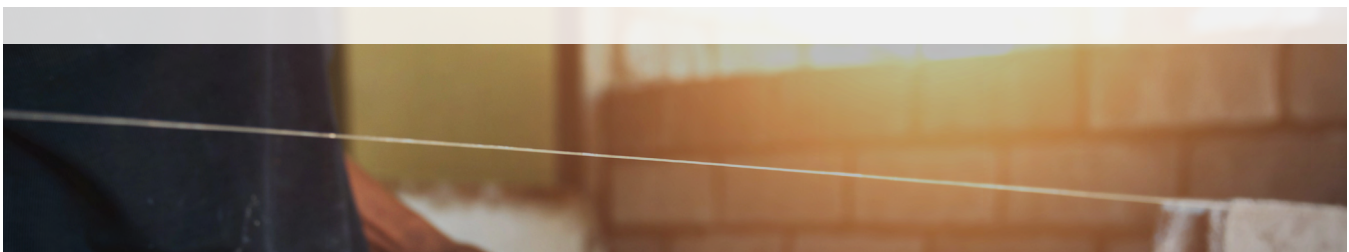
> **With either more or less centralization, experience proves that "strong dotted" lines between corporate and region help ensure better coordination.**

- **Centralization:** There is no optimal degree of centralization and the amount companies choose is often a philosophical decision portrayed as a strategic one. We find the most effective balance of decision rights is when Corporate HR controls macro strategy and process while Region/Group HR controls local adaption and execution.

  In other words, corporate HR decides how HR will structure itself, what good HR practice and practitioners look like and what key HR actions are a priority across the organization. Local HR optimizes performance by fine-tuning that strategy to their needs and then executing flawlessly on corporate processes. With either more or less centralization, experience proves that "strong dotted" lines between corporate and region help ensure better coordination.

- **CHRO direct report structure:** We recommend a broad span of control (8 – 12 direct reports) to ensure efficiency and also to promote the hiring of high quality HRPB's who don't require significant individual management. Each COE leader (see COE recommendations below), business unit and/or geographic HRBP should report directly to the CHRO. This does not imply that each direct report has equal impact on the business. It simply avoids building in unnecessary hierarchy.

  It's recognized that tangential elements like Aviation Services, Corporate Foundations, Security, etc. may need to be incorporated into the structure. We have no specific point of view on how they are included.

- **Hierarchy within HRBP structure:** We prefer a flat HRBP structure with span breakers only when they apply to location (i.e. France reports into Europe) or product (i.e. Corn Chips reports into Salty Snacks). This ensures CHRO visibility deeper into the organization and a faster decision-making process.

  - **Development hierarchy:** Adding hierarchy for development purposes (i.e. senior HRBP being prepared for CHRO) is a useful tactic if it's time-bound. Typically, that artificial structure should last no more than 3 years. Traditional choices would be a head of geography, BU or product HRBPs.

- **HR COE Elements:** Which elements within HR deserve their own COE will vary depending on the company's HR strategy, but we suggest Compensation, Talent Acquisition, Talent Management and Diversity & Inclusion as constants. The increasing importance of Data Analytics suggests that this may qualify as a fifth COE but only if it is a fully developed entity. If it is not, we recommend it fall under Talent Management.

- **HR COE Hierarchy:** We favor this traditional design and segmentation of HR COE hierarchy:

- **Compensation and Benefits** and other "life-style" elements.

- **Talent Acquisition** includes all recruiting not explicitly owned by regions or business units. Executive recruiting, if managed internally, should work in close coordination with Talent Management. An option is to have executive recruiting report to Talent Management. This option has benefits (ownership of senior level talent quality) but that choice will reduce the quality of the TA leader who will accept the top TA role.

- **Talent Management** includes learning (except regional or functional-specific learning), performance management, succession, engagement, OD and related functions. To our comments above, it can include Data Analytics if that is an emerging function.

- **Diversity and Inclusion** creates and manages specific workforce programs to ensure that diverse talent is engaged and retained. D&I works closely with TM and TA to ensure they integrate the strategies that ensure a high performing, diverse workforce into their processes.

HR Quality: Independent of the chosen operating model, HR can still be unsuccessful due to ineffective leadership. Through our consulting experience and the thousands of HR leaders we've met at the Talent Management Institute, we've seen how the 4+2 Model effectively sorts out those more likely to succeed from the rest.

The key factor among the 4+2 Model is the Business Junkie, a differentiating quality that can largely predict which HR leaders will move farther and faster. To be a business junkie, an HR leader must have two qualities – they must know business and they must love business.

Knowing business is the easier of the two. It requires that HR leaders have a deep understanding of the financial, operational and functional aspects of their business. They should be able to comfortably discuss with any business leader how that leader's area operates and the key drivers of success.

Loving business requires that the HR leader is driven by a deep, pervasive interest in their industry and business in general. They love that their company produces goods or services, employs people, makes a profit, pays taxes and beats the competition. They are endlessly curious about other businesses and how they operate. Their decisions flow from a desire to maximize the success of their business. These HR leaders are "of" the business, not just passive participants.

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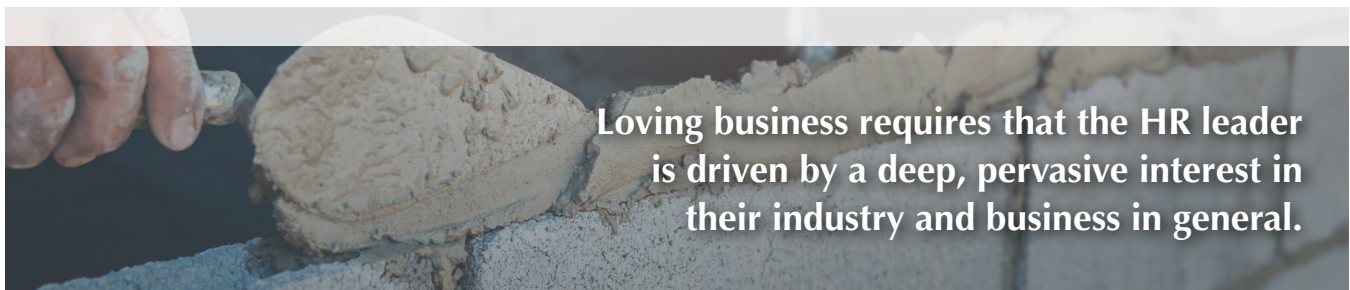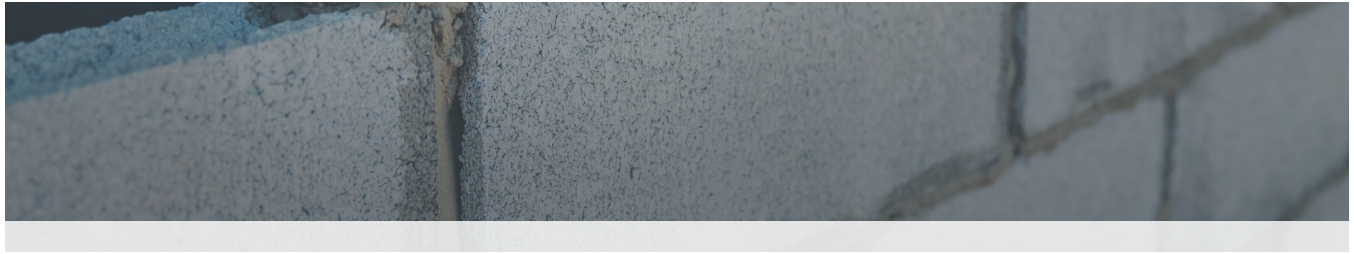
We see a marked increase in companies investing in HR quality but the absolute investment is still low. Our experience suggests that the average HR leader will still not receive any development in the next 12 months to improve their HR capabilities.

The Old World of Work

The HR leaders worn down by fifteen years of change should be comforted that a new approach to HR design isn't needed to stay competitive. The model originally championed 20 years ago is still relevant to managing today's workplace and workforce and can be easily adapted to a variety of situations, as seen in our examination of the identical models used by top consulting firms.

This doesn't mean that HR professionals should stop observing the industry or fail to adapt quickly when changes are justified. We should make those changes when they are truly needed - not when the headlines tell us to.

The secrets behind HR success lie beneath the organization chart's lines and boxes. How you bring that structure to life, through the people within it, will differentiate your success far more than the design ever can.

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2. https://www.nytimes.com/2018/06/07/business/economy/work-gig-economy.htm

3. To learn about Holocracy from its creators, https://www.holacracy.org/what-is-holacracy. To read why the model doesn't work well, read https://hbr.org/2016/03/top-down-solutions-like-holacracy-wont-fix-bureaucracy or https://www.bloomberg.com/news/articles/2016-03-15/why-is-it-so-hard-to-change-how-we-manage-ourselves

4. https://www.gallup.com/workplace/231668/dismal-employee-engagement-sign-global-mismanagement.aspx

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