



**The New HR Agenda:  
2002 Human Resource Competency Study (HRCS)**

**Executive Summary**

*Complimentary Copy*

*May 2003*

## **The New HR Agenda: 2002 HRCS Executive Summary**

### **Human Resource Competency Study**

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### **The Impact of Change in the Nature of Business**

In the past decade, there have been fundamental changes in the nature of business. Each of these changes mandates new and more powerful value-added contributions from those involved in HR work.

In the last ten years, the rate of technological innovation has continued to increase. Costs of transporting capital, goods information, and people are at an all time low. Political, social, and regulatory environments allow greater trade across national borders. Global competition has created greater options for consumers, shareholders and the best talent. And each of these, in turn, has become increasing more demanding of the companies with which they do business.

As a result of each of these trends, companies across the world are under pressure to be more productive, to be faster and more agile, to produce more exacting quality, to accelerate innovation, to provide better service, to generate greater returns, and to more fully utilize their people in responding to and pre-empting all of the above. It is in this context that the 2002 Human Resource Competency Study was conducted.

### **The 2002 Competency Study and The Competency Model for the New HR**

This Executive Summary reviews the finding of the 2002 iteration of the Human Resource Competency Study at the University of Michigan Business School. This survey has been conducted four times over that past fifteen years. Over these years, it has provided the most comprehensive empirical review of the HR field available. Over the life span of the study over 27,000 HR professionals and their line management associates have been involved.

The 2002 iteration includes over 7,100 respondents from 241 diverse companies that were distributed globally across a variety of industries. The respondents were from a mix of large, medium, and small companies. This represents a substantial global

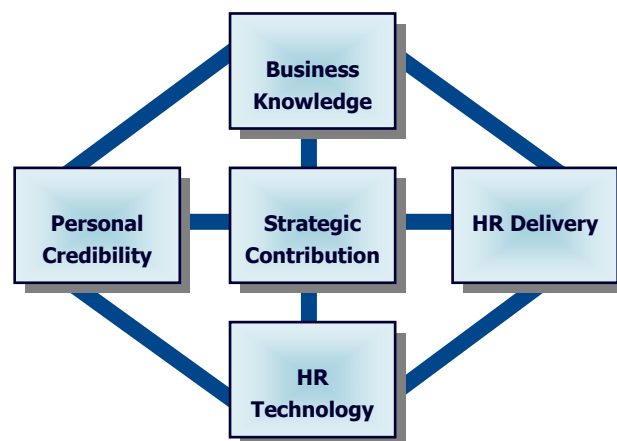
representation with North American responses representing only 42% of the population (36% came from Latin America, 12% from Asia and 10% from Europe).

Data were gathered from three sources. First, participating HR professionals completed the survey in evaluating themselves. Second, HR professionals who are internal clients or associates of the participating HR professionals completed the survey in evaluating the participating HR professional. Third, non-HR associates who are generally line executives and are the internal customers of the participating HR professionals likewise completed the survey. Nearly all of the analysis that follows is based on the data from these non-HR associates' evaluations of HR professionals in their organizations.

The findings of the study reveal that the aggregation of HR agendas and activities impacts business performance by approximately 10%. The survey defines business performance as the "financial performance of the business over the last three years compared to major competitors." However, it must be kept in mind that financial performance is impacted by many factors including international exchange rates, financial market gyrations, new patents and other major internal, macro economic dynamics in specific markets, mergers and acquisitions, changes in governmental regulatory policies, etc. The fact that 10% of business financial performance is statistically related to HR competencies and practices is impressive.

In the 2002 Human Resource Competency Study, five major categories or domains of HR competencies emerged from HR professionals in high performing firms:

### **The Competency Model for New HR**



**Strategic Contribution.** High-performing companies have HR professionals involved in the business at a strategic level. These HR professionals manage culture, facilitate "fast change," are involved in the strategic decision making and create "market-driven connectivity." These four factors together comprise the HR competency domain of Strategic Contribution. This domain alone accounts for 43% of HR's total impact on business performance – almost twice the impact of any other competency domain.

**Personal Credibility.** HR professionals must be credible to both their HR counterparts and the business line managers whom they serve. They need to have effective relationships with key people both inside and outside their business. They need to promise and deliver results and establish a reliable track record. In addition, HR professionals must have effective written and verbal communication skills.

**HR Delivery.** HR professionals deliver both traditional and operational HR activities to their business in four major categories:

- **Staffing:** attracting, promoting, retaining, and outplacing appropriate people.
- **Development:** designing developmental programs and challenging work experiences; offering career planning services; facilitating internal communication processes. These efforts include both individual development as well as organization-wide development.
- **Organization Structure:** restructuring the organization; measuring impact of HR practices; managing global implications of HR practices.
- **Performance Management:** designing performance-based measurements and reward systems and providing competitive benefit packages.

**Business Knowledge.** To become key players in the organization, HR professionals must understand the business and industry of the company they serve. Key areas of knowledge include applied understanding of the integrated value chain (how the firm horizontally integrates) and the firm's value proposition (how the firm creates wealth).

**HR Technology.** Technology is increasingly becoming a part of the workplace and as a delivery vehicle for HR services. HR professionals need to be able to leverage technology for HR practices and use e-HR/web-based channels to deliver value to their customers.

## Key Findings

The most important aspects of the study came from comparing the capabilities of HR professionals and departments in the high performing firms from those in the low performing firms. Here, a dramatic story of HR's strategic value and the competencies required to achieve strategic value emerges. These findings support the current best practices of many companies with which we have worked. The paragraphs below note some of our key findings along with sample best practice companies. These companies are identified in the findings based on our interaction and not on feedback from the study.

**Creating Responsive and Market Driven Organizations.** The most important story from the data is that HR professionals from high-performing companies are centrally involved in strategically connecting the firm with its external environment. They leverage knowledge and information about the external environment to unify the company across internal functions and across layers. They create structures and processes that enable the organizational parts to complement each other in quickly and collaboratively responding to key opportunities and threats in the market environment (Unilever; UPS). Finally, they are actively involved in eliminating low value-added work and informational clutter that hinder fast organizational responsiveness to key external threats and opportunities (GE; Allied Signal).

**Impact of Culture on Business Performance.** HR professionals in the high performing firms build powerful organizational cultures based on market demands and the firm's requirement to execute strategy. Market connectivity, organizational unity, immediate responses to market signals, and strategy execution are now the dominant cultural foundations that HR professionals apply to create high performing cultures (Cisco Systems; Schering-Plough).

These cultural underpinnings are disseminated through multiple mechanisms such as comprehensive communications, widely visible promotion and incentive criteria, work process design, and shared exposure to customer information (Wyeth; L'Oréal). Finally, these cultural underpinnings have little value until they are translated into managerial and employee behaviors (Disney). Over the past five years, culture management has replaced change management as the highest-impact HR practice and has replaced personal credibility as the most critical HR competency.

**Change in Change.** It used to be sufficient to be excellent at change management. In the last five years the change paradigm has shifted to fast change - merging change with the discipline of speed. The ability to innovate and change does not matter much any more; what does matter is the organization's ability to innovate and change quickly and in accordance with market demands. Thus the high-performing firms

have reformulated their traditional tools of change management to focus much more strongly on the speed of change (General Motors; IBM).

Traditionally HR professionals have been excellent at facilitating change. They excelled at process expertise. Some who received training in an earlier day of change management were explicitly told to focus on process - not on content. The 2002 HR Competency Study clearly shows that in today's world the HR professionals in high performing firms are both process and content experts. They "facilitate change processes" and they also help "set the direction of change" (Baxter Healthcare Corporation; Shell).

**The Position of HR Professionals as Strategic Business Partners.** We have been talking about HR professionals being "at the table" as "strategic partners." This aspiration has become a reality in the high performing firms. What is more surprising is the role that HR professionals are assuming as they contribute to strategic decision-making. They identify problems that are central to business strategy. They help establish the business strategy. They provide alternative insights on business issues. And, perhaps most interesting, they raise the standard of "intellectual rigor to business decision making." When they walk in the strategy room, the level of intellectual rigor is raised.

**In Addition to Credibility, Add Strategic Contribution.** To be seen as competent by internal customers, HR professionals must have high levels of personal credibility. The Personal Credibility domain consists of inter-personal skills, getting results, and effective communications. These competencies have mid level impact on business performance. These are not the same as those that are required to create high impact on business results. Rather the competencies that are required to have high impact on business results are in the domain of strategic contributions that consists of culture management, fast change, strategic decision-making, and market driven connectivity. This may represent a somewhat dramatic shift in our thinking about HR effectiveness. The HR professionals in high performing firms are shifting their "customer paradigm" from a focus on "internal customers" to a relatively greater focus on "external customers" (Wal-Mart; Williams Energy Services).

It can be argued that personal credibility and delivering the HR basics are required for HR professionals to be allowed to contribute at the strategy table. However, if HR professionals are satisfied in making internal customers happy and stop there, they will miss almost 50% of their potential influence on business performance.

**Shift in the Definition of HR Delivery.** In the domain of HR Delivery, staffing continues to be the most important competency for HR professionals. Proficiency in staffing is closely followed by development and organizational design. As indicated

above, the distinction between individual and organization development is becoming blurred. The development of individuals and the development of organizations in the high performing firms are well integrated. They are mutually supportive and leverage each other for optimal advantage (Ford; AOL Time Warner). In addition to traditional training and development, integrated development now includes individual feedback processes, large-scale change efforts and providing high value-added work experiences on a systemic level (Boeing).

In past iterations of the competency survey, organization design was not a central HR competency. The competencies of organization design are now a fundamental aspect of the HR basics. They include organization and job restructuring at a business unit as well as on a global scale (Goldman Sachs; British Airways).

As has been the case in the past, measurements and rewards have impact only if they are designed to differentiate and reward high performing units and individuals.

**Redefinition of Business Knowledge to the “Value Proposition” and “Value Chain.”** All of the above require that HR professionals have in-depth understanding of the value-creating proposition of the firm. How does the company make money? What activities and processes are most critical for wealth creation as defined by customers and capital markets? Who in the firm executes these activities successfully (Microsoft; ICI)?

These new HR agendas also require that HR professionals shift their knowledge base to stronger emphasis components of the value chain beginning with external customers and competitors and ending with distribution channels including E-commerce. In the past it was sufficient for HR professionals have knowledge of each aspect of the value chain. The New HR agenda requires greater knowledge of the mechanisms by which value-chain components are strategically and operationally integrated in order to make the organizational whole greater than the sum of the parts (Hewlett-Packard; ICICI Bank; Nokia).

A fascinating conclusion can be drawn from the 2002 Competency Study data concerning business knowledge. Over the last fifteen years of the study the overall level of business knowledge of HR professionals has gone up. But business knowledge as a differentiator of business performance has gone down. How can this be? It appears that over the last fifteen years, HR professionals have heard the message that they must “understand the business” and they have responded. It is now HR professionals in the high performing firms know as much about business as the HR professionals in the low performing firms. The difference is that HR professionals in the high performing firms actively translate that knowledge in contributing to strategic decision making, developing competitive cultures, making fast change happen, and creating market driven connectivity (Eli Lilly and Company; PepsiCo).

**Yet to be Fulfilled Promise of HR Technology.** Of the five HR competency domains, only HR-technology is a statistically insignificant predictor of business performance. The promise of HR technology to noticeably impact the overall financial performance of the firm is yet to be achieved. Many companies who have moved aggressively into this arena are still “working out the bugs.” In companies in which the bugs are worked out, the total cost savings apparently has relatively small influence on the overall cost structure of the firm. However, the impact of HR’s utilization of technology will probably not be in cost savings but in time saving. That is, application of technology to HR processes will provide the time for HR professionals to shift their agendas from transaction processing to strategic transformation. It is in the later where HR’s primary value will be expressed and where much of the impact of HR technology will be experienced.

## **Conclusion**

In conclusion, there has never been a more exciting time to be an HR professional. The business world demands greater value added from the HR profession. As a result of the Human Resource Competency Study, we now have a much more exact and precise definition of the agendas and competencies through which HR professionals may impact business performance.

Over the next year, we plan to continue to analyze the data to better understand the implications of the results of this survey. The results and key findings are now integrated into the Human Resource curriculum of Michigan’s Executive Education programs and will be used to elevate the capabilities of HR professionals attending these programs.

The results have contributed to the HR Competency Toolkit offering (consisting of the *Competencies for the New HR* guidebook and online HR Competency Self-Assessment) developed through collaboration with the University of Michigan Business School, Society for Human Resource Management (SHRM), and the Global Consulting Alliance available to HR professionals. Visit [www.shrm.org/competencies](http://www.shrm.org/competencies) for more information.

Future publications and presentations on the results will also be directed to both the academic and the professional community.