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Reimagining HR: Insights from people leaders

Human resources is playing a critical role in helping organizations respond to the COVID-19 pandemic. Chief human resources officers expect that influence to persist.

by Laura Blumenfeld, Neel Gandhi, Asmus Komm, and Florian Pollner

A global pandemic. Essential workers at risk. Whole companies suddenly working from home as offices fall silent. Millions reevaluating their lives and careers. The "Great Resignation."[1] Wage increases amid a tight labor market. Who's responsible for navigating this upheaval? Human resources, which in many organizations now sits awkwardly between its history as a support function and its future as a strategic partner.

While the nature and purpose of the HR function have been evolving for years, the demands of the pandemic dramatically accelerated this transition. In interviews with more than 80 chief human resources officers (CHROs) at some of the largest organizations in the United States and Europe, we found more than 90 percent predict significant changes to the HR operating model during the next two to three years.

"The pandemic showed HR is as relevant to business success as typical core functions like R&D, sales, or production," said the CHRO of a European semiconductor company. "In fact, it was our duty as HR to ensure the entire company could still be operational during the pandemic."

Stepping up to this new responsibility requires HR to transform itself, adopting the organizational principles and key performance indicators of core business functions. HR leaders need to drive more agile and fluid organizations, shift the role of business partners, and drive the employee experience—and do it all with a clear leadership mandate. We're not suggesting it's easy. But according to the vast majority of CHROs we interviewed, organizations may not have a choice.

A new HR operating model

The following situation may sound familiar: your organization faithfully follows the Ulrich model, with the HR function represented at the leadership table with its responsibilities split among three pillars: business partners, shared services, and centers of excellence (CoEs). HR endeavors to listen to employees, be an agent of change, and reflect the broader business strategy.

Yet we also know theory doesn't always translate into practice. It's never been more important for HR to be a true strategic partner and a bridge between the workforce and the organization. "We learned how to go significantly faster on the business side as a result of the pandemic," said the CHRO of a US-based pharmaceutical company. When it comes to creating a more dynamic talent and work model for the future (exhibit), CHROs across Europe and the United States said the future operating model of HR will likely feature the following:

— *Elevating HR through digitalization* by automating processes, especially traditional administrative tasks; by gathering, analyzing, and acting on employee data to make more informed decisions; and by implementing mobile self-services to elevate the quality of delivery. "Platforms? Large-scale ERP-style [enterprise resource planning–style] systems? We still focus too much on that," said the CHRO of a European chemical company. "We have to start thinking of solutions, data, and employee experience when talking about digitalization in HR."

— *Enabling agility and fluidity,* not only throughout the company but also within the HR function itself. What does this mean in practice? Creating new operating models for HR, breaking down the traditional three-pillar model in favor of a pool of professionals who can be quickly deployed to deal with critical issues and priorities, or introducing agile tribe and squad models such as those used within digital companies. "We cannot preach agility without being agile within HR," the CHRO of a European retailer said. "We need to break up the silos and the Ulrich-style separations in our own organization to be much more flexible and faster."

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[1] For more on the Great Resignation, see Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Bill Schaninger, "'Great Attrition' or 'Great Attraction'? The choice is yours," *McKinsey Quarterly*, September 8, 2021.

Chief human resources officers (CHROs) are prioritizing big changes.

Relative priority of different transformation actions, % CHROs

Elevating HR through digitalization

Building dedicated digitalization expertise and using robotic process automation and mobile self-services to elevate delivery quality

95

Enabling agility and fluidity

Creating new operating models and enterprise-to-enterprise responsibilities, shifting from the traditional three-pillar model

93

Refocusing the business partners

Focusing business partners on advising top management and converting centers of excellence and expert business partners to agile teams

85

Creating HR practice groups

Tackling specific, cross-functional HR priorities from end to end, dissolving the usual separation between strategic and transactional tasks

70

Organizing around the employee experience

Focusing on the employee moments that matter most and deploying resources accordingly

67

Virtualizing centers of excellence and centers of competence

Giving HR business partners a dual role: supporting specific areas of the business and having a functional specialization spanning both HR and the organization

60

Putting the business in the driver's seat

Shifting decision-making power and responsibility to line managers for processes such as recruiting and performance appraisal

55

Source: McKinsey analysis

Pivoting to this new HR operating model requires significant change.

— *Refocusing business partners* on advising top management rather than working on routine administrative tasks that can be automated, pushed to self-service platforms, or undertaken by a shared-service center. This frees HR business partners to become true strategic partners.

— *Creating HR practice groups* to tackle specific, strategic, cross-functional HR priorities from end to end, dissolving the usual separation between strategic and transactional tasks. Need to hire digital talent at scale? Create a team to undertake that process in its entirety, rather than delegating it to recruiting.

— *Organizing around the employee experience* by taking an approach similar to how retailers define customer journeys—in this case, by identifying the employee moments that matter most and deploying resources accordingly. For example, critical moments for employees could include the recruitment process, onboarding, performance reviews, and promotions, and the roles and responsibilities of the HR function could be aligned around them.

— *Virtualizing CoEs and centers of competence (CoCs)* by giving HR business partners a dual role: supporting specific areas of the business and creating a functional specialization spanning HR and the organization (such as compensation and benefits or organizational development). This creates workflow practice groups, rather than keeping business partners separate from their "corporate" HR colleagues. If successful, this approach may even make CoEs redundant.

— *Putting the business in the driver's seat* by shifting responsibility for traditional HR tasks to line managers. Giving line managers decision power and responsibility for processes such as recruiting and performance appraisals makes sense operationally and frees the HR function to take more of a leadership role within the organization by being more strategic and undertaking work that adds greater value.

There were some differences between European and US CHROs. First, almost 60 percent of European CHROs are considering virtualizing CoCs and CoEs, while none of their US peers discussed this. Second, US CHROs seem more inclined to use employee journeys as a mechanism for determining HR's functional responsibilities and priorities. And third, European CHROs are planning to have HR business partners work on dedicated functional HR topics, bundling competencies virtually through chapter or cluster logic to virtual CoEs and CoCs. The reason for this is the multinational setup of many large European organizations, in which HR expertise is distributed across multiple countries and regions, requiring sophisticated systems of collaboration and coordination. Many large US organizations remain US-centric, given the size and relevance of their home market.

"We have a tendency to still align our HR organization very geographically," said the CHRO of a European chemical company. "We still need that where we need to be close to the business, but where we need the best expertise in HR, we have to link that beyond geographic boundaries."

Moving from support to leadership

Pivoting to this new HR operating model—in which the function has a legitimate seat at the leadership table, recognized for the critical role it plays strategically and operationally—requires significant change. Many companies are already on this path, with varying degrees of success. The CHROs we interviewed identified four areas of focus that will support such a refined approach:

— *Improving capabilities,* especially in the fields of agility, digitalization, and user experience design:

  • *Agility.* Really developing organizational agility demands the HR function lead by example through measures such as adjusting its organizational structure and introducing agile methods and tools. Because these are not typical capabilities of HR employees with mid- to long-term tenure, this often requires a significant mindset shift.

  • *Digitalization.* Technology will continue to play an important role in HR. But now, it's not so much about digitalizing processes to implement new self-service tools and the like, but about acquiring analytical capabilities to use big data.

  • *Employee experience design.* HR needs to shift its focus from a pure-process orientation to the customer journey and identify the "moments that matter" for the employees in their interactions with the company.

— *Adopting a governance model and moving beyond an Ulrich-style separation of tasks* to enable cross-functional, cross-regional, and cross-divisional collaboration. Separating CoEs and business partners becomes more difficult as HR's range and complexity increase. Business partners shouldn't continue to act only as generalists but should instead specialize in certain topics to become content champions, applying their knowledge on a global scale.

— *Empowering line managers* to take over people leadership tasks independently, since this is one of the most important leadership responsibilities. Crucial human-capital tasks such as recruiting and performance appraisals shouldn't be "outsourced" to HR but championed by line managers, with HR providing tools and coaching.

— *Reevaluating the level of automation of HR* and providing a "human interface" to employees where personal interaction adds value.[2] In the past, HR has automated too many tasks. It needs to provide a real human interface at points in the employee journey where personal contact is generally expected.

Transforming HR isn't easy, but it's worth the effort. Driving more agile and fluid organizations, shifting the role of business partners, and elevating the employee experience are central to evolving the HR operating model—which benefits not only the function but also the broader organization.

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[2] Talha Khan, Asmus Komm, Dana Maor, and Florian Pollner, "'Back to human': Why HR leaders want to focus on people again," McKinsey, June 4, 2021.

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